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# Diplomarbeit

Titel der Diplomarbeit

„Internal versus external growth of a company -

Internes versus externes Wachstum

einer Unternehmung"

Verfasserin

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Für meinen Vater

Mein besonderer Dank gilt meiner Mutter, der ich alles verdanke.
Ohne sie wäre Vergangenes nicht zu bewältigen gewesen, Gegenwärtiges nicht geschafft worden und Zukünftiges nicht erreichbar.

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# 1 Introduction[1]

Although a company's investment decisions are generally the most important, most centralized, best documented and most analysed of all the decisions it has to make. Paradoxically, its investment is not easy to explain, forecast, or influence. The long-term nature and irreversibility of growth decisions make them crucial in determining a firm's success or failure, growth and general development.

Within the overall picture of a firm's major economic activities, illustrated in Figure 1, this thesis concentrates on the capital expenditure out of the funds available and the consequential growth of a company.

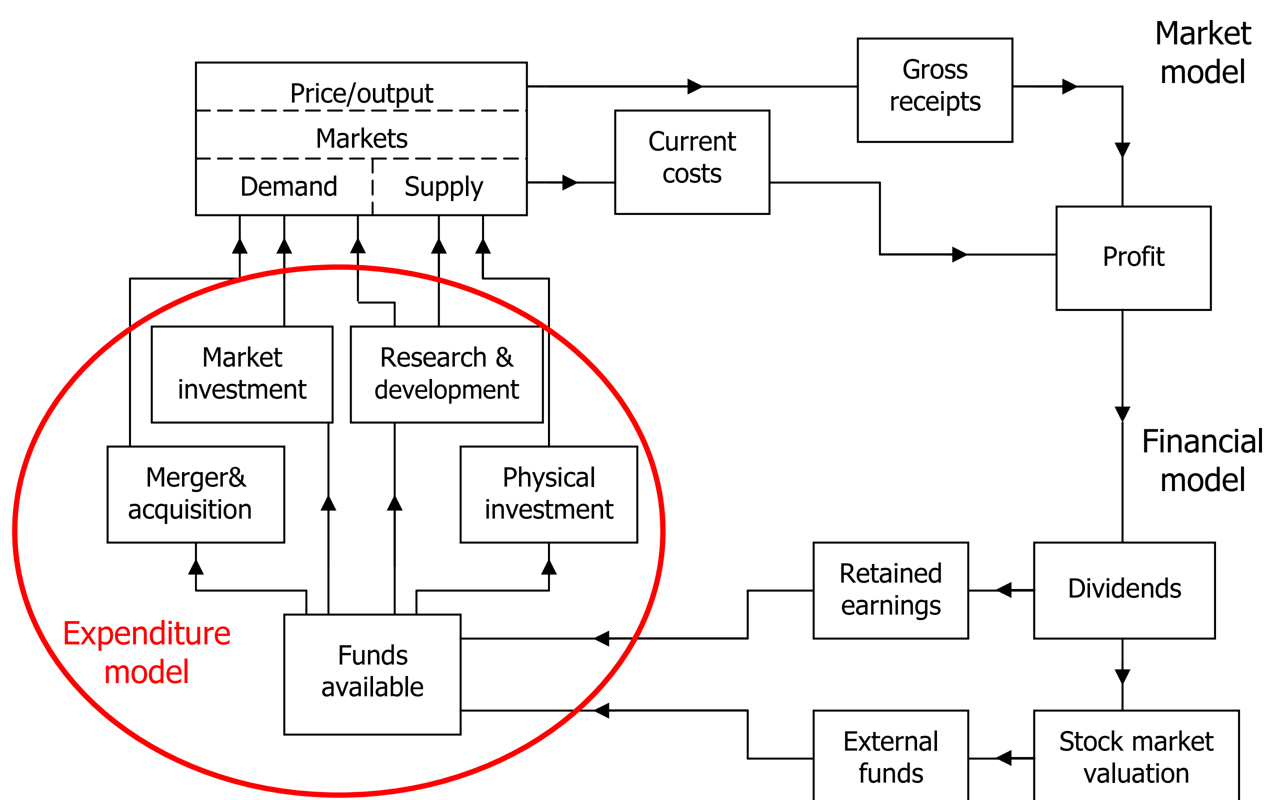


**Figure 1:** Model of a representative firm and its economic activities

The market model in the upper half of the picture explains the profits generated and the financial model in the lower half analyses the division of these profits. The expenditure model forms a link between them. The profitability that emerges determines the availability of

[1] Hay D. and Morris D. (1991) p. 19 ff.

funds; the latter can be used in a variety of ways to alter the cost and demand conditions and to expand the company.

A firm's investment expenditure decisions, in their broadest sense, allocate a significant proportion of its cash flow, determine in which markets it will operate and expand its operations. It implements the management's plans for developing the company at the desired rate of growth and in a way that balances the demand for products and the capacity to supply them over time.

Figure 2 shows the different types of expenditure, which represent alternative and competing strategies of corporate growth. Included, under the internal growth heading, are physical investments into plant and machinery, expenditures on process and product research and development (R&D), and market investment. Mergers with or acquisitions of other firms are considered a means of external growth.

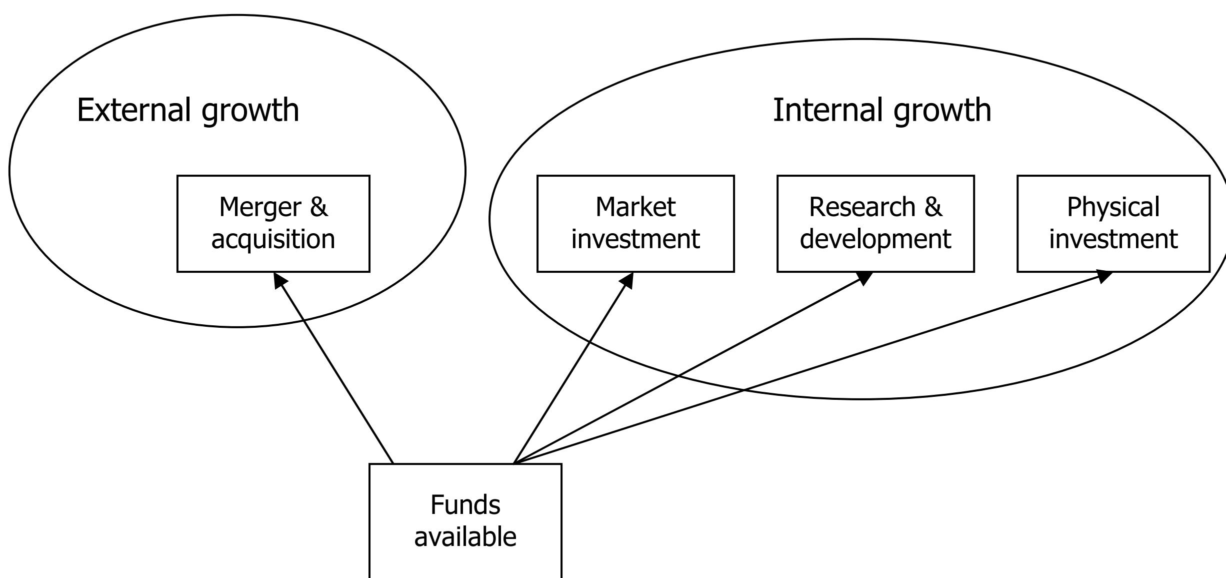


**Figure 2:** Internal versus external growth

The focus of this work is to present the different strategies of internal and external growth, to identify their advantages and disadvantages and to compare these two strategies with each other.

The theoretical section begins with a general introduction into corporate growth; the second chapter deals with internal and external strategies of growth per se; the third section is a comparison of these two sources.

Afterwards, these theoretical concepts are applied to Heineken's case, one of the world's largest brewers. The case study describes which of the previously mentioned growth strategies Heineken puts into practice and how this was accomplished. The final section includes a summary of the results and the conclusion.

