

# Contemporary Management Issues

## Chapter 2

Why and How does a  
company need to grow?



# Agenda

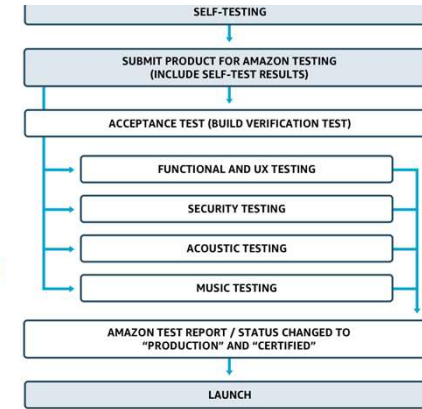
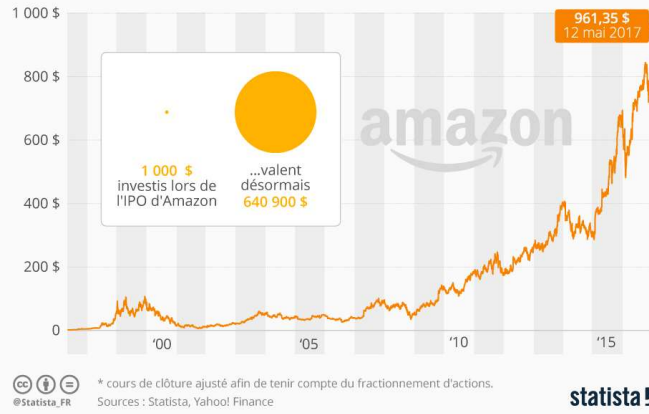
- Introduction
- Chap 1 – What is behind the term « company »?
- Chap 2 – Why and How does a company need to grow?
- Chap 3 – Where should a company compete (vertical integration and diversification)?
- Chap 4 - Where should a company compete (geographical scope)?
- Chap 5 – Why and How innovation?
- Chap 6 – Why and How does a company pursue its CSR?
- Chap 7 – Why and how deal with the ethical issues?
- Conclusion

# Introduction



## 20 ans en bourse du géant Amazon

Cours de l'action d'Amazon depuis son entrée en bourse le 15 mai 1997\*



# Chap 2. Why does a company need to grow?

## 1.1 – Strategy of growth

- Stages of growth
- The logic of growth
- Growth pathways

## 1.2 – Les limites de la croissance

# Stage of growth : theoretical

## Take-off

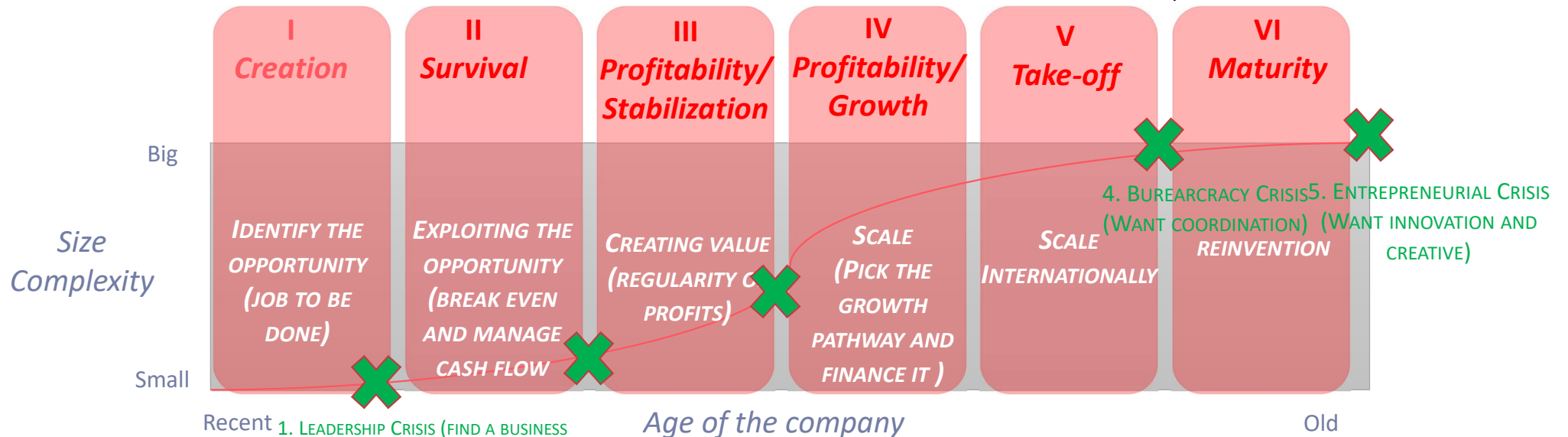
- Idem « Growth by coordination » ; use information system and processes
- Ex: ME doing exportation

## Survival

- « Growth by direction »
- Increased number of employee and one chief

## Growth

- « Growth by coordination » : use information system and processes
- Ex: SME with a second production site



