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Warm-up Activity

How In this module, we will turn our attention to how a business grows and how to exit a business.

Before we dive in, think about this… how do you convince other people to use their money?

How do you assign something value?

How do you exit a situation you no longer want to be a part of?

Vocabulary

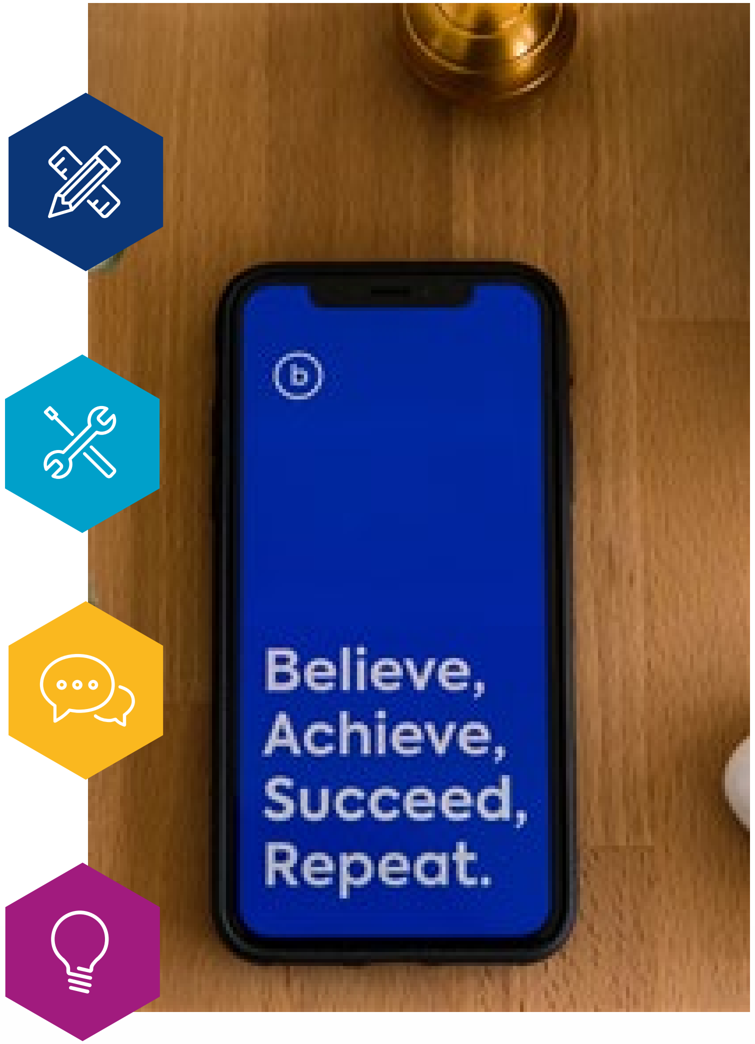
Here is the vocabulary for this module.

book value
compounding
core business
debt capital
diversification
diversification growth strategies
employee stock ownership plan
equity capital
future value of money
goodwill
harvesting
horizontal diversification
horizontal integration
initial public offering
integrative growth
intensive growth strategy
liquidation
management buyout
market development
market penetration
market share
micromanagers
multiple of earnings method
organic growth
perpetual life cycle
product development
product life cycle
rule of 72
self-financing
synergistic diversification
vertical integration
volatile investments

Key Learning Objectives

Now we will learn how a business grows and how to exit a business. Our objectives are:

- Understand business growth and product life cycles
- Learn about the challenges of growing a business
- Learn how to value a business
- Identify possible exit strategies for business owners
- Understand investments and how money grows