# 2 Corporate growth[2]

## 2.1 Definition of corporate growth

Some of the most significant contributions to the theory of growth of the firm come from Penrose (1959/1995). She defines growth as

"Increase in size or an improvement in quality as a result of a process of development…" and "…the continual extension of the range and nature of the activities of an organization."[3]

Penrose compares a firm's growth to the natural biological process in which an interacting sequence of changes leads to an enlargement in size accompanied by modifications in the characteristics of the growing object. The traditional economic analysis concentrates on the advantages and disadvantages of a particular size of company. Thus, growth becomes just an adjustment of the size to given conditions. But for Penrose, size is just a by-product of the process of growth.

Penrose sees this development created not only by a firm's own "internal" activities, but also effected by opportunities, changes and actions that are external to the firm.[4]

## 2.2 Growth of demand and supply

As a firm grows, it will require more inputs, physical and human, over the long term to match increases in demand for its products. The management tries to change the conditions under which it operates in markets and has to avoid both spare capacity and excess demand. It spends considerable time trying to bring into line the supply of resources and the demands upon them.

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[2] Hay D. and Morris D. (1991) p. 271 ff.
[3] Penrose E. (1959/1995) p. 1, p. 6
[4] Penrose E. (1959/1995) p. 2

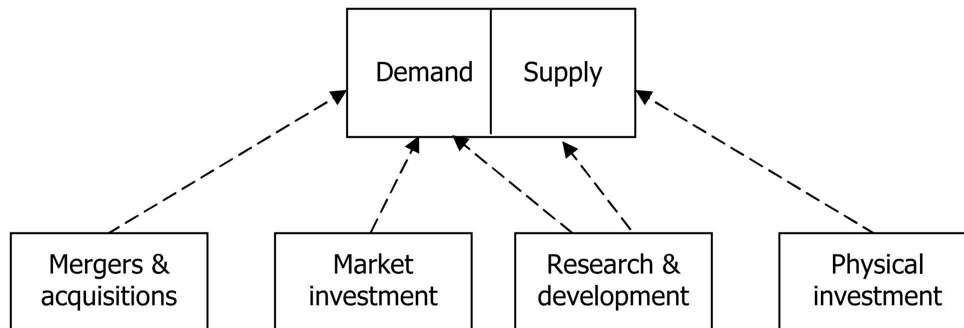


**Figure 3:** Extract of the expenditure model, the demand and the supply side

The extract of the expenditure model in Figure 3 shows that market investment and research and development are influencing the demand conditions facing the firm. Mergers and acquisitions directly change the nature of the market structure and accordingly influence the demand side. Investments in plant and machinery and expenditures on research and development determine the development of the cost and supply conditions.

Expenditures on research and development influence both sides because it may be process R and D creating technical changes in the production process or product R and D, which alters the nature of the goods or services.

## 2.3 Directions of corporate growth

There are different ways how a change of the company size or of the efficiency potential can take place. The direction of growth describes what kind of change occurs. In practice, a mixture of the various directions are implemented into one firm strategy and they are difficult to separate. But already Penrose's definition of corporate growth implied that some distinctions can be drawn.

### 2.3.1 Quantitative vs. qualitative growth

Quantitative growth signifies that during a stable production range a higher output is reached through an increase in capacity. Its counterpart, the qualitative growth, is a result of improvements to the product line. The firm takes measures to upgrade the quality of the spectrum of products and services or to generally make them more effective. [5]

[5] Kürpick H. (1981) p. 58 ff.

### 2.3.2 Horizontal vs. vertical growth

Horizontal growth is characterized by an expansion within the same product market, for example, an extension of the breadth of the product line. Vertical growth is the expansion to additional production stages.

Some firms try to gain control over the production process by expanding back toward the supply of raw material or forward to the ultimate customer. This forward or backward integration facilitates the coordination and administration and, moreover, the company is less dependent on the supplier or distributor. Nowadays, vertical integration seems rare as companies tend to outsource the provision of many services and various types of production.[6]

### 2.3.3 Diagonal and lateral growth

The term diagonal growth describes the production of auxiliary material and supplies like subsidiary factories. Lateral growth is the move beyond the boundaries of the industry in which the firm operates.[7] There is no connection between the new and the existing products, neither vertical nor horizontal. The emerging companies are called conglomerates.

## 2.4 Measuring corporate growth

As the measurement of corporate growth is a very complex task, there exists no consent in the literature about the appropriate measurement variables. There are certain criteria, however, that they have to meet: The variables must be theoretically relevant, but also practically ascertainable and computable. The company should be able to use them as a control and target figures and their availability for at least every year of the company's existence has to be guaranteed to compare them overtime and within the industry. A further criterion is the internal and external verifiability of the measurement.[8]

The choice of the best variables always depends on the specific case and accessibility of the information. The most intuitive and easiest way to measure corporate growth is by the rate of growth of the firm's total assets, as they include all physical assets, financial assets, etc.

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[6] Breadley R. and Myers S. (2003) p. 931 ff.
[7] Kürpick H. (1981) p. 58 ff., following Ansoff H.I. (1958)
[8] Wolff J. (1993) p. 15 ff.

Other common measurements are the business volume, invested capital and the number of employees.[9] Single variables, though, have a limited significance because they are just a part of the big picture.[10] Due to the increasing importance of the capital market, the shareholder value and other valuation based measurements as the Economic Value Added (EVA)[11], the Discounted Cash-Flow or the Cash Flow Return on Investment (CFROI)[12] become more and more relevant during the past decades.[13]

## 2.5 Corporate growth as a company target

Historically, the analysis of a firm's behaviour has the presumption that the firm's main objective is profit-maximization. It was simple to use both as a concept and as part of a model of the behaviour of a firm. The last thirty years have seen a substantial amount of analysis based on the notion that firms should not be regarded as profit-maximizers. Growth maximization is the most thoroughly explored and tested alternative and is partially in line with the profit maximization objective.

On one hand, growth is required for developing new long term potentials for profit and, on the other hand, profit is the precondition to finance growth (see the model of a representative firm in picture 1). The development of future profit potentials is the centre of strategic and operative growth policy, subsequent investments and the expansion of the market position.

Penrose (1959/1995) also sees profits as a condition for successful growth and existing for reinvestment in the firm rather than to reimburse owners for the use for their capital or their risk bearing. "From the view of investment policy, growth and profits become equivalent as the criteria for the selection of investment programmes."[14]

Not every firm necessarily has to grow; it depends on the competitive environment. According to Wolff (1993), the intensity of competition differentiates between growth incentive, growth pressure and growth force. Growth incentives, like economies of scale, turn into growth forces when there are other companies competing for the same stake on the market.

[9] Kieser A. (1976) p. 4302
[10] Wolff J. (1993) p. 11
[11] The EVA was developed by Stern Stewart & Co.
[12] The CFROI was developed by the HOLT Planning Associates which was then taken over by the Boston Consulting Group
[13] Rappaport A. (1998) p. 21 ff.
[14] Penrose E. (1959/1995) p. 30

In most cases, growth is a necessary reaction to market specific requirements and a way to meet the expectations of the various stakeholders.[15]

With zero growth and no diversification at all, it is likely that some profitable opportunities are being missed and managerial efficiency is depressed. Another motivation for diversification into more markets and/or products is to reduce market risks.

Profitable growth is an expectation by all investors. “Thus, a major goal of most CEOs is to maximize growth without sacrificing profits.”[16] Corporate growth is critically important in the dynamic competitive landscape in which most organisations now compete.[17]

[15] Wolff J. (1993) p. 72 ff.
[16] Markman and Gartner (2002) quoted after Hitt M., Ireland D. and Tuggle C. (2006) p. 126
[17] Hitt M., Ireland D. and Tuggle C. (2006) p.128

# 3 Sources of corporate growth[18]

As shown in Figure 2, total corporate growth can result from two primary sources:

- Internal growth through research and development, market and physical investments
- External growth through mergers and acquisitions

These sources are not only distinct, but are produced by separate organizational processes and skills of a company. At the time, when the first theories of multinational companies were developed in the 1960s, external growth through mergers and acquisitions was much less important, compared to internal growth through setting up new facilities and extending existing capacities. As shown later, since then, this proportion has changed considerably. [19]

In the following subchapter, these two sources of growth, their corresponding strategies and situations where they are applied, and empirical evidence are presented in detail.