## Creation

- « Growth by creativity »
- One founder/entrepreneur

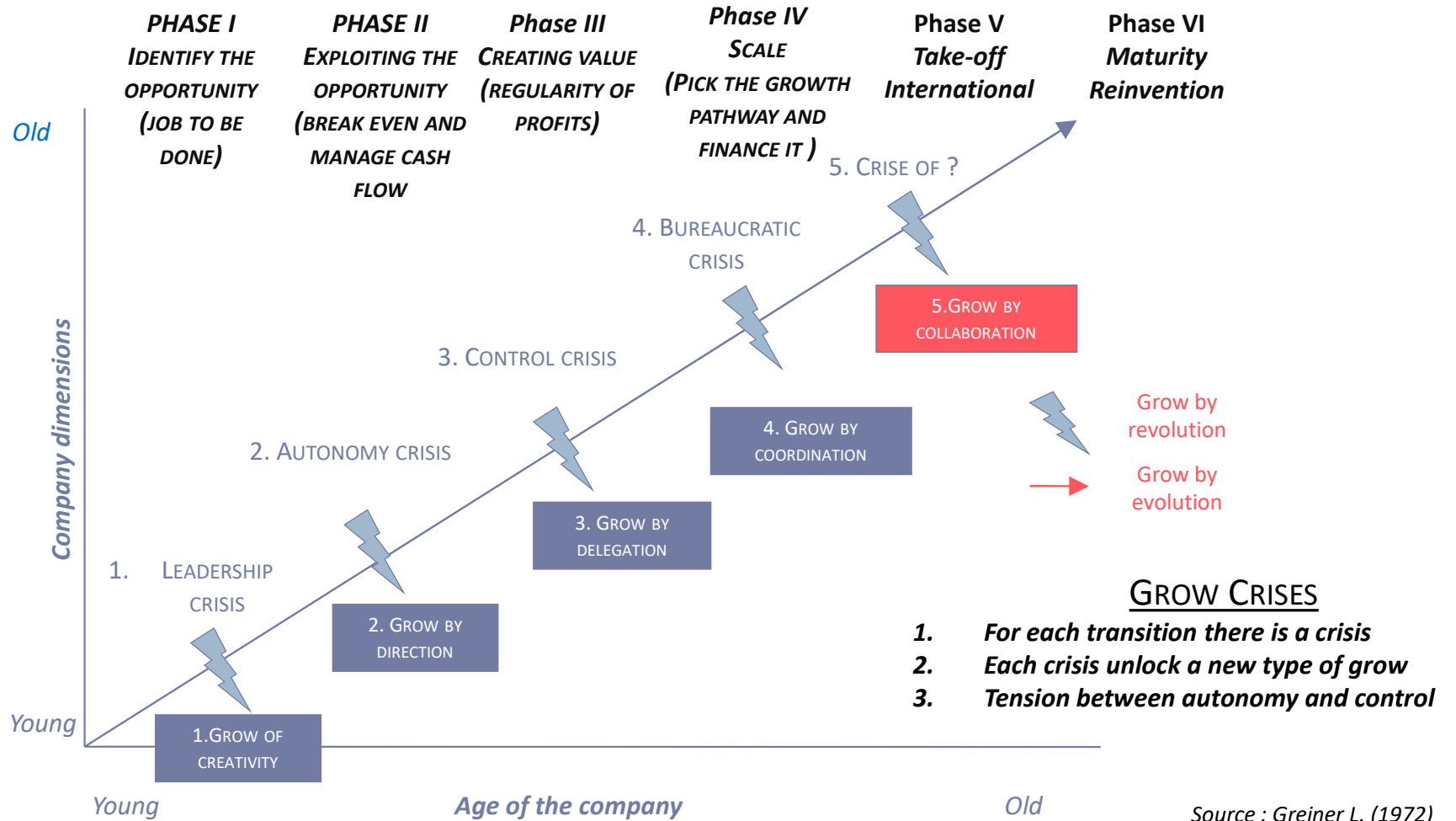
## Stabilization

- « Growth by delegation »
- SME

## Maturity

- Goal : need for control, but risk of bureaucratization and dilution of the entrepreneurial spirit
- « Growth by collaboration »
- Ex: Start to be a big company

# Stage of growth : theoretical



Source : Greiner L. (1972)

# Food for thought

- Read about Netflix sur moodle :

« [Reed Hasting fire his co-founders](#) »

1. Describe the situation (tips : reuse the course concepts)
2. Give your opinion about the situation(tips: discuss pro and cons)

## Chap 2. Why does a company need to grow?

### Strategy of growth

- Stages of growth
- The logic of growth
- Growth pathways



## 1.1 – Strategy of growth

### The logic of growth

The question: Why does the company need to grow the productive resources?

A plurality of logics/motivation



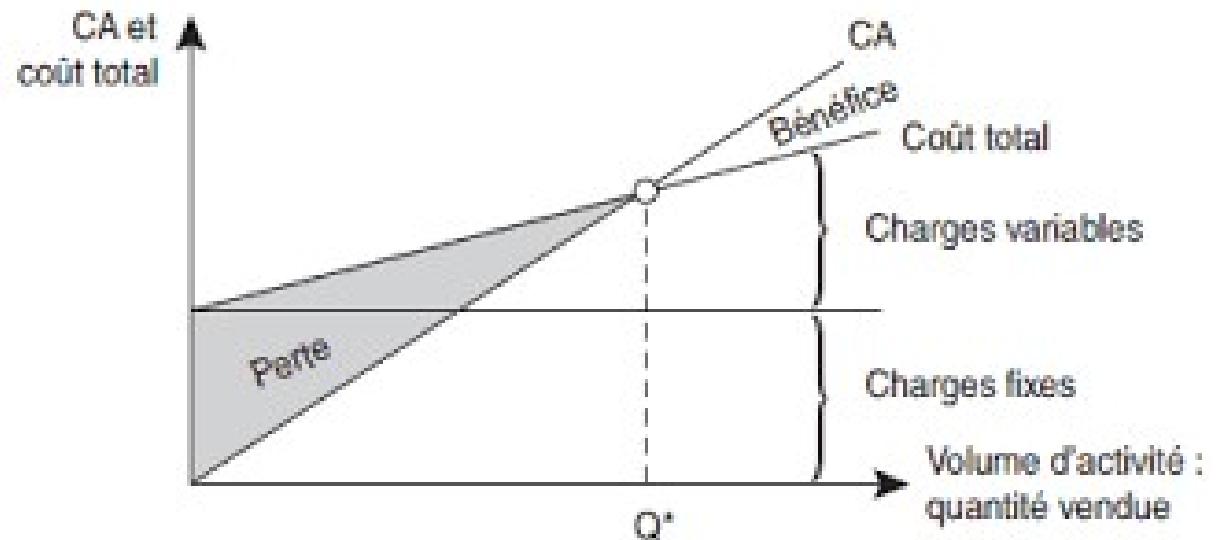
## 1.1 – Strategy of growth

### The logic of growth

A company that believes with industrial logic:

- Increase volum, increase revenue

➤ **A logic of revenue**

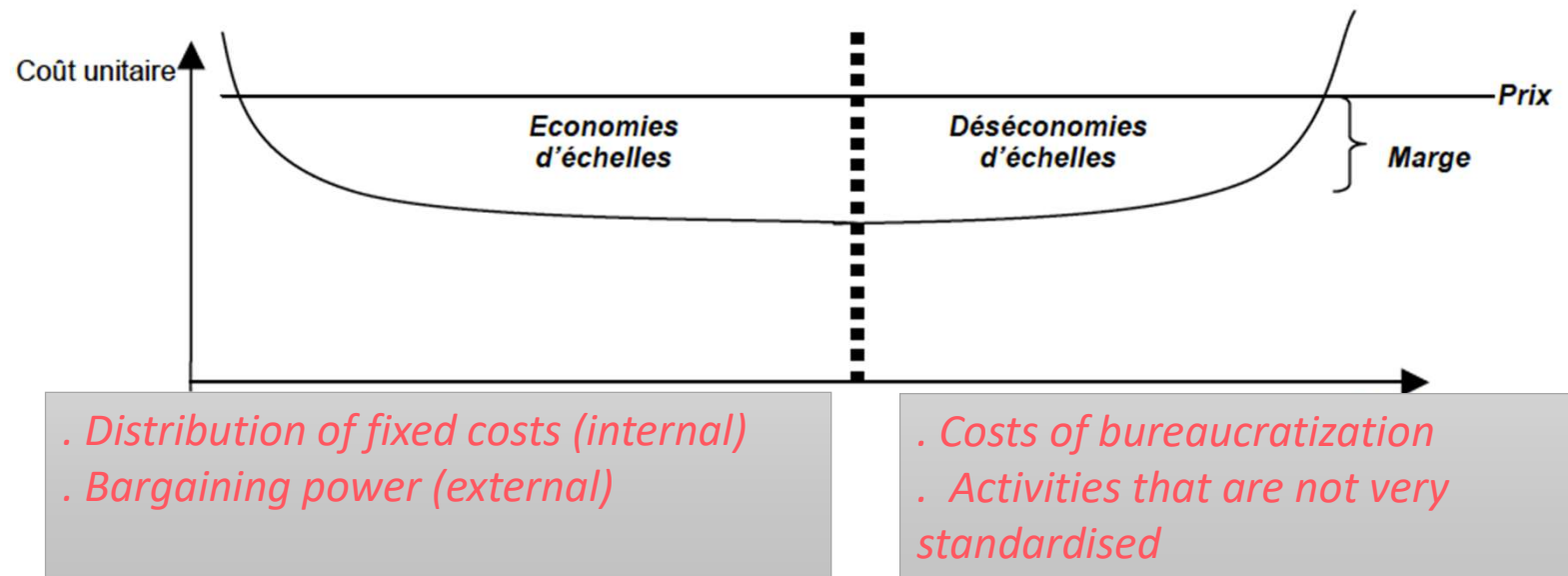


## 1.1 – Strategy of growth

### The logic of growth

A company that believes with industrial logic:

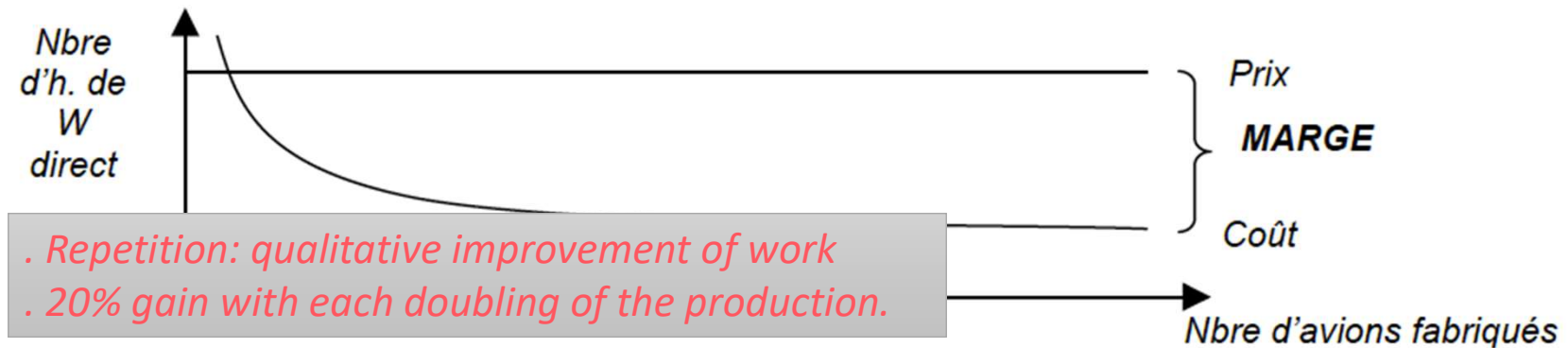
- Reduces cost per unit (economy of scale): The cost of a good decreases as the scale of its production increases!



# 1.1 – Strategy of growth

## The logic of growth

*The cost of producing a product decreases steadily with each doubling of cumulative production*



➤ A logic of learning

## 1.1 – Strategy of growth

### The logic of growth

A company that believes with industrial logic:  
- Spreading the risks across different activities ...