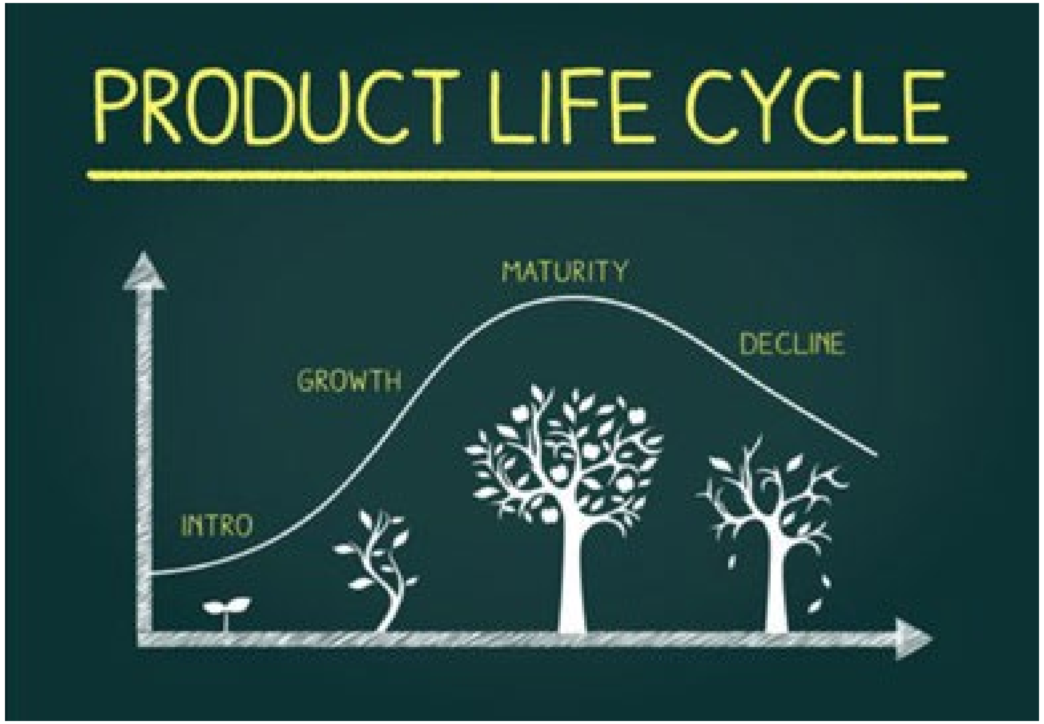
Business Growth

A business can grow either internally or externally. Internal growth is when a business adds new products or services to sell, this is also called **organic growth** and is most common for small businesses. External growth is when a business buys or merges with another business.

The Product Life Cycle

The **product life cycle** is a summary of the four stages a product on the market goes through- introduction, growth, maturity, and decline.

Some products may never reach the decline phase, it is in what is known as a **perpetual life cycle**.



The Product Life Cycle and Business Growth

Since businesses often offer new products in order to expand, it is important to know the product life cycle in order to determine if your growth plan is a good idea.

It doesn't make sense to add products and services in decline.

Intensive Growth Strategy

An **intensive growth strategy** centers around creating new products or new markets.

The **market penetration** focuses on intending the marketing for a specific product the business already makes.

Market Development and Product Development

Market development emphasizes reaching a new target audience.

Product development is centered around creating a new product to introduce to your customers.

Market Share

Market share determines the effectiveness of market penetration and market development by calculating the total sales of a product or business in the market as a percentage.

(Sales of Business or Product/Total Sales in Market) x 100 = Market Share Percentage

Integrative Growth Strategies

Integrative growth strategies focus on using acquisitions and mergers of businesses, the two types of integrative growth strategies are vertical integration and horizontal integration.

Vertical Integration

When a business acquires another part in its supply chain

Horizontal Integration

When a business acquires another business within the market

Diversification Growth Strategies

- Each business has a **core business**
- **Diversification growth strategies** help a business grow outside of its core business
- **Synergistic diversification** is when a business expands by adding new products or services that are related to their existing products and services
- **Horizontal diversification** is when a business expands by adding new products or services that are not related to their existing products and services but apply to their target audience

Obstacles of Growing a Business

Growing a business often requires the business owner to give up some control as the owner can no longer attend to the business’s every need.

- This can be difficult for **micromanagers**
- Some business owners opt to **self-finance**
- But owners can also choose to utilize **debt capital**
- **Equity capital**, exchanging part ownership in a business for money from an investor

Liquidation

As you learned in an earlier module, liquidity is the ability of business's assets to be turned into money quickly and easily. The process of liquifying a business's assets is called **liquidation**.

Book Value

Book value is just another term for owner's equity or net value (other terms from an earlier module). Since it has the same meaning, it also has the same equation as that of owner's equity:

Total Assets – Total Liabilities = Book Value

Multiple Earnings Method

The **multiple of earnings method** is another method for valuing a business by calculating how much a business makes in a year (annual income) multiplied by a number (multiple) specific to the business.

Annual Income x Multiplier = Value of Business

Goodwill a is a catch-all term for the non-tangible aspects of a business

Leaving a Business

The process of leaving a business and collecting your cash from the departure is called **harvesting**.

One strategy for leaving a business is **management buyout**.

Other Exit Strategies

An **employee stock ownership plan (ESOP)** is a retirement fund for a business's employees that a business owner can establish when selling their shares of the business.

An **initial public offering (IPO)** is the act of opening a private business to the public by selling shares to the public.

Money Over Time

Compounding is when money acquires interest and grows in value and then acquires more interest and grows even more in value.

The **Rule of 72** states that you have to divide 72 by your interest rate (or return rate) and that number will equal the number of years until your money is doubled.

The **future value of money** is a term to describe how much a given amount will grow over a period of time through investment.

Investments

Some investments can be affected by global events, like pandemics or other unforeseen events, such as investments in the stock market. These kinds of investments are considered **volatile investments** because of their fluid nature.

Diversification in business means investing a little bit of money in a lot of different places so that if one investment fails you don't lose too much.

Knowledge Check

Multiple Response Question

Which of the following are intensive growth strategies?

- [ ] Vertical integration
- [ ] Market penetration
- [ ] Market development
- [ ] Horizontal integration
- [ ] Product development

Multiple Choice Question

True or False? Sustainability is part of the product life cycle?

