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Growth Strategies in Busınesses and A Theoretical Approach

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Abstract

The strongest factors for keeping businesses alive in today's computational, fast-growing world is growth strategies and outcome of these strategies. Cutthroat competition environment in market conditions increases the importance of scale in businesses. Therefore, "growth'' is not anymore an aim, but it is more like a necessity for businesses.

Businesses aim to use their sources efficiently in order to gain advantages in competition and survive for many years. However, with this aim come several problems. Competitors, consumers, financial institutions, suppliers, trade-unions, technological developments, economical and judicial factors constitute impediments in the way of attaining objectives. Business management determines growth strategies in accordance with structures of businesses and the competitive environment by applying analysis and methods which will eliminate those impediments. In this study, we aimed to examine the growth strategies of businesses and explain some of these strategies.

Keywords: growth strategies, organic growth, inorganic growth

1. Introduction

In 21st century, developments all around the world spread very fast thanks to the globalization movements and information technologies. These changes and developments force businesses to grow and overtop their competitors. Growth is, in fact, a part of natural process of businesses, yet it has become a necessity in today's conditions of competition. Businesses need to develop new products and services, find new market places and consequently grow. National and international businesses which are currently carrying on their activities need to perform internal and external environmental analysis and determine their growth strategies according to the analyzed data. In this study, alternative growth strategies were examined and objectives and types of these strategies were tried to be explained.

2. Growth in Businesses

A business strategy helps businesses to improve their competitive status and determines the performance of businesses in industry (Wheelen, T. L., & Hunger, J. D., 2012, p. 183). Thus, growth is a must for businesses to survive in developing industries. Businesses need to be in a continuous change and development process in order to make progress.

Growth means both quantitative and qualitative development in businesses. Quantitative growth means an increase in current output, sales revenue, product range, extent of resources (number of employees, capital sum etc.) and investments. Qualitative growth is about developing the quality of business elements. Therefore it is difficult to explain qualitative growth with quantitative terms.

However, since a business with qualitative growth also shows signs of quantitative growth, we can say that quantitative growth can be the result of qualitative one (Ülgen ve Mirze, 2004, pp. 188-189). Growth is a way to tell what a business want to do in accordance with its goals and objectives (Kotler, P., 1984, p. 292). Growth covers technical and administrative developments in order to reach the goals. In other words, it explains an increase in size and amount of business elements, such as; make, property, technology, human etc (Öncer, A. Z., 2012, pp. 406-407).

There are several reasons which force businesses to grow. The first and the most important purpose of the growth in businesses is that it provides businesses with advantages against their rivals and help them to become resilient against difficulties. Targeting growth, help businesses to know their environment closely. Therefore, managers are forced to adapt themselves to the development and changes in the future (Eren, 1987). Growth is also related to productivity (Buzzel, Bradley, & Ralph, 1975). Businesses need to grow not only to reach targeted goals but also to maintain their current status.

3. Growth Strategies

Growth strategies of businesses is a very wide area to study and apply. Businesses try to reach sale and profit rate they aimed thanks to growth strategies (Yükselen, 2013, p. 57). Businesses can grow by merging with other businesses or by buying them.

We can examine growth strategies in two basic categories, which are organic and inorganic growth strategies. (Demirci, 2007, p. 35). Intensive growth strategy, diversification and modernization strategies constitutes organic strategies. Strategic partnership and merger are in the scope of inorganic strategies.

3.1 Organic Growth

Also being called as internal growth, organic growth expresses economical, physical, social and organizational growth which takes place in a company without external interaction. (Öncer, 2012, p. 408). It occurs when current activities in a business are developed by either increasing the amount of sales or adding new products. In other words, businesses usually depend on their resources in the process of organic growth. Internal finance, borrowing and finding new capital stocks are equities in organic growth process (Şimşek, 2008, p. 43). Augmentation of assets in companies, successful customer relationship management, making use of the technology, innovation management and focusing on the processes related to products are included in the organic growth (Bruner, 2004, pp. 44-50). Since it is slow and requires little amount of change, organic growth can be planned and managed easily (Çolpan ve Hikino, 2008, p. 38).