➤ **A logic of resource allocation**



## 1.1 – Strategy of growth

### The logic of growth

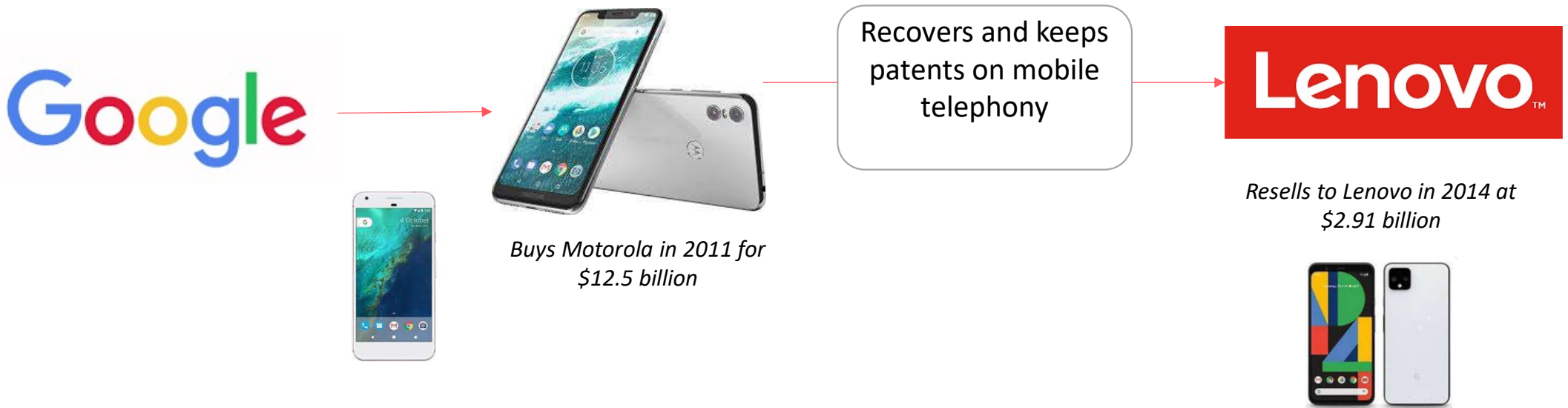
- A company that believes:
  - The reputation of the manager = growth (profitability)

**A logic of intention for the leader**



# 1.1 – Strategy of growth

## The logic of growth



## 1.1 – Strategy of growth

### The logic of growth

- A company that believes with industrial logic:  
Grow = increase market power (over suppliers, customers, competitors, competition regulators, etc.)

**A logic of intention for the company**



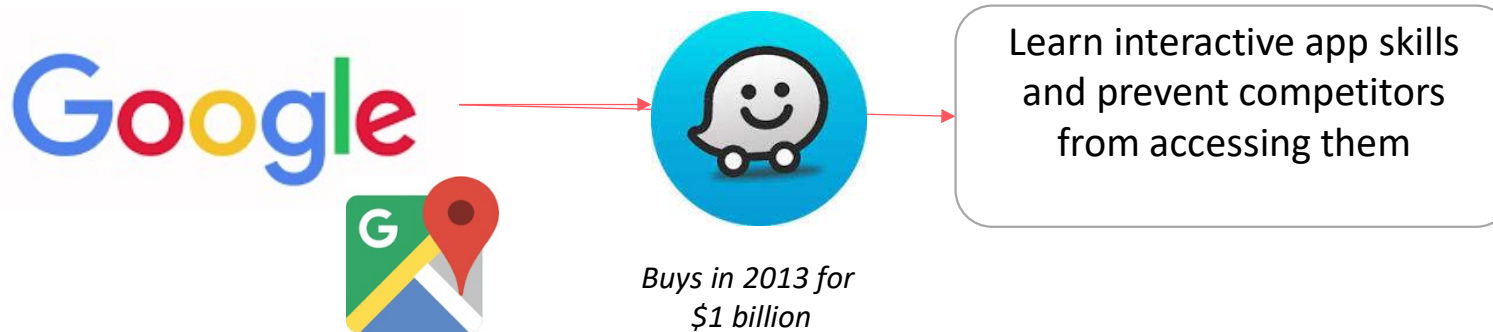


## 1.1 – Strategy of growth

### The logic of growth

*It is possible to have several logics simultaneously*

**Logic of learning : Access to a skill or technology**



## 1.1 – Strategy of growth

### The logic of growth

In its motivation to grow, two main drivers : industrial and financial

Depending on if the driver is industrial or financial, the path and choices to growth will be different



# Chap 2. Why does a company need to grow?

## 1.1 – Strategy of growth

- Stages of growth
- The logic of growth
- Growth pathways

## 1.1 – Strategy of growth

### Growth choices

The question: How can the company grow?

4 strategic choices:

- Industrial and financial
- Patrimonial or contractual
- Internal or external
- Horizontal, Vertical or Conglomérale

# 1.1 – Strategy of growth

## Growth choices

➤ A financial growth : increase the return on capital invested

A company that believes:

- makes a profit (optimization)
- Target of higher value-added products/markets
- Pay dividends (increases the value of the share and prevent hostile takeover)
- Reminder: the value of the share is based on estimates of future profits



