

Chapter 19

Managing growth and harvesting

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Learning outcomes

- Identify the barriers to and motivators for enterprise growth
- Describe the growth path through the business life cycle
- Differentiate between generic, internal and external growth strategies
- Explore the entrepreneurial orientation towards growth
- Discuss growing the business from a marketing, financial, management and planning perspective
- Evaluate harvesting and harvesting options

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Barriers to enterprise growth

- Attitudinal problems
- Entrepreneur's value of independence and ownership control
- External factors:
 - Lack of finance
 - No market demand growth
 - Increasing competition

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Internal and external motivations for growth

- Internal entrepreneur
 - Satisfy need for achievement
 - Increase desire for control and independence
 - Generate store of wealth for family
- External motivations
 - Increase status of owner in social/business networks
 - Leverage external resources
 - Consider threats

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Business life cycles

- **Stage 1: Nascent stage** – R&D takes place to develop idea into opportunity. No growth is recorded
- **Stage 2: Start-up** – company establishes existence, marketing, finance and operations need development, sales and profits increase; can last 2-3 years
- **Stage 3: Rapid growth stage**– Improved financial performance and rising sales, grows exponentially, entrepreneur must delegate
- **Stage 4: Maturity stage** – steady growth in sales and profits
- **Stage 5: Stability stage** – growth declines, unless new products/services are developed

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Generic growth strategies

- Lifestyle/ part-time company
- Traditional small business
- High-performance small business
- High-growth ventures

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Growth strategies

- Internal:
 - Invest in new products, market share or location expansion
 - Exclusive agreements with customers
 - Licensing
 - Alliances
 - Dealerships
 - Franchising
- External:
 - Mergers and acquisitions
 - Joint ventures

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Entrepreneur's growth orientation

- Growth strategies only effective if supported by entrepreneur
- Embraces calculated risk
- Delivering value proposition satisfying needs
- Entrepreneur focuses on quality
- Fear of success:
 - Procrastination
 - Low self-esteem

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Growing the business – marketing practices

- Products and services
- Market structure
- Market size and growth rate
- Geographic expansion

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Growing the business – financial practices

- Financial nature of business:
 - Cash flow; timing; capital market theories; valuation methods
- Equity capital: money given to the business in exchange for part ownership of the business
- Debt capital: money borrowed to invest in the business, with a legal obligation to repay the money in the future

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Growing the business – management practices

- Collaborative decision-making style
- Balanced top-management team
- Alignment of number of management levels with number of individuals in top management
- Balanced board of directors
- Calibrate strategies
- Involve board of directors at strategic inflection points

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Growing the business – planning practices

- Prepare detailed written monthly plans
- Establish functional planning and control systems
- Share performance data with employees
- Link job performance standards
- Model firm based on benchmarks

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Harvesting the business

Harvesting: recovery of value through the sale of a company or its assets. Entrepreneurs reasons for harvesting:

- External factors:
 - Death or ill health
 - Psychological or mental breakdown
 - Loss of key expertise

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Harvesting the business (cont.)

- Internal factors:
 - Goal of the entrepreneur
 - Pursuit of new ventures
 - Succession
 - Disillusionment
 - Retirement

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Harvesting options

- Outright sale
- Buyouts:
 - Leveraged buyout (LBO); management buyout (MBO); management buy-in (MBI); investor-led buyouts (IBO); leveraged build-ups (LBU)
- Employee share option plans
- Merging with another business venture
- Initial public offering (IPO)