BUS.AL10 Methods of Business Growth: Mergers, Joint Ventures and Franchising

AQA 7132 · Calculator allowed · about 60 minutes

Total Marks

Name: _______________________________ Date: ____ / ____ / ______

Answer ALL questions in the spaces provided. Where a calculation is required, show your working. The fictional business used in several questions is named in the first applied question and its key figures are restated in later questions so each question is self-contained.

1 Which one of the following best describes 'organic growth' for a business?

- ☐ A) Growth achieved by merging with or taking over another firm
- ☐ B) Growth from increasing sales and expanding operations internally
- ☐ C) Growth created by selling shares to raise capital
- ☐ D) Growth by franchising the business to external owners

(Total for Question 1 is 1 mark)

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2 Identify one example of external growth for a company.

(Total for Question 2 is 1 mark)

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3 State two types of merger or takeover based on the relationship between the businesses involved (horizontal, vertical or conglomerate).

(Total for Question 3 is 2 marks)

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4 Define a franchise as a method of business growth in a single sentence, in the context of a brand expanding to new locations.

(Total for Question 4 is 2 marks)

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5 Explain one advantage to an established business of growing by franchising rather than by opening company-owned branches.

(Total for Question 5 is 3 marks)

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6 Explain one risk to a business of growing rapidly through takeovers, referring to operational or financial problems.

(Total for Question 6 is 3 marks)

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7 Identify two features of a joint venture as a growth strategy between two unrelated firms.

(Total for Question 7 is 2 marks)

8 Which one of the following is most likely to be a feature of a conglomerate merger?

- ☐ A) Two firms in the same industry merge to increase market share
- ☐ B) A firm merges with its supplier to secure inputs
- ☐ C) Two firms in unrelated industries merge to diversify risk
- ☐ D) A firm sells franchises to independent owners

(Total for Question 8 is 1 mark)

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9 State two reasons why a small local restaurant might choose to join a national franchise network rather than expand independently.

(Total for Question 9 is 2 marks)

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10 SmallTech Ltd, a UK software firm, had revenue of 2,400,000 pounds last year. After acquiring a competitor, its combined revenue is 3,000,000 pounds. Calculate the percentage growth in revenue resulting from the acquisition. Show your working.

(Total for Question 10 is 2 marks)

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11 Luna Clothing, a mid-sized retailer, is considering two growth options: (A) merge horizontally with a rival to increase market share, or (B) enter a joint venture with an overseas distributor to access a new market. Analyse the case for option B, the joint venture, for Luna Clothing, using the scenario and considering both opportunities and risks.

(Total for Question 11 is 6 marks)

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12 Analyze the case for Luna Clothing instead choosing option A, a horizontal merger with a rival, referring to likely effects on market power, costs and risks.

(Total for Question 12 is 6 marks)

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13 State two warning signs that a growing company may be overtrading.

(Total for Question 13 is 2 marks)

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14 Explain one reason why a firm might choose retrenchment as a response to overexpansion, referring to costs and long-term survival.

(Total for Question 14 is 3 marks)

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15 Identify one strategic reason a multinational might prefer a joint venture rather than a full takeover when entering a country with different regulations and high political risk.

(Total for Question 15 is 1 mark)

16 Fjord Foods, a fictional mid-sized UK food manufacturer, must decide between: (A) growing by selling franchises to local retailers in the UK, or (B) expanding by acquiring a regional supplier to secure ingredients and cut costs. Recommend which option Fjord Foods should choose. Justify your recommendation using analysis of costs, control, speed of growth and risk. Use the marks to structure a clear judgement.

(Total for Question 16 is 9 marks)

Mark scheme · BUS.AL10 Methods of Business Growth: Mergers, Joint Ventures and Franchising

Question 1

- **B1** B cao
- **Answer: B**

Question 2

- **B1** one valid example, e.g. a takeover, a merger, forming a joint venture, or franchising
- **Answer: Any one external growth method, e.g. a takeover or merger.**

Question 3

- **B1** one correct type, e.g. horizontal
- **B1** a second correct type, e.g. vertical or conglomerate
- **Answer: Any two, e.g. horizontal and vertical; horizontal and conglomerate; vertical and conglomerate.**

Question 4

- **B1** identifies that a franchise lets independent owners trade under an established brand using its business model
- **B1** includes the idea of paying fees or royalties in return for brand use and support
- **Answer: A franchise lets independent owners operate outlets using an established brand and business model, paying fees or royalties for the right to use the brand and receive support.**