## 3.1 Internal growth

If managers pursue growth-oriented strategies, investment is a key variable. It is the principle way in which a company determines its size, markets, products and costs as it allocates resources across competing types of investment. Although investment decisions are highly centralized within a firm, the process of identifying investment opportunities and obtaining and processing the necessary information is diffused throughout the firm. The criteria for identifying these opportunities are frequently derived, either explicitly or implicitly, from the overall profit and/or growth objectives of the firm such as excessive capacity utilization, rising production costs, interruptions to production, maintenance of product cycles etc..

[18] Hay D. and Morris D. (1991) p. 271 ff.
[19] Kazanjian R., Hess E. and Drazin R. (2006) p. 6

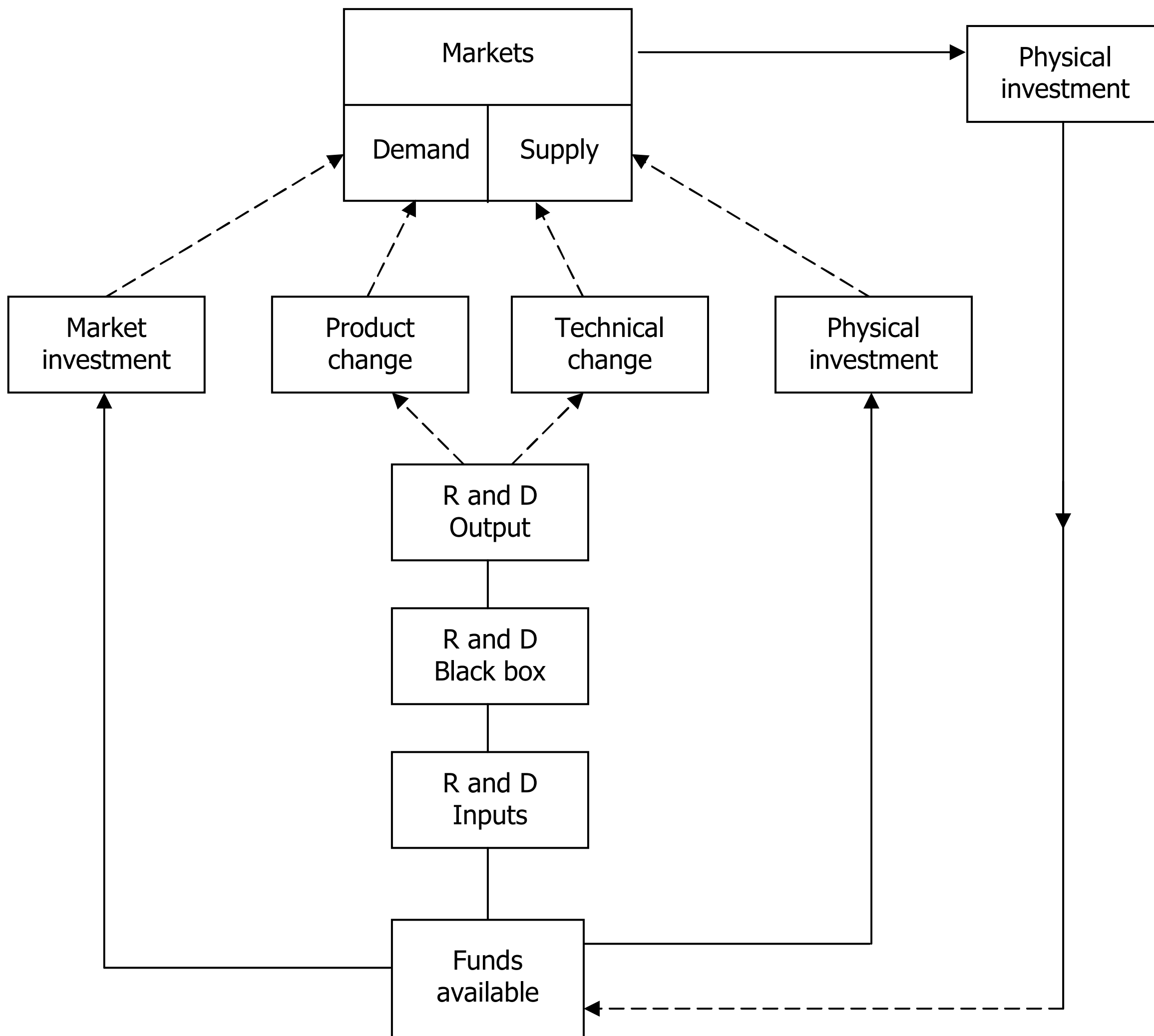


**Figure 4:** The main strategies of internal growth

The main strategies for internal growth, which are competing for a share of the total supply of funds, can be identified in Figure 4, an expanded version of the expenditure model in Figure 1, and are specified in following subchapters. Other factors influencing the internal growth of a company are explained in the next subchapter. Then situations in which internal growth is the only possible choice are described, followed by empirical evidence and characteristics of successful internally growing companies.

### 3.1.1 Research and development

Innovation is the major engine of corporate growth, especially in these times of a stagnating economy and sceptical investors. Innovations that have the potential to create future value help companies excel. In order to grow faster than the rate of growth of the markets in which

the company operates, it must develop new competencies for future returns and carry out successful diversification.

Consequently, a major use of funds is to allocate them towards research and development with a view to create renewed offerings, capabilities and assets that feed internal growth. The major elements in the research and development expenditure decisions are presented in Figure 4. The expenditures are made on R and D inputs, e.g., research facilities, scientists and material. The R and D "Black Box" represents the production functions by which these inputs are transformed into R and D outputs, either product or process changes.

Because of the high degree of uncertainty in research and development projects, virtually all expenditures are financed out of retained earnings. Galbraith (1972) stated that the profits earned by large monopolistic corporations are a major source of funds for R and D, and that this could lead to the pre-eminence of such companies in innovation.[20]

#### 3.1.1.1 Product research and development

Coping with changing market requirements or preferences for the company's products is a competitive challenge facing firms of all types. To prosper despite these alterations, an organization needs to seek and explore new opportunities.[21] High levels of expenditure on product research and development will make the company's products more suitable and more reliable.

Innovations can be very incremental, such as a new use for an existing product, service or raw material, or it can be drastic such as the introduction of a new product that revolutionizes a market. A radical novelty, like a technological breakthrough, may create new markets and new business models.[22] Getting a new product off the ground is always challenging and requires lots of experimentation, discovery and flexibility. Only one or two ideas, out of a hundred seemingly good ideas, turn into real products. Each idea has to go though progressively more intense scrutiny; an initial screening and reality check kills the majority of ideas, and further analyses narrows down the projects to the most promising ones.[23]

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[20] Galbraith (1972) quoted after Hay D. and Morris D. (1991) p. 468
[21] Hitt M., Ireland D. and Tuggle C. (2006) p. 126
[22] Hitt M., Ireland D. and Tuggle C. (2006) p. 135 following Christensen (1997)
[23] McAfee P. (2002) p. 96

A successful diversification into new products might well increase the firm's average profit making because of the relatively high margin chargeable in new markets in comparison with that of the current "saturated" products. This is likely because innovations have a temporary monopoly in their initial stages.

#### 3.1.1.2 Process research and development

Process innovation refers to the first use of a new technique. Over time, use of the technique will diffuse to other firms. Technical change, shown in Figure 4, includes both innovation and diffusion.

The pessimism of managers about market prospects tends to favour research and development into processes rather than products. There is also a tendency to emphasize routine projects with a small innovative content.

