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FINANCIAL CRISIS AND GROWTH STRATEGIES (THE AMERICAN RECOVERY AND REINVESTMENT ACT OF 2009)

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INTRODUCTION

Growth and expansion strategies available at the disposal of an organization should e analyzed to determine the merits and demerits available to an organization. The various kinds of expansion strategies have tradeoffs of benefits versus demerits which have to be considered before a decision is arrived at. YouCastr by engaging a consultant will learn about such from them to make an informed decision. Internal growth strategies of growth are more beneficial to an organization due to their benefits outweighing their disadvantages during the initial stages of growth. After an organization reaches maturity stage the most appropriate method of expansion is franchising since the most basic rule applied at this time is cost cutting measures and the minimization of risks associated with losses.

REASONS FOR GROWTH STRATEGIES

Growth strategies are equally critical to small, medium and large enterprises. However, their point and actions of execution differ depending on the size of enterprise and the needs of the investors. It is for this reason that YouCastr needs to understand the need for growth and what this firm ought to consider when executing such a strategy. First, firms need to leverage their product brands. YouCastr has products which are well established in the market due to brand names they rely on. Consequently, expanding the rand market leadership position in the current market niche is critical.

Additionally, taking the rand as an asset and growing it into other markets is a fundamental reason to pursue growth. The second reason to pursue growth is the need to exploit the opportunity to build on the existing customer relationships. This is a cost effective means as it entails reaching out to more customers by sending requests to existing ones to reach out on other customers. An expanded customer base could be reached by this means. Thirdly, dealing with domestic and foreign competition could be another reason for growth. Persistent competition could drive down prices of commodities and damaging the, market share of YouCastrs products. Owing to this, growth establishes a strong and loyal customer base and brand name which enables the firm to withstand competition.

The other reason is price sensitivities to the demand of products and services. A high degree of price elasticity provides organizations with the challenge of minimizing the cost of production which could only e possible if firms engaged in expanding the economies of scale. This can pursued through growth strategies. Stock market pressures have the effect of fluctuating the price of a firms stock. This could damage investor confidence. Investor confidence could be reassured through growth strategies outline. Lastly, companies might want to pursue growth strategies to satisfy, the ambitions of company directors who might be interested in empire building course. This is however not advisable owing to the fact that shareholders interest would not be put into consideration.

Factors to consider during each stage of growth

There are five stages of growth and each stage has factors which ought to be put into consideration when pursuing such a strategy. Stages I to V of growth depict the five phases of growth that firm undergo. They include in that order, existence, survival, success, takeoff and maturity. The factors to consider are the needs for each stage of growth and the challenges that firms face during each phase. Stage I inculcates creativity to attract and retain customers through delivery of innovative products and services. This stage is regarded as the stage of creativity and the most pertinent challenge is leadership crisis.

Stage II is often regarded as the stage of survival. It mainly addresses the question of whether the firm is able to maintain a sustainable relationship between revenues and costs so as to realize extra funds beyond the breakeven point. The crisis experienced at this stage is the crisis of autonomy, it addresses whether the firm can sustain itself by independently generating revenues enough for growth.

Stage III (success stage) firms face crises as to whether to exploit their success from the huge profit margins they are making or to maintain their profitability and distribute this wealth to the benefit of owners. This stage requires development of systems of delegation of duties. However there is a crisis as to how controls of the delegated responsibilities would be carried out.

Stage IV is considered as take off stage. This stage needs emanate from drawing up strategies of how to grow the firm rapidly and the means of financing this rapid growth. The complexity of the organization and the significant debt to equity ratio controls is significant at this stage.

Stage V is the stage of maturity. The resource maturity stage entails consolidation of financial gains through proper management control. Another key issue to consider is to professionalize the management so that strategies to maintain the status brought about by rapid growth can e realigned with growth of the firm.

INTERNAL VERSUS EXTERNAL GROWTH STRATEGIES

Internal growth main focus is the use of its own resources and strengths to ensure the realization of optimum returns on its assets. This way, a firm uses its product knowledge, manufacturing abilities and skills in marketing to strategize on growth. On the other hand, external growth includes the focus derived from gaining the market power and synergies through elimination of competitors through actions of acquisitions, alliances and mergers.

Both have tradeoffs which YouCastr should exploit to determine which strategy is more advantageous. Mergers and strategic alliances for example, provide an opportunity for firms to combine skills and resources hence synergy. This could also be beneficial through risk diversification. However challenges can be observe through bureaucracies in decision making and difficulties in goal execution due to organizational culture differences and conflicts relating to governorship issues. On the other hand, internal growth is a simpler strategy to execute due to single management which only unifies resources and reorganizes the organization to realize competitive advantage. However, the limiting factor could be lack of adequate finances which is not a case in external strategies and huge transactional costs which are greater than benefits. YouCastr should therefore opt for external growth strategy.

Franchising is a form of business ownership entailing the use of another company's trade mark and business model to carry out business. Whereas the franchiser gains through royalties from use of trademark and fees from advisory and training programs, the franchisee benefits from use of established brand name, free advertisement and training and advisory services.

Although franchising has limitations such as restrictions in decision making, growth, longevity of the business, and strict agreements, the franchise owner can gain through the benefit of not having to incur the significant costs and challenges faced during the start up process. Also, a benefit from an already established customer base and support network is critical the business niche is set and suppliers are already identifiable. There is a lower risk of doing business as opposed to other ownership deals since a franchise owner works within an already stipulated structure, and already decided policies. Since an already established brand name is available, and reputation of a franchise is already in the public domain, it saves the management of a lot of energy, time and resources to carry out business start up. Accordingly, profit making is instant. YouCastr should consider becoming a franchisor in the future. Expansion through financing is beneficial since capital requirements are minimal, costs of expansion are limited, rapid growth through wide visibility of a company's products, management is delegated to franchisee and losses are suffered y the franchisee. A gain is also experienced through a constant flow of royalties which is an additional benefit of non refundable fee received by franchisor.

CONCLUSION

As long as an organization has sufficient finances and the transactional costs incurred during the reorganization is less than accruing benefits, internal growth is more beneficial during startups. After maturity, franchising could be the best available option for YouCastr. It is less risky in terms of losses, is more beneficial in terms of financial mop up and reduces strain on management.

REFERENCE

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