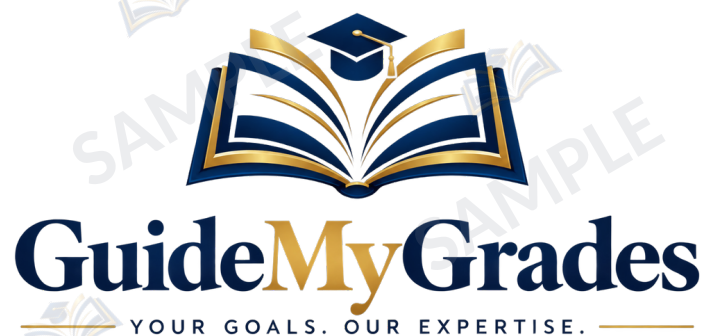




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3.1 Business Growth

MEMORISE THIS

Organic (internal) growth	Expansion using the firm's own resources, e.g. retained profit, new outlets
Horizontal integration	Merger of firms at the same stage of production in the same industry
Vertical integration	Backward: towards suppliers; forward: towards customers
Conglomerate integration	Merger of firms in unrelated industries
Constraints on growth	Size of market, access to finance, owner objectives, regulation
Reasons firms stay small	Small or niche market, owner objectives, lack of finance, personal service

1 Organic growth and types of integration

A Level

✗ Common mistake

Students are vague about organic growth, mixing it up with mergers, and name a type of integration without taking its effects beyond a two-step chain.

✓ Do this instead

- Organic (internal) growth: the firm expands using its own resources, e.g. reinvested profit, new outlets or new products. No other firm is joined.
- Inorganic (external) growth is by merger or takeover: horizontal (same stage, same industry), vertical (backward towards suppliers, forward towards customers) or conglomerate (unrelated industry).
- Name the type, then trace a chain: integration → change in costs, control or market power → price, profit or quality → who gains or loses.
- Use figures from the extract at each step of the chain.

Exam tip: Before you write, decide which direction the integration goes: towards the supplier (backward), towards the customer (forward), sideways (horizontal) or into an unrelated industry (conglomerate).

Examiners flagged this in: Oct 2020 AL P1 Q5(b), Jun 2022 AL P3 Q1(c)



Mark schemes

Note: for longer answers, each marking point shows one creditworthy idea (knowledge, application, analysis or evaluation); equivalent points in your own words also score.

1 Organic growth and types of integration

Question 1.1 Check it

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Part	Answer	Marks
(a)	Growth from within the firm, using its own resources (e.g. retained profit).	1
(a)	Example such as opening new branches or launching new products, with no merger or takeover.	1
(b)	Backward vertical integration.	1
Total		3

Question 1.2 Apply it

[Back to question](#)

Part	Answer	Marks
(a)	Knowledge: organic growth uses internal funds/resources (no merger).	1
(a)	Application: Fernway has £9m retained profit, so it can fund six cinemas without borrowing or buying a firm.	1
(a)	Analysis: lower risk — no clash of cultures/integration problems or premium paid for another firm.	1
(a)	Analysis: control stays with existing owners/managers, so growth can be paced to demand.	1
(b)	Knowledge: identifies purchase as backward vertical integration.	1
(b)	Application: Fernway buys its own supplier of popcorn/drinks, a high-margin product in cinemas.	1
(b)	Analysis effect 1: supplier's profit margin is absorbed → lower input costs → higher profit per customer, or room to cut snack prices.	1
(b)	Analysis effect 1 developed: more secure supply and control over quality/delivery → fewer stock-outs at busy times.	1
(b)	Analysis effect 2: Corncrest also supplies two rivals → Fernway could raise their input prices or gain revenue from them.	1
(b)	Analysis effect 2 developed: risk — Fernway lacks expertise in manufacturing, so costs may rise or rivals may switch supplier, cutting Corncrest's revenue.	1
Total		10

Common wrong answers: In (b) of Check it, 'horizontal' is the common wrong answer — the plant grower is at an earlier stage of production, so it is backward vertical. In Apply it, answers that define organic growth as 'growing naturally' or that describe the takeover in (a) score little; in (b) many stop at 'costs fall' without



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