Merrifield (1991) stated that any organization that is not continually developing or adapting new technology has, de facto, made a decision to fail within the next five to ten years.[24]. The rapid advances being made in information-based technologies can be compared to another industrial revolution. The successive modifications of the main technology within an industry can add value to the organization's current competitive advantages. [25]

### 3.1.2 Market investment

"Effectively balancing the competing demands associated with 'exploiting' in the present while 'exploring' for the future is the foundation of profitable firm growth and shareholder satisfaction." [26] Besides introducing new products and services, companies must not forget to further exploit their current value-creating competencies. The firm's exploitation experience contributes to their ability to offer entirely new products that create value for customers.

Very rarely will the demand for a product grow because a given number of consumers buy more and more quantities. Usually a rise in sales volume results from a progressively in-

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[24] Merrifiled D. B. (1991) quoted after Hitt M., Ireland D. and Tuggle C. (2006) p. 126
[25] Garud R., Kumaraswamy A. and Sambamurthy V. (2006) p. 210
[26] Hitt M., Ireland D. and Tuggle C. (2006) p. 125

creasing number of people becoming customers, each with a roughly constant demand. There are several strategies to increase the number of customers.

#### 3.1.2.1 Geographic expansion

One commonly pursued option for internal growth is extending an organization's geographic reach. This usually assumes expanding the same collection of products and services into new markets. Each different geographic target represents different product preferences, infra-structural support requirements, as well as systems of regulatory oversight. For that reason, a step-by-step expansion of today's business from local to national and ultimately global scope is advisable. The first step is to extend the firm's market within the same country, followed by growth in related countries in terms of culture, economic and geographical distance and finally the entry into new international markets.[27] The company needs to develop the ability to learn about other countries, interpret information correctly and test assumptions and perceptions prior to their market entry.[28]

After enhancing and strengthening the core business, the company extends into new but related services and areas and then further expands its products into new markets. One of the main strategic decisions of the company is whether to adopt a global or a multi-domestic strategy. If the national markets differ widely in consumer tastes and preferences, operating conditions, political, social and legal structure, a multi-domestic strategy, where the foreign subsidiaries have their own function and autonomous factoring facilities, is more suited. A global strategy can be applied when a convergence of consumer tastes and preferences leads to the emergence of global markets with standardized products.[29]

#### 3.1.2.2 The growth of revenue from existing customers[30]

A natural track for internal growth for many firms is to seek more business with their current customers. This approach may be easier and less costly for firms to gain incremental sales than the perennial search for and attraction of new customers. A customer centred approach is an imperative for successful internal growth. An analysis of customer requirements is the

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[27] Kazanjian R., Hess E. and Drazin R. (2006) p. 12
[28] Hill C., Hwang P. and Kim W. C. (1990) p. 121
[29] Hill C., Hwang P. and Kim W. C. (1990) p. 120
[30] Bowman D. and Narayandas D. (2006) p. 8, p. 192 ff.

primary considerations in the design of products, services, operations, supply chain dynamics and customer support systems.

It is necessary to link customer management efforts to returns and growth reflected in customer profitability in order to increase revenue from existing customers. Therefore, operational resources are allocated to deliver product/service value and raise sales and profits at the customer level. Additionally, vendor managers invest in customer satisfaction programs and customer loyalty programs. The product/service value is a determinant of customer satisfaction. If customers are satisfied with a vendor's product and services, then it is only natural that their loyalty will follow. Loyal customers, in turn, contribute greatly to customer profitability because they are less costly to serve, less price-sensitive and hence willing to pay higher prices, and more likely to be advocates who generate sales via positive word-of-mouth.

Customer management efforts appropriately expended should lead to better performance. It is no longer enough to allocate resources at market level and manage market-level response. It is necessary to understand factors influencing individual customer sales so that managers more effectively allocate marketing expenditures across customers and better target and focus on managing individual high-potential customers.

### 3.1.3 Physical investment

It is also possible to enlarge a company internally through investment in new capacity, such as extending existing factories or building new ones. Physical investment is closely connected with process research and development as they are both means of growth related to the company's supply side. The exploitation of existing competencies or capabilities can be continuously improved through incremental innovations to the efficiency of the firm's goods, services and processes.[31] Emphasizing the need for operational efficiency and adequate investment in enabling technologies is central to the competitiveness required for growth.[32]

[31] Hitt M., Ireland D. and Tuggle C. (2006) p. 125
[32] Kazanjian R., Hess E. and Drazin R. (2006) p. 13

### 3.1.4 Other factors

**Knowledge**

Knowledge plays an important role in the strategies for internal growth. The knowledge and information flows that the internal development process of a new product or service creates can have additional benefits to the organization. Successful processes and procedures are implemented to perpetuate cycles of growth.[33]

Nowadays, knowledge is seen as being a strategic intangible resource that is infused into the firm's productive resources. Rather than the diminishing returns that can set in with the use of traditional resources such as land, labour, and financial capital, knowledge-infused resources have the potential to yield increasing returns. Not only do workers who are constantly refreshing their knowledge learn to accomplish tasks better, they also gain new insights as they deploy existing knowledge. Thus, the application of existing knowledge produces new knowledge.[34] Consequently sharing and developing organizational knowledge is a foundation of innovation, new product or new business development and helps to establish competitive advantages.[35]

**People, organisational structure and leadership**

The role of human capital is central to the general implantation process, the innovation process and the knowledge development process of internal growth. On the one hand, organic growth requires a consistent focus and appropriate allocation of resources by senior leadership through the articulation of a clear strategy as well as the design of the associated social architecture necessary for implementation.[36] On the other hand, individuals within the company must actively seek to identify and take actions to explore new opportunities.[37]

Human resource strategies place an emphasis on promote-from-within, broad-based employee ownership of company stock, expanded measurement and accountability. Also,

[33] Hitt M., Ireland D. and Tuggle C. (2006) p. 129
[34] Garud R., Kumaraswamy A and Sambamurthy V. (2006) pp. 211 ff.
[35] Hitt M., Ireland D. and Tuggle C. (2006) p. 131
[36] Kazanjian R., Hess E. and Drazin R. (2006) p. 14
[37] Hitt M., Ireland D. and Tuggle C. (2006) p. 130

highly decentralized operating structures and effective coordination processes lead to an open and entrepreneurial culture within the company.[38]

### 3.1.5 Situations where only internal growth is possible

Whereas, external growth is the increase of a company's total assets with other existing assets in the market, internal growth implies the addition of new assets. In some cases, internal investment is the only source of growth available because there are no suitable existing capacities available on the market.

This situation can occur because:

- The additional products are totally new and the production requires capacities that do not yet existing on the market.
- The products are to be produced with new production technologies which do not yet existing on the market.
- The production range of the company consists exclusively of monopolistic products.
- There is absolute no supply of existing capacities on the market at the moment.
- The bidder does not get any information about the supply because of imperfect market transparency.
- The prices of the targets are too high for the bidder.

Additionally, the option of external growth is excluded in some cases because of legal competition laws, like the Clayton Act, or because of a company's aim at a precise size.

