

3.1.2 Business Growth

What is business growth?

Business growth is an increase in the size or scale of a firm over time. It can be measured using sales revenue, profit, market share, output, number of employees, or number of stores/sites.

Types of growth

Organic growth (internal)

Organic growth happens within the firm, **without** merging with **or** taking over another business. It usually comes from expanding what the firm already does well.

Common ways a firm grows organically include:

- gaining market share through better price and non-price competitiveness
- product diversification
- opening new stores or sites
- international expansion
- investing in new technology or machinery

Organic growth can reduce costs over time if the firm increases output and gains economies of scale. This can lower long-run average costs and raise profit margins, allowing higher dividends or reinvestment into quality and innovation.

A key drawback is that organic growth can be **slow**. Smaller firms may also struggle to access **finance**, which limits how quickly they can invest and scale up.

Inorganic growth (external)

Inorganic growth is growth by merging with or taking over another firm. This is also called integration. The main forms are horizontal, vertical, and conglomerate integration.

For example, [research published by Harvard Business Review](#) suggests that around 90% of mergers and acquisitions (inorganic growth) fail to achieve their intended strategic or financial goals.

Horizontal integration

Horizontal integration is a merger or takeover between firms in the **same** industry at the **same** stage of production. For example Disney's **£71.3 billion acquisition of 21st Century Fox** (Producers of X-Men , Avatar etc) gave the company a massive **38% share of the US box office**.

Horizontal integration can increase firm size and output, which may create economies of scale.

It can also increase market share, which may increase market power (may lead to firms having monopoly power) .

However diseconomies of scale can occur if communication and coordination become harder, pushing costs up. There may also be a culture clash between the two firms, leading to poor integration and lower productivity.

Horizontal integration can reduce consumer choice because there are fewer suppliers.

It may also face competition regulation, where authorities block the deal. For example the [CMA blocked the Sainsbury's Asda merger](#) because the combined 31% market share was predicted to raise prices for consumers in over 125 local areas.

Vertical integration

Vertical integration is a merger or takeover between firms in the same industry but at different stages of production. The aim is often to control the supply chain and reduce costs.

Backward vertical integration

Backward vertical integration means buying a supplier earlier in the supply chain. A manufacturer or retailer might take over a producer of key inputs to gain more control over costs and supply.

It can also make supplies more secure by reducing the risk of shortages. Quality control may improve if the firm can set standards directly for inputs.

For example Apple's move to design its own M-series chips (moving backward into component design) resulted in a **70% increase in power efficiency** compared to buying from Intel.

Forward vertical integration

Forward vertical integration means buying a firm closer to the consumer, such as a distributor or retailer. This can help the firm capture margins that would otherwise go to the final stage of the supply chain.

Vertical integration can still create diseconomies of scale and managerial overload. There can be culture clashes across different stages of production, where businesses operate in very different ways.

For example the [Microsoft–Activision deal](#) was valued at £69 billion, making it the largest tech merger in history.

Very interesting context behind the merger is the CMA initially blocked Microsoft's **£69bn Activision deal** over gaming monopoly fears, only granting approval in late 2023 after Microsoft **divested its streaming rights** to ensure market competition.

Conglomerate integration

Conglomerate integration is a merger or takeover between firms in unrelated markets. Examples include a food manufacturer buying a football club, or Microsoft acquiring LinkedIn.

The main benefit is diversification. Operating across different markets spreads risk and makes the firm less vulnerable if demand falls in one market, improving the chance of long-term survival.

For example Samsung . Very popular electronics control roughly **20% of the global smartphone market** while its unrelated "Heavy Industries" division generates over **\$10 billion annually building massive cargo ships**.

A key drawback is limited synergy, meaning fewer economies of scale because the products and markets are unrelated. Management may also lack expertise in the new industry, increasing the risk of poor decisions and inefficiency.

Constraints on business growth

Market size can limit growth, especially in niche markets with a small number of potential customers. Firms may need to expand internationally or diversify to grow beyond that ceiling.

Access to finance is another barrier. Smaller firms often look riskier, so they may face higher interest rates, weaker collateral, and less favourable borrowing terms.

Owner and manager objectives can also limit growth. Some firms prioritise control, lifestyle, satisficing, or survival rather than expansion, and may avoid external funding to keep control.

Regulation can constrain growth by blocking mergers or restricting monopoly behaviour.