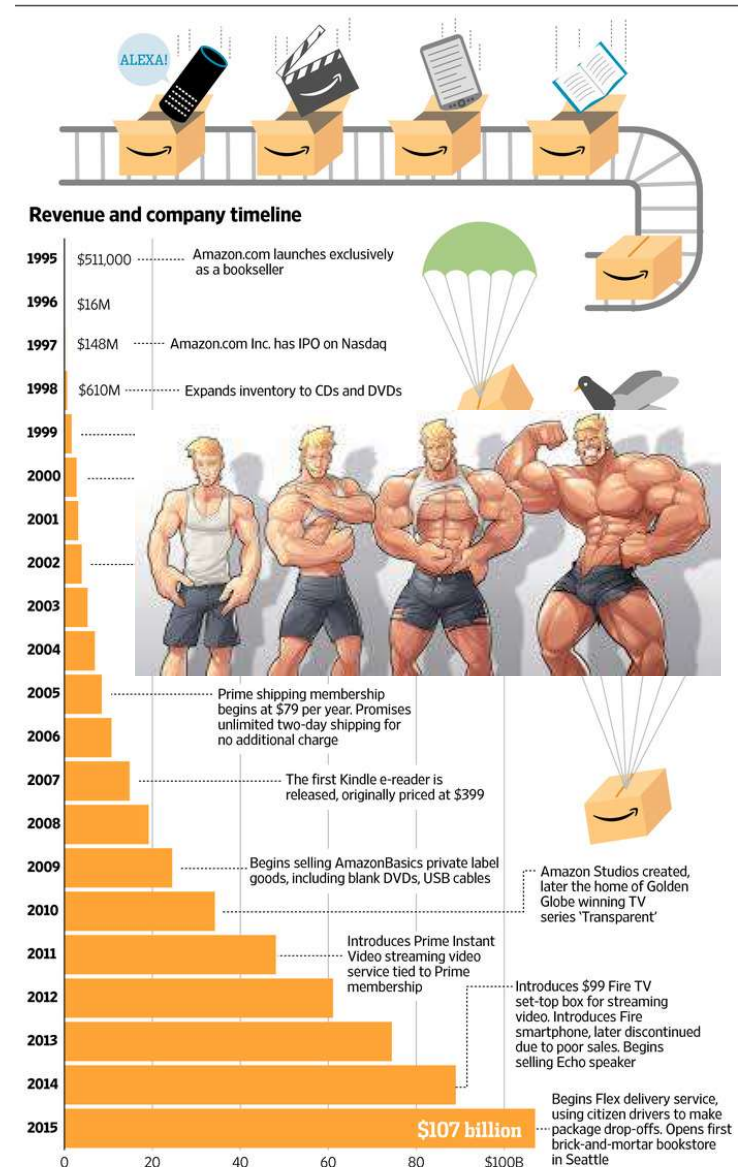
# 1.1 – Strategy of growth

## Growth choices

An industrial growth : increase the productive resources

A company that believes:

- Increase the activity of the company (its structure)
- Increases its size, offer and brand
- Concretely: Launch an R&D program, a new production tool, a distribution unit abroad, etc.



Source: The company

THE WALL STREET JOURNAL

# 1.1 – Strategy of growth

## Growth choices

<b>Indicators In physical units</b>	<b>Industrial logic</b>	<b>Financial logic</b>
Indicators In physical units		x
In monetary units		

# 1.1 – Strategy of growth

## Growth choices

Indicators In physical units	Industrial logic	Financial logic
Indicators In physical units	<ul style="list-style-type: none"> <li>. Units produced (outputs)</li> <li>. Staff</li> <li>. Production capacity</li> <li>. Number of clients</li> </ul>	-
In monetary units	<ul style="list-style-type: none"> <li>. Turnover</li> <li>. Payroll</li> <li>. Fixed assets</li> <li>. Wealth (net assets)</li> </ul>	<ul style="list-style-type: none"> <li>. Economic added value</li> <li>. Equity</li> <li>. Market capitalization</li> <li>. Cash flow</li> </ul>



# 1.1 – Strategy of growth

## Growth choices

Assets (Uses)	Liabilities (Source)
Goodwill Land & Building Plant & Equipment Investment FA	Capital/Equity Issued Capital Reserves O F
	Deferred Taxes
Current Assets Inventory Acc. Receivable (AR) Prepaid Cash CA	Loan Term Loans LTL
	Current Liabilities Account Payable (AP) Short Term Loan CL
What do I own?	How did I pay for it?

Objectives:

*Want to grow the Patrimonial*



*Develop the company on the basis of a greater ownership of assets, tangible and intangible, which leads to an increase in the patrimonial value of the company*

**Objective :**

- Industrial logic: increasing productive resources
- Financial logic: increase the return on capital invested

## 1.1 – Strategy of growth

### Growth choices

- ***Contractual growth***

- *“Contractual growth is each time an enterprise entrusts to others the performance of part of the tasks necessary for the production or distribution of the goods and services it intends to offer to the market.”*

(de Montmorillon, 1989)

*“Contractual growth consists of extending the scope of influence of the company, without putting its capital or assets at stake.”*

(Marchesnay, 2004)

**→ Increase in the number of contracts between the organization and third-party partners as part of its business**

# 1.1 – Strategy of growth

## Growth choices

- Contractual growth**

*Ex: strategic alliance  
Cooperation between competitors  
=> R&D Consortium, Joint Venture*



SUPPLIERS



*Ex: subcontracting  
Manufactures a product designed by the DO  
-> Specialty, capacity, strategic*



RIVALS

ENTREPRISE

COMPLÉMENTEORS



*Ex: franchise/license, design thinking  
=> Innovation tool : innov'acteurs, design thinking*



CLIENTS

*Ex: shared advertising, co-branding  
Alliance between two firms to promote a common PDT/service  
Alliance between two firms to jointly promote the respective pdts/services*

# 1.1 – Strategy of growth

## Growth choices

- **Definition of internal growth**

- Internal or organic growth can be defined as the **ex nihilo creation** of new productive or commercial capacities of the enterprise.
- It is the result of autonomous and progressive development through the accumulation of own resources.

- **Advantages and Downsides**

Benefits	Downsides
<ul style="list-style-type: none"><li>. The pace of growth is controlled</li><li>. The nature of the investments is consistent with the existing organization</li></ul> Secret guard → <b>Tailor-made growth mode</b>	<ul style="list-style-type: none"><li>. Implementation time</li><li>. "Rider Alone" syndrome:<ul style="list-style-type: none"><li>- Do not innovate</li><li>- Getting the wrong innovation</li></ul></li></ul>

# 1.1 – Strategy of growth

## Growth choices

- *Definition of external growth*

External growth can be defined as the acquisition of already existing productive or commercial capacities

It results from the acquisition of control of means of production already combined, that is to say, carrying out production immediately without any other form of intervention