### 3.1.6 Empirical evidence[39]

McGrath (2006) tested how many firms were growing internally, but not by acquisition, merger or other transactions relevant to corporate control. (see Figure 5)

[38] Kazanjian R., Hess E. and Drazin R. (2006) p. 13 ff.
[39] McGrath R. (2006) p. 148

| Growth without major acquisition | | |
|---|---|---|
| | US-based firms | Non US-based firms |
| Companies with sustained growth | 583 | 348 |
| Primarily organic growth | 35 | 24 |
| Percentage | 6 | 6.9 |
| Notes: Population companies with market capitalization > US $1 billion. Three- and five-year growth of 5%/year for US companies; three- and four-year growth of 5%/year for non-US companies. | | |

**Figure 5:** Growth without major acquisition

The surprising result is that out of the 583 US companies which had grown steadily over a five-year period from 2000 to 2004, only 35 had done so without significant acquisitions and out of the 438 non US-based firms only 24 had also done so without significant acquisitions. Accordingly, in this sample of large companies who were growing at even a modest rate, internal growth represents only about 6% of the overall growth. Quite a few companies appear to rely on internal development as their primary source of growth.[40]

Maksimovic and Phillips (2001) and Kovenock and Phillips (1997) examined what drives internal growth and their evidence suggests that internal growth is mostly driven by within the firm-level determinants, firm organization and efficiency.[41] For example, the capital structure offers an incentive to grow and affects a firm's investment behaviour directly because it influences contracting and the distribution of cash flows. In addition it conveys information about future investment opportunities. Increasing the share of debt is associated with more passive investment behaviour, especially for recapitalizing firms surrounded by an industry that is highly concentrated. Vice versa, unleveraged firms increase investment when faced with high-debt rivals. [42] Hoskisson and Hitt (1994) stated that highly leveraged firms with substantial debt costs invest less in R&D and consequently engage in less internal development. Furthermore, debt may significantly limit future investments and reduce the strategic flexibility necessary to cope with unexpected environmental opportunities and threats.[43]

[40] McGrath R. (2006) p. 148
[41] Maksimovic V. and Phillips G. (2001) p. 2023
[42] Kovenock D. and Phillips G. (1997) p. 768 ff.
[43] Hitt M., Ireland R. and Tuggle C. (2006) p.138

Kovenock and Phillips (1997) further demonstrated that high capacity utilization is naturally positively related to firm investment, as well as total factor productivity. This provides evidence that companies have a reason to invest in their most productive plants and that more productive firms grow more. [44] Andrade and Stafford (2004) supported the view that the incentives to expand are stronger in times when existing capacity is near exhaustion. Additionally, they show that all forms of investment are increasing in estimates of growth opportunities, such as Tobin's q, or sales growth.[45] This outcome, in turn, is consistent with the neoclassical theory that suggests that "the firm's level of investment should depend on its perceived investment opportunities measured by the firm's marginal Tobin's q, where marginal Tobin's q is the value of the investment opportunity divided by the cost of the required investment." [46]

Feinberg and Phillips (2005) discovered that firms with high research and development intensity grow with fewer constraints.[47] Newer and smaller firms develop almost twenty-four times as many innovations per dollars invested in R&D as compared to large firms, unless large firms invest a huge amount of resources into research and development. These new and small companies have developed about 95% of the radical innovations introduced in the United States since 1940s. However, also large firms develop routines to foster the development of major innovations. Especially learning-oriented skills are required to strategically innovate.[48]

### 3.1.7 Characteristics of successful internally growing companies[49]

William F. Joyce (2006) investigated organizational elements that influence organic growth. The companies, whose performance relative to peers over a ten-year period was ranked the highest and identified as "winners", demonstrate several characteristics significantly related to internal growth. The successful internally growing firms operate within flat formal structures and performance-oriented cultures, enhancing responsive decision-making. They build

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[44] Kovenock D. and Phillips G. (1997) p. 768 ff.
[45] Andrade G. and Stafford E. (2004) p. 2
[46] Tobin's q usually defined as the market value of the firm (equity and debt) divided by an estimate of the replacement value of the firm assets, in the corporate finance literature this quantity is often approximated by the ratio of the market value of a firm's asset to the book value of the assets.
Maksimovic V. and Phillips G. (2007) p. 42 ff., also see Whited T. (2001)
[47] Feinberg S. and Philipps G. (2005) p. 25
[48] Timmons (2004), Ahuja & Lampert (2001) quoted after Hitt M., Ireland D. and Tuggle C. (2006) p. 135
[49] W. Joyce (2006) p. 85 ff.

and strengthen this culture and organizational structure around effective strategies and execution which they relentlessly sustain.

A great deal of emphasis was placed on growth in their strategy of the firm, throughout the whole study period, and these companies excelled at disciplined execution by continually refining and improving their practices. Growing companies use both external and internal opportunities as they arise. Interestingly though, they begin by emphasizing acquisitive growth in the first years, but then concentrate on organic growth, ultimately yielding a balanced growth profile. While continuing their strong strategy and execution, with their established skills, they seek additional sources of competitive advantage through organization, design and culture.

## 3.2 External growth

In each of the internal growth strategies, the firm acquires and organizes new inputs. The purpose of this chapter is to explore the alternative possibility, namely that the firm may acquire resources already existing in the form of another company, or part of a company, by merger or takeover. This strategy provides substantially more possibilities beyond those offered by the exclusive use of internal growth.

For example, a company can expand in its existing markets by taking over the market share of its competitors in those markets. Furthermore, the company can diversify without costly research and development expenditures in a new product area by acquiring an existing firm in that area. Consequently, external growth through mergers and acquisitions can reduce the need to develop new products, new customers and new distribution links in order to obtain new demand.

Nevertheless, "Mergers and acquisitions are complex events in organizational life for which we have incomplete understanding, in part because researchers have tended to consider only partial explanations of them"[50] Merges and acquisitions have been analysed through several theoretical lenses. First, the field of strategic management has examined them as a method of diversification, focusing on the motives and the performance effects. Second, research in economics has emphasized such factors as economies of scale and market power as motives

[50]Larsson R. and Finkelstein S. (1999) p. 1

for merger and has tested their performance with accounting-based measures. Third, finance scholars typically have studied acquisition performance, relying on stock-market-based measures. Fourth, organizational research has focused primarily on the post-combination integration process. And finally, research in the human resource management literature has investigated psychological issues. There is ongoing controversy between researchers using an economic perspective who suggest poor overall performance of mergers and acquisitions and those in finance who have often demonstrated the opposite. Much of the controversy stems from differences of measures of acquisition performance. Mergers and acquisitions are clearly multifaceted phenomena that cannot be fully understood through incomplete and partial application of theories from separate fields. [51]

An acquisition, also known as a takeover, is the buying of one company (the target) by another, whereas a merger is a combination of two companies into one larger company. Mergers commonly involve stock swap or cash payment to the target. A merger can resemble an acquisition but result in a new company name, often combining the names of the original companies. In some cases terming the combination a merger rather than an acquisition is done purely for political or marketing reasons.

As this work is about corporate growth, the next subchapters will concentrate on the growth aspects of mergers and acquisition, namely their expansionary and contractionary role, their different types and the market for corporate assets. This is followed by situations where external growth is the only alternative and examples of empirical literature about takeovers. Lastly, characteristics of successful externally growing companies will be reviewed.

### 3.2.1 The expansionary and contractionary role of mergers and acquisitions

Mergers and acquisitions can play two fundamentally different roles in the reallocation of assets. On the one hand, this allocation can happen in the context of an industry-wide expansion. Hence, this expansionary role of external growth can, like internal investment, help the firm to increase their size and scale due to adding to the capital stock in response to good growth prospects.[52]

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[51] Larsson R. and Finkelstein S. (1999) p. 1 ff.
[52] Andrade G. and Stafford E. (2004) p. 1 ff.

On the other hand, within-industry-mergers remove duplicate functions and rationalize operations with the outcome of an overall reduction in the industry asset base. The contractionary role implies that merger activity is often a tool for restructuring that facilitates consolidation within industries with excess capacity that leads to a more efficient allocation of resources and productive capacity. [53]

Jensen's (1993) analysis reveals that the roles of external growth change over time. The contractionary motive, with its negative relationship between mergers and capacity utilization, is restricted to the 1970's and 1980's when the economy adjusted to a variety of shocks to capacity and competition such as deregulation, increase foreign competition, financial and technological innovations and supply shocks like oil price shocks. However, during the 1990's, merger activity appears more related to industry expansion as industries with strong growth prospects, high profitability and near peak capacity experienced the most intense merger activity.[54]

### 3.2.2 Types of mergers and acquisitions and the market for corporate assets

Mergers and acquisitions can be classified in terms of the form of transaction involved; there are four distinct types. First, there is the agreed merger or acquisition, in which company A acquires company B in a bid recommended by company's B management to B's shareholders. Second, there is the contested takeover, usually through a tender offer, in which company A makes an offer directly to company's B shareholders without cooperating with B's management, because they may try to defend B's independence.