Organic growth usually happens when companies increase their capacity of products and make an alliance with international businesses. As a result of organic growth, increase in the amount of capital stock, equity, feedstock and energy input and the number of employees and growth in the business structure can be observed. In addition to this, increase in the reputation and value of a business in public opinion is also considered as organic growth. (Öncer, 2012, p. 408). Extending the work scale of a business and increasing its sells, endorsements and equities are performed by organic growth diversification strategies. Using diversification strategies, businesses can enter different business districts and perform an organic growth with market, product, service and production scales. (Karaevli, 2008) In this way, companies aim to minimize the risk by operating in different areas.

Organic growth strategies are divided into three groups. These are; intensive growth, diversification and modernization strategies (Yükselen, 2013, p. 57), (Engin, 2005, p. 22), (Erkoç, 2006, pp. 38-39), (Kotler, 1984, p. 296; Akgöbek, 2011, pp. 13-14).

3.1.1 Intensive Growth Strategy

Ansoff has explained intensive growth strategies in four categories based on product and market criteria. These are; market penetration, market development, product development and diversification strategies (Timothy, Parpairis, MacDonald, & Tosun, 2013). Intensive growth strategy is a reasonable strategy for businesses which haven't been able to use the opportunities in the market with their available products (Erkoç, 2006, p. 38). Therefore, it is an appropriate strategy for businesses which have little market share (Akgöbek, 2011, p. 15).

3.1.1.1 Intensive Growth with Market Penetration

Market penetration is defined as penetrating the market with current products (Mucuk, 2010, p. 44). Market penetration is considered as a market growth strategy which aims to get a bigger share in the market with products in stock (Timothy, Parpairis, MacDonald, & Tosun, 2013, p. 8).

3.1.1.2 Intensive Growth with Market Development

This strategy aims to develop new market divisions for current business products (Timothy, Parpairis, MacDonald, & Tosun, 2013, p. 8). It is a strategy of spreading new products to targeted markets. In other words market development is a practical way of market penetration, determining new usage areas for products (Koçoğlu, 2012, p. 269).

3.1.1.3 Intensive Growth with Product Development

It is a growth strategy which includes developing and changing the products in stock to make them preferential and therefore increase the market activity (Şimşek ve Çelik, 2011, p. 68). It aims to prolong the lifetime of prosucts and make use of popular trade marks. (Koçoğlu, 2012, p. 270). In brief, it provides companies with growth by developing new products for existing markets.

3.1.1.4 Diversification

This strategy aims to develop new products and presents them in new markets (Timothy, Parpairis, MacDonald, & Tosun, 2013, p. 8). That is, it is a strategy of penetrating new markets with new products. However, diversification strategy slightly differs from the other three strategies in a way that it requires new skills, new technologies and new establishments rather than using available equities (Koçoğlu, 2012, p. 270).

3.1.2 Diversification Strategy

Diversification strategy aims to penetrate new markets by buying new businesses and therefore penetrating new fields of activity (Karaevli, 2008, p. 87). It enables businesses to make use of the opportunities in new market places and achieve yield above average (Ülgen ve Mirze, 2004, p. 224). It is usually applied when businesses find new market opportunities. Diversification strategy occurs in two different ways; one is concentric and the other one is conglomerate diversification.

3.1.2.1 Concentric Diversification

This strategy is about directing businesses' attention and resources to only one industry. In this strategy, a business either focuses on new markets with technological products or focuses on new technology based products in an existing market (Dinçer, 2007, p. 208).

3.1.2.2 Conglomerate Diversification

In conglomerate diversification, businesses invest in areas which have different range of technology, production process and market than theirs. (Koçoğlu, 2012, p. 271). It takes place in a completely different markets with different and new products. Conglomerate diversification strategy provides businesses with advantage when they have low sales and profit rate in their existing branch of industry (Wheelen, & Hunger, 2012, p. 215).

3.1.3 Modernization Strategy

Modernization strategy supports changing the old and outdated machines and equipment with new and technological ones in order to raise the production and the quality of the products and also to reduce production cost and deficiency (Akgöbek, 2011, p. 19). There are two methods to be used in a competitive environment in order to determine investment strategies for planning the production of new products. In this case, businesses either make a new investment or invests by apply modernization strategy on new products in the existing establishment (Akgöbek, 2011, pp. 19-20).