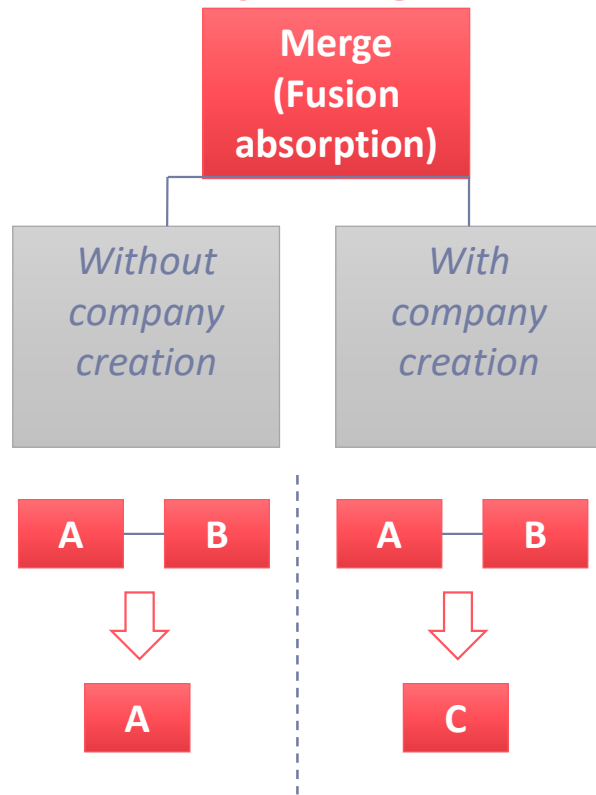
### *Avantages et limits*

Avantages	Limits
<ul style="list-style-type: none"><li>. Access acquired market positions</li><li>. Obtaining key competencies</li><li>. Limit risks/units already operational</li></ul> <p>➔ <b>Accelerated growth mode</b></p>	<ul style="list-style-type: none"><li>. Cumbersome reorganizations induced</li><li>. Need for significant capital</li></ul> <p>➔ <b>Challenges for SMEs</b></p>

# 1.1 – Strategy of growth

## Growth choices

- The case of mergers and acquisitions (Fusac, M&A)*



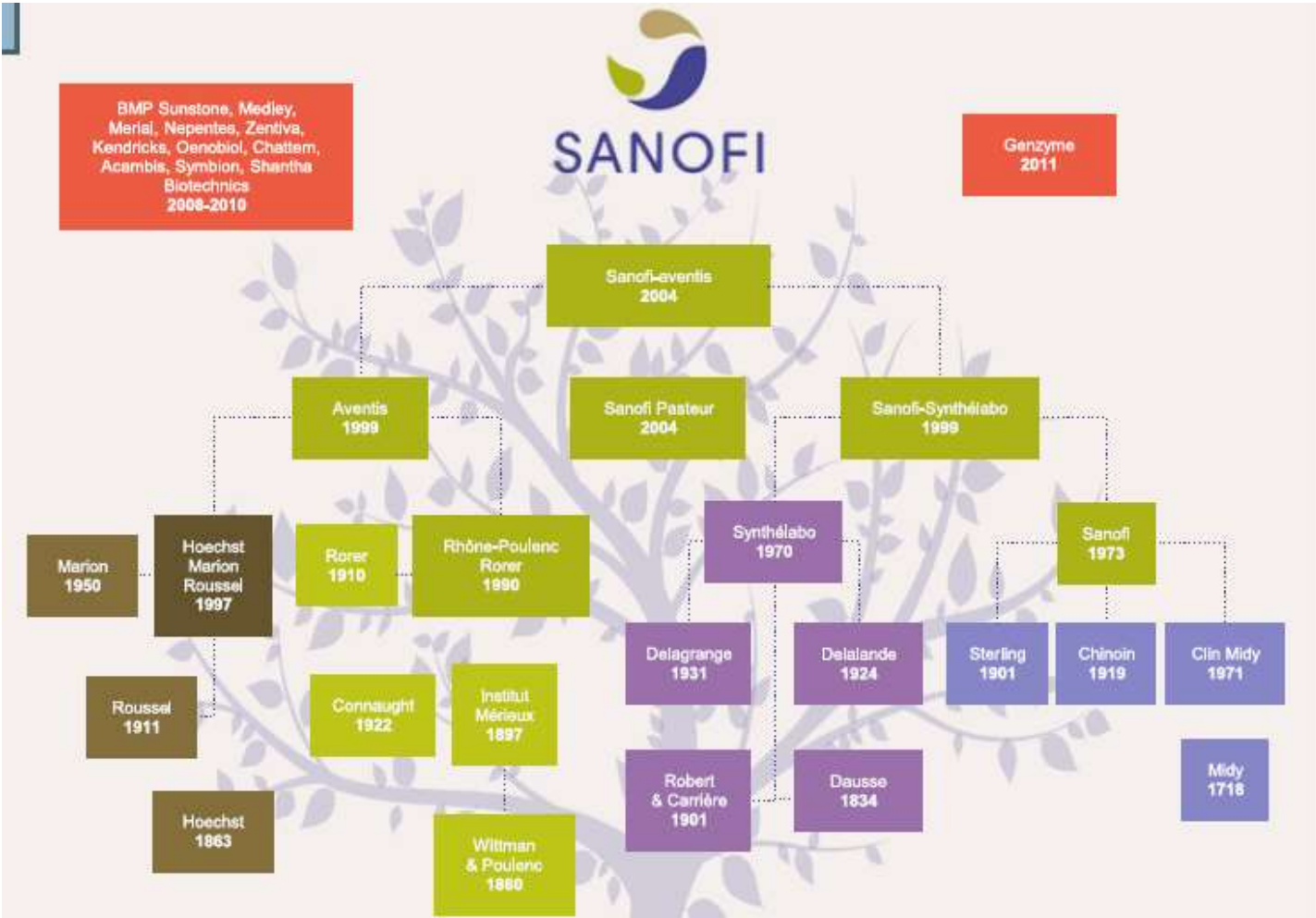
- A merger occurs **when two separate entities combine forces to create a new, joint organization.**
- Meanwhile, an acquisition refers to the takeover of one entity by another.