Third, there is divestment, where firms with more with more than one business unit or subsidiary tries to create optimal portfolios of businesses and as a part of corporate restructuring sell unwanted subsidiaries to other firms. Fourth, there is management-buyout. This is similar to divestment, except that the subsidiary is sold to its managers and not to another company.

Growing empirical literature documents that, on average, these merger and acquisition activities are efficient means for the reallocation of assets within the economy. Studies on

[53] Andrade G. and Stafford E. (2004) p. 2 ff.
[54] Jensen M. (1993) p. 832 ff., see also Mitchell M. and Mulherin J. (1996), Andrade G., Mitchell M. and Stafford E. (2001)

combined acquirer and target stock returns, as well as post-merger operating performance, provide large sample evidence on the value increasing effect and improved profitability of merged firms. [55] The results also suggest that the majority of these transactions led to an increase in productive efficiency as companies have different levels of organizational ability to exploit assets.

The market for corporate assets facilitates the redeployment of assets, from firms with a lower ability to take advantage of them to more capable firms, as their prospects in the overall economy improve and their owners discover that they do not have a comparative advantage in running these assets. Also, the timing of transactions and the pattern of efficiency gains suggest that the trades of corporate assets tend to improve the allocation of resources.

### 3.2.3 Partial purchases as an alternative to mergers and acquisitions[56]

Mergers with or acquisitions of multidivisional or multi-plant firms include portfolios of assets spanning several industries with varying degrees of fit with the acquirer's core competence. This may involve the transfer of divisions that do not fit to the new owner's business segment and would not have been bought in isolation. Acquirers do not passively absorb all the newly bought plants. Three years after a takeover and the respective restructuring process, only about 54% of acquired plants and divisions are still operated by the buying firm. A partial purchase of some or single divisions or plants would make sense in many cases.

A firm may purchase a division or plant when it has a higher productivity in the respective industry and this industry receives a positive demand shock, or the company's other segments have lower relative productivity with decreasing demand in these industries.

Taxes are partially responsible for the preferred choice of mergers and acquisitions followed by selling of unwanted divisions over partial purchases. Full firm purchases structured as stock purchases can reduce taxes paid at the time of transaction.

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[55] Andrade G. and Stafford E. (2004) p. 29
[56] Maksimovic V. and Phillips, G. (2001) and Maksimovic V., Phillips G. and Prabhala N. (2008)

### 3.2.4 Situations where only external growth is possible

The circumstance when external growth is the only source of growth available can arise if the target company has a monopoly for the required resources. It might own the exclusive rights, brands, patents, licenses, raw materials, personnel or a certain location.

Furthermore, internal investment does not work for cases where:

- The use of the additional capacities should start immediately.
- The capacities on the market must not be increased.
- When another competitor should be eliminated.
- When experience and technical know-how should be transferred because it would take to long to gain it itself.

Additionally, an acquisition is often the only way to enter a market due to entry barriers or because internal growth involves too high expenditures for research and development, advertising etc.

### 3.2.5 Empirical evidence

As stated earlier, an active market exists for corporate assets, from individual plants and divisions, spin-offs, divestitures and buyouts up to sales of entire corporations. Maksimovic and Phillips (2001) analyzed the United States' extensive market for both full and partial firms in manufacturing industries. Each year during 1974 to 1992, an average of about 4 percent of the large manufacturing plants are involved in trading. In peak expansion years, nearly 7 percent of plants change their ownership; the total number varies with the economy and is strongly pro-cyclical. The number of plants reallocated in mergers and takeovers was approximately equal to the ones sold through partial-firm asset sales.

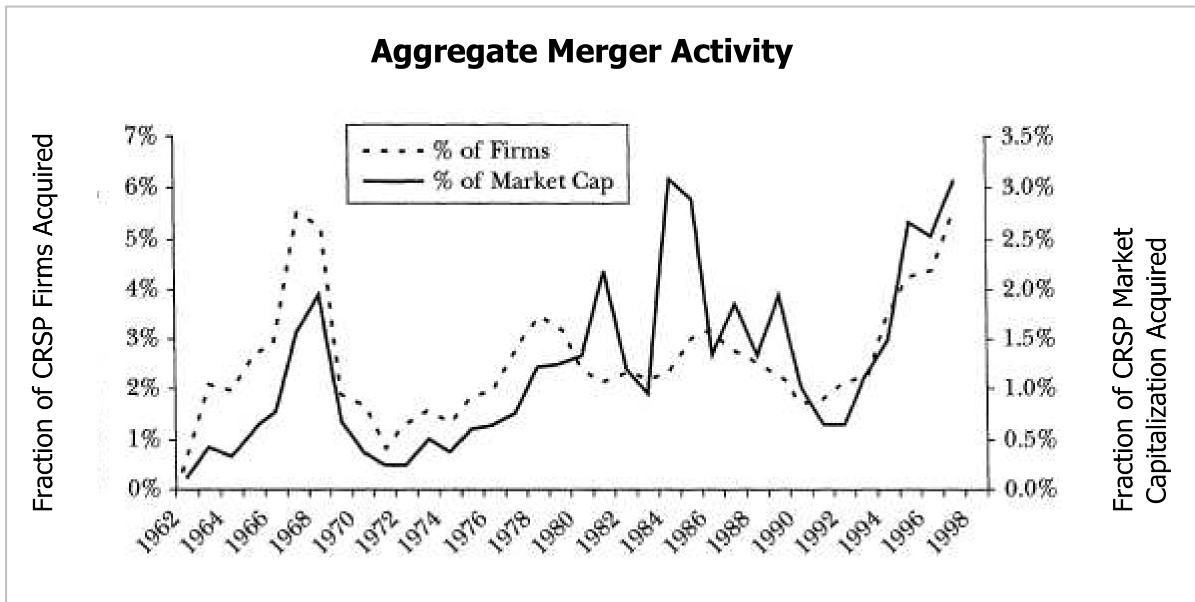


**Figure 6:** Aggregate Merger Activity[57]

There have been three major waves of merger and acquisition activity since the early 1960's. Figure 6 plots two different measures of takeover activity on an annual basis. The dotted line shows the number of firms acquired, while the solid line gives a sense for the values involved. The chart clearly displays that the 1960's wave contained many more deals compared to the ones in the 1980's, which was nevertheless far more important as large multi-billion dollar deals became more common. As stated in the last chapter, the 1980's were a period of massive asset reallocation via mergers. Nearly half of all major corporations in the United States received a takeover offer. The merger activity in the 1990's was even more dramatic and widespread, with number of deals relative to the 1960's and values similar to the 1980's.[58] In 2000, the peak of the merger boom so far, U.S companies were involved in deals totalling more than $1.7 trillion.[59]

Andrade, Mitchell, Stafford (2001) further examined the differences of the mergers in the 1980's and 1990's. One distinction is the widespread use of stock as a method of payment during the latter decade. Approximately 70 percent of all trades in the 1990's involved stock compensation, with 58 percent entirely stock financed. Related to this finding, they noted a drop of hostility in the takeover market and in nearly half of the mergers both parties were in the same industry. The identity of the industries that make up each merger boom varies im-

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[57] Andrade G., Mitchell M. and Stafford E. (2001) p. 105 ff.
[58] Andrade G., Mitchell M. and Stafford E. (2001) p. 105 ff.
[59] Breadley R. and Myers S. (2003) p. 992

mensely. Industries that show signs of high merger activity in one decade are no more likely to do so in other decades. Although mergers and acquisitions occur in waves over time, these waves are not alike, maybe because a significant portion takes place due to industry-level shocks as stated above.[60]

