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
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
Internal and external motivations for growth

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

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

• Internal:
  o Invest in new products, market share or location expansion
  o Exclusive agreements with customers
  o Licensing
  o Alliances
  o Dealerships
  o Franchising

• External:
  o Mergers and acquisitions
  o Joint ventures
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
Growing the business – marketing practices

- Products and services
- Market structure
- Market size and growth rate
- Geographic expansion
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
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
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
Harvesting the business

Harvesting: recovery of value though 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
Harvesting the business (cont.)

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

• Outright sale
• Buyouts:
  o 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)