Avantages	Limites
<ul style="list-style-type: none"> <li>. Accelerating growth</li> <li>. Search for synergies: <math>1 + 1 = 3</math></li> <li>. Reduce competitive intensity</li> </ul>	<ul style="list-style-type: none"> <li>. The majority of mergers result in negative synergies               <ul style="list-style-type: none"> <li>- Restructuring costs (social, eco)</li> <li>- Fusion of corporate cultures</li> <li>- Effective complementarities</li> </ul> </li> </ul>



BMP Sunstone, Medley,  
Meril, Nepentes, Zentiva,  
Kendricks, Oenobiol, Chatterm,  
Acambis, Symbion, Shantha  
Biotechnics  
2008-2010

Genzyme  
2011



## 1.1 – Strategy of growth

### Growth choices

How can the company grow?

3 strategic choices:

- ❑ Patrimonial or contractual
  - ❑ Internal or external
- ❑ Horizontal, Vertical or Conglomérale



# 1.1 – Strategy of growth

## Growth choices

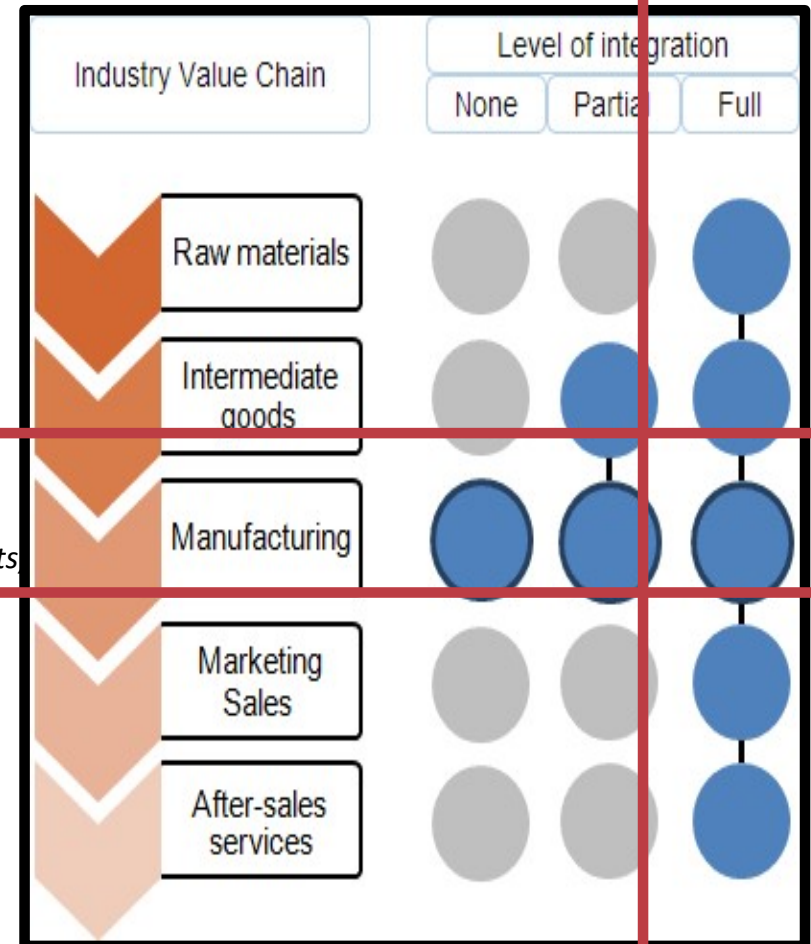
- Three paths of growth:

Conglomerat  
Diversification  
*(not related at all)*

Verticale  
(different  
activities in the  
production  
cycle)

Concentric  
Diversification  
*(some link)*

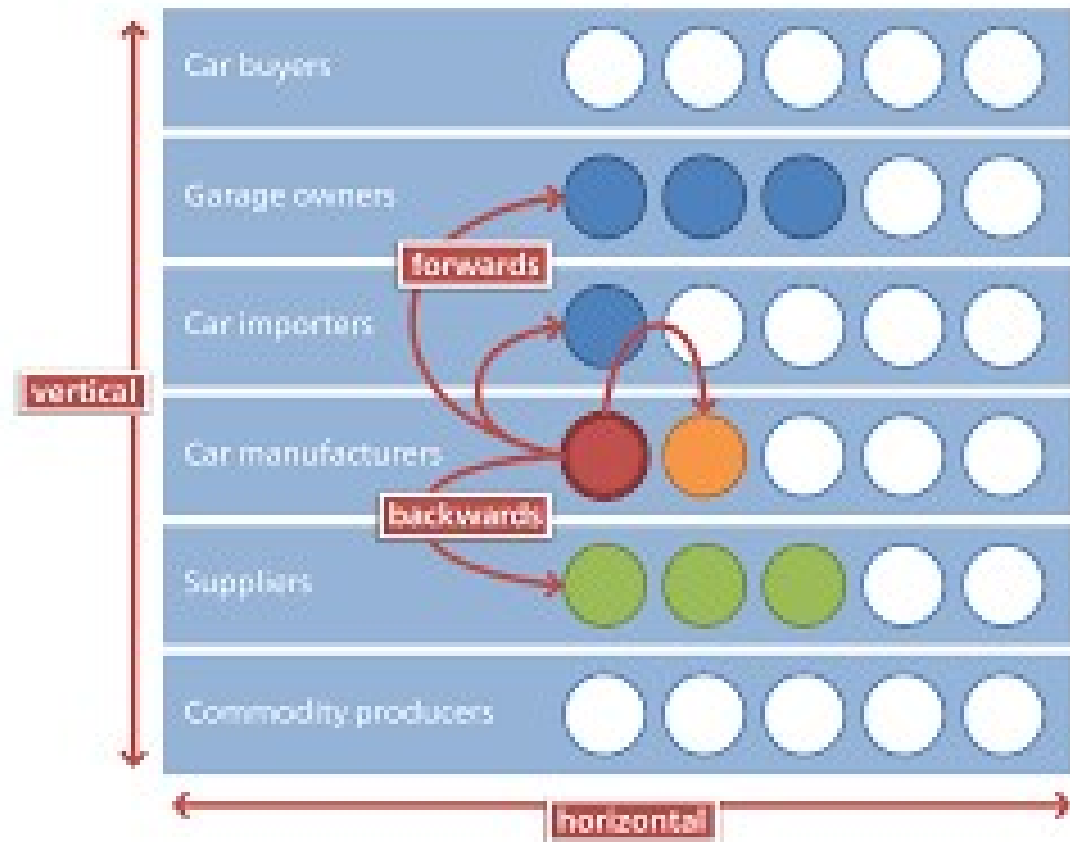
Horizontale  
*(same activities,  
competing products)*