Maksimovic V. and Phillips G. (2008) realized that acquisition rates differ sharply across long-run industry conditions, firm sizes and firm organization. The proportion of firm growth accounted for by acquisitions is considerably higher for multiple-segment firms than for single-segment firms. In particular, 36% of the growth of conglomerate firms' segments, recorded from 1974 to 2000, came from acquisitions, versus only 9% of the single-segment firms' growth. Industries in different stages of their life cycle vary in exploitable growth opportunities. Acquisitions in growth industries are much more common than acquisitions in declining industries.[61]

Kumar's (1985) study shows that, of the growth arising from either internal investment or acquisition, between 42 and 55 per cent was due to the latter depending on the period considered. He also points out that growth by acquisition is positively correlated with pervious growth by acquisition, indicating that it tends to persists through time as a policy by which some firms achieve growth.[62]

Healy, Palepu and Ruback (1992) established that merged firms experience improvements in asset productivity, leading to higher operating cash flows relative to their industry peers.[63] Hoberg and Phillips (2008) state that mergers and acquisitions in highly competitive product markets with similar target firms experience increase stock returns and real long-term gains including higher profitability and sales growth. This outcome is especially strong when the target is only similar to the acquirer, but not to the acquirer's closest rivals.[64] According to the results of Lang (1989), "mergers between high q acquirers and low q targets result in the most overall gains".[65]

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[60] Andrade G., Mitchell M. and Stafford E. (2001), p. 105 ff.
[61] Maksimovic V. and Phillips G. (2008) p. 674
[62] Kumar M. (1985) quoted after Hay D. and Morris D. (1991) p. 370
[63]Healy P., Palepu K. and Ruback R. (1992) quoted after Andrade G., Mitchell M. and Stafford E. (2001) p. 115
[64] Hoberg G. and Phillips G. (2008) p. 1 ff.
[65] Lang L., Stulz R. and Walkling R. (1989) quoted after Andrade G. and Stafford E. (2004) p. 28

### 3.2.6 Characteristics of successful externally growing companies[66]

The probability that a firm is a buyer, rather than a target, increases with the following attributes: bigger in size, own more plants, more focused, superior total factor productivity, higher cash-flows, higher lagged stock returns, lower leverage, and lower capacity utilization. In summation, within a given industry, the acquirers are better performers, with better management, in relative terms, and due to their higher debt capacity and operational slack to absorb their targets, they are able to carry out an acquisition.[67] They are more efficient and it is more likely that they buy other firms in industries that experience an increase in demand. About 80 percent of all targets of mergers and acquisitions are less productive, are below average in size and are one-plant firms.[68] Less productive firms tend to sell during times of industry expansion because the capacity they own is better used outside the firm, which leads to high opportunity cost. [69]

Three years after a takeover is completed a typical buyer in manufacturing only operates 54% of the acquired plants. The fact that buyers tend to keep only parts of the target firms indicates that they buy a whole firm even if they are only interested in some parts of it. The restructuring process appears economically rational and also the firm's previously owned plants are included in this process. The buyer readjusts its firm boundaries according to its comparative advantage and opportunity cost of operating the plants. The improvements in total factor productivity and operating margins are significant if the acquirer is skilled in running its peripheral divisions, its profit margin is high and it receives a positive demand shock that alter the opportunity cost that firm faces in operating assets.[70]

Buyers of full and partial divisions tend to be larger, operate more plants, and act in a larger number of industries than buyers in mergers and acquisitions. Most participators in the partial-firm market are large conglomerates, in contrast to the merger and acquisition market where the buyers are much bigger than the sellers.

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[66] Joyce (2006) p. 85 ff.
[67] Andrade, G. and Stafford E. (2004) p. 28
[68] Maksimovic V. and Phillips G. (2001) p. 2033 ff.
[69] Maksimovic V., Phillips G. and Prabhala N. (2008) p. 6 ff.
[70] Maksimovic V., Phillips G. and Prabhala N. (2008) p. 2 ff.

# 4 Internal vs. external growth[71]

The previous chapters have described two fundamentally different ways in which a company may use accumulated funds The choice between internal and external growth can also be compared to a make or buy growth decision where strategic entrpreneurship acts against merger and acquisitions and adding new assets is matched with buying existing ones on the market.[72]

The following comparison highlights the advantages and disadvantages of the two sources of growth and should act as a guide in the decisionmaking process. In the next chapter, the criterias time, cost, economies of scale and synergies, market entry, market power integration and risks of internal and external growth are described. Afterwards, several interactions of the two strategies and some empirical findings are presented.

## 4.1 The comparison

When a company decides to invest, it can choose between internal and external source of growth. This choice depends on the following aspects, which help to compare the two growth opportunities.

### 4.1.1 Time

When the company decides to grow internally, it has to assemble all assets by itself, for example, planning and building up a new plant or new distribution channels to go abroad. Indeed, it may take considerable time to carry out an investment programme and to achieve a certain level of capacity and the firm cannot obtain immediate access to the cash flows of the new set of assets. [73]

By taking over an existing firm, the company acquires a set of assets which will provide cash flows as well as product market benefits more quickly, as the buyer benefits from the previous owner’s investments. Also, buying assets as a package, like in the case of a plant

[71] Hay D. and Morris D. (1991) p. 271 ff.
[72] Hitt M., Ireland R. and Tuggle C. (2006) p. 124
[73]Margsiri W., Mello A. and Ruckes M. (2006) p. 7

purchase, will enable the company to generate cash flows sooner than if it has to assemble the single assets separately. [74]

The advantage of an acquisition over internal investment is that the company can achieve a large scale expansion with a single transaction, enabling a firm to double its size in a matter of months. It can reach a higher capacity level and access the cash flow potential of a new market in a much faster way. [75]

### 4.1.2 Costs

To grow via internal investment the company needs to install new capital. The investment cost is expected to be proportional to the increase in capital[76]. The capabilities added through internal growth are often very expensive because they are new and state of the art.[77] External growth via acquisitions are very expensive too, as the buyer has to pay at least the market value for the target company.

The valuation of an ongoing business is very difficult to judge. The acquiring company may have to pay for goodwill. The goodwill reflects the fact than the going concern has some “intrinsic value” beyond its assets, such as the reputation it enjoys with its clients. Accordingly, a buyer may pay a higher purchase price than the sum of the fair value of the target’s net assets.

Before merging, the company has to trade-off the benefit against the cost. The possibility to merge resembles the exercise of an option. The higher profits the company passes up by forfeiting the option act as an incentive to exercise this option, while the irreversible nature of the merger acts as an incentive to delay or forfeit the option.[78]

Most acquisition activities are financed by issuing new equity in return for the equity of the acquired company. This avoids the need to build up cash. The disadvantage of external growth is that the buyer not only has to pay the price of the acquired business unit, it also

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[74] Margsiri W., Mello A. and Ruckes M. (2006) p. 4
[75] Andrade G., Mitchell M. and Stafford E. (2001) p. 109
[76] Lambrecht B. (2004) p. 13
[77] Küting K. (1980) p. 303
[78] Lambrecht B. (2004) p. 2

suffers from organizational adjustment costs or existing contractual obligations. The typically higher costs, that are sunk once incurred, are a combination of legal fees, taxes, fees to investment banks and other merger and acquisition promoters, as well as costs of integrating the two companies and restructuring.

When the merger or acquisition cost is extensive, internal investment seems more appropriate for smaller, incremental growth. Whereas, the best way to reach a large scale expansion required after sufficiently large demand or production shocks may be the takeover route. Therefore, mergers and acquisitions should take place at a later stage than internal investment during an economic boom.[79]

### 4.1.3 Economies of scale and synergies

Efficiency gains on the company's cost side are often referred to as synergies or the 2+2=5 effect. A company may realize production economies when the production technology displays economies of scale. The economies of scale lead to lower fixed cost no matter if the increase is due to internal or external growth.

For mergers and acquisitions there is a benefit from merging when producing multiple products together has a higher value, or output, than the sum of the products when the separate firms operate individually.[80] But the economies of scale are not necessarily available, since some mergers may simply bring together two smaller plants of suboptimal size.