Question 5

- **B1** identifies an advantage, e.g. lower capital outlay since franchisees invest in new outlets
- **B1** develops the point, e.g. the franchisor does not fund fit-out or inventory for each new outlet
- **B1** links to an outcome, e.g. this allows faster expansion and preserves the firm's cash for other uses
- **Answer: The franchisor avoids large capital outlays because franchisees fund new outlets, which means faster expansion without tying up the firm's cash and lowers financial risk.**

Question 6

- **B1** identifies a risk, e.g. integration problems or increased debt burden
- **B1** develops the point, e.g. different systems, cultures or processes may not fit smoothly, or high borrowing increases interest costs
- **B1** links to an outcome, e.g. disruption to customers, higher costs, or reduced profitability
- **Answer: Rapid takeover growth can cause integration problems, such as incompatible systems or cultures, and may require high borrowing; these issues can disrupt customers, raise costs and reduce profitability.**

Question 7

- **B1** one feature, e.g. shared ownership and investment between the two firms
- **B1** second feature, e.g. shared risks and rewards or combining complementary strengths
- **Answer: Any two, e.g. shared ownership and investment; shared risks and rewards; combining complementary skills or market access.**

Question 8

- **B1** C cao
- **Answer: C**

Question 9

- **B1** one reason, e.g. access to a recognised brand and customer base
- **B1** second reason, e.g. receiving training, operational support and established supply chains
- **Answer: Any two, e.g. access to brand and customers; training and operational support; easier finance from lenders due to a proven model.**

Question 10

- **M1** revenue increase = 3,000,000 - 2,400,000 = 600,000 seen
- **A1** 25% cao
- **Answer: 25%.**

Question 11

- **B1** identifies opportunity: access to overseas market and local market knowledge from the distributor
- **B1** develops opportunity: faster entry and lower marketing cost by using distributor's channels
- **B1** identifies risk: potential loss of control over brand and quality when working with a local partner
- **B1** develops risk: reputation damage or inconsistent customer experience could harm long-term sales
- **B1** identifies financial/operational benefit: shared investment reduces capital needed and spreads risk
- **B1** develops evaluation: balances opportunities and risks to reach a conclusion about suitability for Luna Clothing

Question 12

- **B1** identifies benefit: increased market share and potential market power
- **B1** develops benefit: greater market share may allow higher pricing or stronger negotiating power with suppliers
- **B1** identifies cost-saving: economies of scale or scope could reduce average costs
- **B1** develops cost-saving: combining stores or distribution could lower operating costs
- **B1** identifies risk: regulatory concerns, integration difficulties and cultural clashes
- **B1** develops risk: integration problems can raise costs, distract management and reduce expected benefits

Question 13

- **B1** one warning sign, e.g. cash-flow problems or insufficient working capital
- **B1** second sign, e.g. high levels of short-term borrowing or inability to meet supplier payments
- **Answer: Any two, e.g. cash-flow problems or insufficient working capital; heavy short-term borrowing or missed supplier payments.**

Question 14

- **B1** identifies a reason, e.g. to reduce costs and restore profitability
- **B1** develops the point, e.g. closing loss-making outlets or selling assets cuts fixed costs and interest obligations
- **B1** links to long-term survival, e.g. retrenchment can stabilise finances and allow the firm to focus on core profitable activities
- **Answer: Retrenchment can cut fixed costs by closing loss-making outlets or selling assets, reducing interest and running costs so the firm can stabilise finances and concentrate on core profitable activities for long-term survival.**

Question 15

- **B1** one reason, e.g. sharing political and regulatory risk with a local partner who understands the market
- **Answer: To share political and regulatory risk with a local partner who understands local rules and can navigate them.**

Question 16

- **Level 1** (1-3): Simple statements about one or both options with little application to Fjord Foods and no clear recommendation.
- **Level 2** (4-6): Developed discussion of advantages and disadvantages of one option with some application to Fjord Foods and a tentative recommendation.
- **Level 3** (7-9): Balanced analysis of both franchising and vertical acquisition with clear application to Fjord Foods, consideration of costs, control, speed and risk, and a justified recommendation.
- **Indicative content:**
  - For franchising: lower capital required because franchisees invest; faster geographic expansion; potential loss of control over retail experience and quality which could harm brand.
  - For acquiring a supplier: vertical integration may secure ingredient supply and reduce variable costs, improving margins and control over inputs, but requires significant capital and may add operational complexity.
  - Risk comparison: franchising spreads risk to franchisees and is less cash-intensive, while acquisition concentrates risk and may increase debt and managerial burden, but offers longer-term cost advantages.
  - Judgement could favour franchising if Fjord Foods needs rapid presence and has limited capital, provided strong franchise agreements safeguard quality; it could favour acquisition if supply security and long-term cost saving outweigh the upfront cost and complexity.