# 1.1 – Strategy of growth

## Growth choices

- Three paths of growth:



# To remember



## Growth:

- Different stages of growth (with a particular management style and its specific management problems)
- Change of stage linked to a crisis/revolution that calls into question existing management practices
- Role of these crisis
- The different motivations for growth (growth logics)

# Quiz

## Blablacar

Frédéric MAZZELLA, President and Founder of BlaBlaCar. In 2006, he initiated and led the entrepreneurial adventure of BlaBlaCar, from the original idea to the creation of the world's first long-distance carpooling community. The idea of BlaBlaCar was born from a personal need. He had to return to Vendée from Paris to spend the Christmas holidays with his family. But all the trains were full. It was finally his sister, then living in Rouen, who picked him up. And on the road, he realized that most of the cars were empty. He then realized that there were free places to go home: only, they were not in the trains but in the cars! This is how the idea of BlaBlaCar was born. After 15 years spent building BlaBlaCar, Frédéric now not the CEO anymore, he deploys his energy to promote French and European entrepreneurship as Co-President of France Digitale and focus on talent, impact, and European technological sovereignty.

Since 2016, Nicolas Brusson is the Chief Executive Officer of BlaBlaCar (CEO). Before Nicolas was responsible, for 5 years, of the conduct of global operations and international growth as Chief Operating Officer (COO). In particular, he led three different fundraising rounds, the expansion into twenty new countries, and eight acquisitions. Nicolas is a strong supporter of the autonomy of local BlaBlaCar teams and of “**acqui-hiring**”, a global development strategy that consists of recruiting an already existing team on-site by partnering with local startups. He frequently speaks on the themes of the European Tech ecosystem, international growth strategies, and mobility.

**18) Question: When Nicolas Brusson does “acqui-hiring”, what type of growth is favored?**

- a) Internal growth
- b) Diversification
- c) Vertical growth
- d) External growth

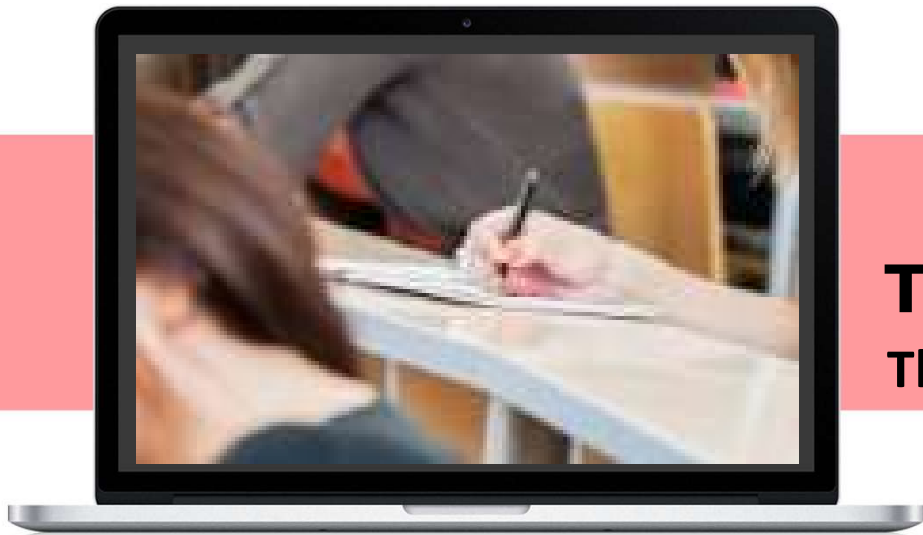


# Quiz

## Blablacar

**19) Question: Why did Frédéric MAZZELLA decide to appoint Nicolas Brusson as CEO in 2016 (and therefore no longer be the CEO)?**

- a) This decision is surprising: the founder is the most relevant person for the CEO position when a company wants to grow
- b) Relevant decision related to the stage of growth: "crisis of control"
- c) Relevant decision related to the stage of growth: "crisis of rigidity/need of creativity"
- d) Relevant decision related to the stage of growth: "leadership crisis"



**To go further**

The kill zone

# Food for thought

**Question :**

**Why are there less and less Investment by start-ups in internet retail, internet software and social/platform software?**

**(tips : industries corresponding to the industries dominated by Amazon, Google and Facebook)**

## Food for thought

- « But economist Ian Hathaway noted that looking at the overall technology industry was too broad. Examining three specific industry categories — internet retail, internet software and social/platform software, corresponding to the industries dominated by Amazon, Google and Facebook, respectively — Hathaway found that initial venture-capital financings have declined by much more in the past few years than in comparable industries. That suggests the kill zone is real.”



# Food for thought



And Picasa's acquisition, and subsequent decline, was a powerful demonstration of big tech companies' ability to devour and destroy promising young startups



## Food for thought

- “a big company is the dream — they’re happy to walk away with a small fortune and move on to the next stage of their careers. But there’s a danger that big companies, being less emotionally invested in the companies they acquire, will leave them to wither on the vine”.



## Food for thought

- “And even more importantly, a kill zone can result not from acquisition, but from the threat of overwhelming competition. **If founders believe that big companies will copy their innovations cheaply and compete them out of the market, they’ll never spend the time and effort to create those innovations in the first place.**”



## Food for thought

- “A third way big tech can kill startups is by hiring all the best engineers. Technology ecosystems thrive on talent, and when Google and Facebook and Amazon are offering unbeatable compensation packages with strong job security and plenty of perks and benefits, startups might have to scrounge for the scraps.”



# **Food for thought**

**French startup size**