- True
- False

Match the term with the correct definition:

the act of opening a private business to the public by selling shares to the public

pouring revenue from business profits or personal funds into the business

when a business expands by adding new products or services related to their existing products and services

when a business adds new products or services to sell; also called internal growth

determines the effectiveness of market penetration and market development by calculating the total sales of a product or business in the market as a percentage

Terms:

Initial public offering (IPO)

Market share

Organic growth

Self-financing

Synergistic diversification

Multiple Response Question

Which of the following falls under the definition of goodwill?

- [ ] The level of customer loyalty the business has
- [ ] How much on hand cash the business has
- [ ] How the business is viewed by the community - correct
- [ ] How much debt a business has
- [ ] How many assets a business has
- [ ] The reputation of the business among business partners
- [ ] How skilled the business's employees are

Multiple Choice Question

True or False? Diversifying your investments puts you less at risk for a significant loss of money?

- True
- False

Independent Practice

Plan the growth of your business using any growth strategy you have learned (intensive, integrative, diversification).

Reflection

Think back to your answers on the warm activity. Relating to your business- how would you convince others to buy your product? How would you assign value to your business? How would you exit your business if it were your only option?

Compare and Contrast

Take a moment to reflect on your learning and comparing and contrasting your answers.

What we learned about:

Book value	Compounding	Core business	Debt capital
Diversification	Diversification growth strategies	ESOP	Equity capital
Future value of money	Goodwill	Harvesting	Integration
Integrative growth	Intensive growth strategy	Life cycles	Liquidation
Management buyout	Market development	Market penetration	Market share
Micromanagers	Multiple of earnings method	Organic growth	Rule of 72
Self-financing	Synergistic diversification	Volatile investments	

In this module we learned about business growth and product life cycles

Named some challenges of growing a business

Learned how to value a business

Listed some exit strategies for business owners

Understood investments and how money grows

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Book Value

Another term for the owner's equity or net value;

total assets - total liability = book value

Compounding

When money acquires interest and grows in value and then acquires more interest and grows even more in value

Core Business

The main focus of the business

Debt capital

Taking out a loan

Diversification

Investing a little bit of money in a lot of different places so that if one investment fails you don't lose too much

Diversification Growth Strategies

Strategies that help a business grow outside of its core business; the two types of diversification growth strategies are **synergistic diversification** and **horizontal diversification**

Employee Stock Ownership Plan (ESOP)

a retirement fund for a business's employees that a business owner can establish when selling their shares of the business; it can offer the business owner many tax benefits but may be expensive or tedious to set up

Equity Capital

Exchanging part ownership in a business for money from an investor

Future Value of Money

A term to describe how much a given amount will grow over a period of time through investment

Goodwill

A catch-all term for the non-tangible aspects of a business such as location, the skill of the employees, level of customer loyalty, reputation in the community and among business partners and customers, impact in popular culture, and other good aspects that cannot be assigned a value

Harvesting

The process of leaving a business and collecting your cash from the departure

Horizontal Diversification

When a business expands by adding new products or services that are not related to their existing products and services, but apply to their target audience

Horizontal Integration

When a business acquires another business within the market

Initial Public Offering (IPO)

The act of opening a private business to the public by selling shares to the public

Integrative Growth

Strategies that focus on using acquisitions and mergers of businesses, the two types of integrative growth strategies are **vertical integration** and **horizontal integration**

Intensive Growth Strategy

Centers around creating new products or new markets; three types of intensive growth strategies are **market penetration**, **market development**, and **product development**

Liquidation

The process of liquifying a business's assets

Management Buyout

When the owner sells their shares in the company to the business’s managers so that they now have ownership

Market Development

An intensive growth strategy that emphasizes reaching a new target audience

Market Penetration

An intensive growth strategy focused on intensifying the marketing for a specific product the business already makes; the goal is to sell more product to existing customers and to increase the number of customers you are selling to

Market Share

Determines the effectiveness of market penetration and market development by calculating the total sales of a product or business in the market as a percentage

Micromanagers

People who concern themselves with every particular detail and cannot trust others (such as employees) enough to remove themselves from a situation and focus instead on bigger tasks

Multiple of Earnings Method

Another method for valuing a business by calculating how much a business makes in a year (annual income) multiplied by a number (multiple) specific to the business

Organic Growth

When a business adds new products or services to sell; also called internal growth

Perpetual Life Cycle

When products never reach the decline phase in the product life cycle

Product Development

An intensive growth strategy centered around creating a new product to introduce to your customers

Product Life Cycle

A summary of the four stages a product on the market goes through – introduction, growth, maturity, and decline

Rule of 72

A rule that states that if you divide 72 by your interest rate (or return rate), that number will equal the number of years until your money is doubled

Self-financing

Pouring revenue from business profits or personal funds into the business

Synergistic Diversification

When a business expands by adding new products or services related to their existing products and services

Vertical Integration

When a business acquires another part in its supply chain

Volatile Investments

Investments that are affected by global events