3.2 Inorganic Growth

Businesses prefer inorganic growth for several reasons, such as raising profit rate, lowering the cost, creating added value, making use of scale economy, technology transfer. (Öncer, 2012, p. 409). Just as businesses can grow on their own with their existing equity, they can also do it by using resources of other business which are operating currently national or international. Therefore, inorganic growth expresses a growth which happens both in national and international markets (Şimşek & Çelik, 2008, p. 45). Inorganic growth depends on the partnership of two or more businesses. On this basis, strategic alliances are considered as external growth of businesses, namely inorganic growth. It happens when a business takes control of another business, or businesses in one alliance loses their identity to form a completely different business (Eren, 2006, p. 150).

3.2.1 Strategic Partnerships

Strategic partnerships agreements are made in order to reach mutual goals (Isoraite, 2009, p. 40). It occurs when two or more businesses league together for a certain strategic goal (Dinçer, 2007, p. 213). It is also defined as a collaboration when two or more businesses come together to join their sources in order to archive specific goals. (Cusumano & Selby, 1995, p. 145). That is to say, strategic partnerships are labor unions which happens when two or more independent businesses want to improve their knowledge, skills and equities together (Sudarsanam, 2003).

Thanks to these alliances businesses perform more efficiently in international markets and eliminate their competitor's' threats (Öncer, 2012, p. 411). Businesses which are in strategic partnerships share the same resources and competence therefore create a solidarity (Karakılıç, 2009, p. 203). Moreover, businesses support each other in terms of technology and marketing (Aydıntan, 2003, p. 138).

As a result, due to strategic partnerships, businesses operate in the international markets more actively with complementary partners, gain an advantage in competition and grow by lowering the cost and improving the quality of products (Karakılıç, 2009, p. 203).

3.2.2 Merger and Acquisition

Merger occurs when two or more companies lose their own legal entity and join forces to become one (Dinçer, 2007, p. 219). Acquisition, on the other hand, happens when a business takes over another company partially or completely.

Acquisition is implemented as an alternative to strategic partnerships (Doz & Hamel, 1998, p. 3). The purpose acquisition is to achieve a grow by purchasing a company which is not operating properly yet has suitable equity (Özalp, 2006, pp. 53-70). However, in merger the purpose is to survive, grow and outcompete the opponents by joining forces on equal footing (Anarbek, 2008, p. 8). There are there kinds of merger and acquisition strategies, which are; horizontal, vertical and conglomerate.

3.2.2.1 Horizontal Growth

It occurs when companies which share same product range and market merged or acquired by one (Paşaoğlu, 2012, p. 97). Companies gain lots of advantages thanks to horizontal deals, such as; economization, distortion of competition, optimization in production and marketing etc. (Anarbek, 2008, p. 12). Integration is a result of horizontal growth. In brief, horizontal growth provides companies with new markets (Öncer, 2012, p. 410).

3.2.2.2 Vertical Growth

A company merges or purchases supplier to transport products to customers (Paşaoğlu, 2012, p. 96; Akgöbek, 2011, p. 33). In this strategy, companies improves their activities from production to marketing. Businesses prefer vertical growth in order to take over the control of distribution channels and dominate markets (Öncer, 2012, p. 410).

3.2.2.3 Conglomeration

It occurs when a company merges or purchases the company which provides itself with production input and feedstock in order to grow (Akgöbek, 2011, p. 33; Paşaoğlu, 2012, p. 96). Businesses choose conglomeration since it reduces the risks and problems when providing feedstock and also lowers the cost and increases added value (Öncer, 2012, p. 410).

4. Conclusion

Since it is a must for today's businesses to grow in order to survive, strategy they choose to grow is very important. This decision affects a company's business segments. In this study, growth strategies were tried to be explained in detail and different perspectives were tried to be presented in theory.

Companies compete neck and neck nowadays, due to increasing company number and constant change in the attitudes of customers. Being an incentive for growth, pressure of competition makes inorganic growth a strategic choice in the long run for businesses which do not have enough sources.

Businesses may need to improve, maintain or end their existing system in order to change and grow. Therefore, it is a very important process for businesses to decide to grow and choose the right growth strategy.

A business need to examine environmental factors, customer expectations and its opponents very carefully in order to grow and choose its strategy accordingly. Therefore businesses need to be able to adapt to their changing environment in order to grow. For that purpose, profit maximization takes place in the short term goals of a company. Thus, businesses need to determine a strategy which has effect in the long run. Merger is very advantageous for companies in the long run since they join forces and support each other in the competition. Businesses should be able to adapt to the technological and global changes around them and choose their strategy accordingly.

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