Often firms own indivisible or spare resources that they cannot fully use. Due to a merger, the resources may be fully utilized, allowing their fixed costs to be spread. A frequently cited example is the case where a good management is not given sufficient scope by the operations of a small firm to exercise its talents. Economies arise from reductions in the number of managers. These cost savings cannot be realized when the firm grows internally.

Increased research productivity through the fusion of two complementary research and development teams is another example of operational synergies.[81] The advantage of pooling

[79] Lambrecht B. (2004) p. 13
[80] McAfee P. (2002) p. 70
[81] Hitt M., Ireland D. and Tuggle C. (2006) p. 140

risks in a larger research and development effort and the fact that larger efforts, on average, attract better personnel are additional benefits of a merger or an acquisition.

Large companies may have advantages in raising funds no matter if they grew by internal or external investment. Resorting to the capital market incurs some fixed transaction costs; therefore, unit costs will be lower for larger issues. Reductions in the risk will also be reflected in lower cost of capital. But Comment and Jarrell (1995) showed that some of the financial economies of scope, such as the ability to support more debt and to reduce transactions in the capital market, are often not exploited.[82]

Merged firms are able to enhance their operations more substantially and consequently they can realize higher economies of scale than any internal growth process. Mergers that involve vertical integration may especially reduce costs by replacing market transactions between firms with internal firm activities.

### 4.1.4 Market entry

Taking over existing companies avoids the problem of new market entry and the need to expand the market. The alternative is often a costly competitive war because the company has to take business away from established competitors when the company grows internally.

Additionally, it is easier to overcome barriers of entry of a sector in which it wishes to diversify, like patent protected technologies by obtaining them through mergers and acquisitions instead of developing the products and technologies internally. Another advantage of takeovers may be the acquisition of a particular resource in another firm which may not be available to a new entrant to the sector.

### 4.1.5 Market power

Growth through internal expansion creates new assets in the economy. Internal investment leads to a higher total capacity in the industry and hence a fiercer market competition. Mergers and acquisitions of firms operating in the same market result in a more concen-

[82] Comment R. and Jarrell J. (1995) quoted after Maksimovic V. and Phillips G. (2007) p. 7

trated industry.[83] The remaining firms benefit from a rise in market power and have the possibility to increase prices above costs, or above competitive levels.[84] Pricing power can increase when a company merges with firms whose products are close substitutes and when the rest of the firms only produce distant substitutes.[85] The companies are more competitive and have the opportunity to attract customers from their revivals. [86]

The gains from reduced competition are larger when there is evidence of barriers to entry, such as patents, suggesting that rivals will not be able to imitate new products.[87] However, the gains from increased concentration depend on the willingness of other oligopolists to collude. Mergers and acquisitions may upset a rather balanced oligopolistic agreement and lead to a period of oligopoly war.

Horizontal mergers are very carefully scrutinized by governments and its regulatory agencies. When two firms above a minimal size in the United States for example, begin the process of merging, they have to inform the government and provide certain information concerning the relationships between the products.[88] The Clayton Act in the American Antitrust Law forbids an acquisition whenever, in any line of commerce or in any section of the country, the effect may be substantially to lessen competition or tend to create a monopoly.[89]

Companies that take over others to achieve more market power often place too much emphasis on gaining efficiencies and lose the capabilities required to be innovative. When this occurs, more inventive and pioneering competitors may introduce new products to the market place that erode the other firm's market share and power.[90]

### 4.1.6 Integration

If a company is seeking efficient internal investments it may challenge some of its alignment mechanisms, but typically the investments just represent incremental additions to existing operations. Primarily external growth has its major barriers in the difficulty of integrating

[83] Lambrecht B. (2004) p. 13
[84] McAfee P. (2002) p. 11
[85] Hoberg G. and Phillips G. (2008) p. 6
[86] Lambrecht B. (2004) p. 1 ff.
[87] Hoberg G. and Phillips G. (2008) p. 3
[88] McAfee P. (2002) p. 214
[89] Breadley R. and Myers S. (2003) p. 943
[90] Hitt M., Ireland R. and Tuggle C. (2006) p. 137

the two firms into a combined strategy and structure. [91] Takeovers, as well as internal investment, are not discrete events but just the start of a restructuring process.[92] Many mergers and acquisitions that seem to make economic sense fail because managers cannot handle the complex task of integrating the two firms as they require extensive organizational skill in integration operations.[93]

Organizational integration is the degree of interaction and coordination between two firms involved in a business combination. Resistance by employees of the acquired firm, as the individual and collective opposition, to adopt the style and value set of the joining firms is a common problem of the integration process. The unfavourable attitude comes from distrust, tensions, hostility, worst-case rumours, stress and constricted communications. These reactions are often not without case, because mergers and acquisitions can severely affect career plans by forcing layoffs, relocation and the loss of individual influence. Employees generally prefer internal growth as this process usually does not involve layoffs.

Cross-border mergers involving completely different corporate cultures can additionally bring culture clashes.[94] Different information and operation systems, accounting methods, management styles and structure complicate the procedure. The acquiring firm can take over an existing management and continue to give it independence in managing the firm. This could largely avoid problems of managerial recruitment and training, of gaining detailed experience of new product areas, and of handling the expansion of production facilities that could take place when recruiting new managers for the internal growth process. Managerial integration problems are likely to arise where there is an attempt to integrate the operations of the acquired firm at a level that goes deeper than having a common letterhead.

But the integration of the two organizations is necessary to attain the desired synergies realization, interaction and coordination necessary for a successful merger. The strategic combination potentials are not automatically realized, this is dependent on the management of the new organization. The process of managing integration frequently begins before the acquisi-

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[91] Hitt M., Ireland R. and Tuggle C. (2006) p. 139
[92] Maksimovic V., Phillips G. and Prabhala N. (2008) p. 32
[93] Breadley R. and Myers S. (2003) p. 930
[94] Larsson R. and Finkelstein S. (1999) p. 2 ff.

tion is consummated and may firms use merger teams composed of key personnel from both firms to foster the integration.[95]

### 4.1.7 Risks[96]

Due to the existence of uncertainty, time lags, and adjustment costs certain risks exist for both forms of growth. Individual investment decisions can end up being more volatile, overall adjustment can be quite slow, and the sensitivity of investment to taxation and market changes can be quite weak. This explains some of the difficulty experienced both in predicting and influencing investment behaviour.

In the literature, internal growth is often claimed to be riskier, because when growing externally the procurement, the starting and the merchandising risk are mitigated. The purchase of a going company with a proven performance in the market can greatly reduces uncertainty about the existence and level of demand likely to be available for the products and services.

But, an acquisition can bear certain risks. Due to the possible misinterpretation of future expectations of the target's development, a too high purchase price can be paid, or due to the purchase of existing capacities, a technological obsolescence can be risked. The assets purchased may not be what are ideally wanted.

## 4.2 Interactions of internal and external growth

### 4.2.1 Fall-back strategy during negotiations[97]

There exists a significant connection between the two growth strategies. If negotiation talks between the buyer and the seller of a merger or acquisition break down, the acquirer can assemble the assets required to grow through individual internal investments itself. As the acquiring party is flexible in deciding if and when to make these investments, this opportunity to grow internally constitutes an option itself. The value of this alternative represents the buyer's outside option in the bargaining game with the seller at the time of negotiations.

[95] Hitt M., Ireland R. and Tuggle C. (2006) p. 139 ff.
[96] Küting K. (1980) p. 302 ff.
[97] Margsiri W., Mello A. and Ruckes M. (2006)

This fall-back strategy has a considerable effect on the acquisition strategy. The longer the expected time between initiating and completing the internal growth alternative, the lower is its value. When the value of the outside option declines, the value of the acquisition decreases, too. The decline in the acquisition value depends on the distribution of the bargaining power. If the acquirer has all the bargaining power, the outside option is irrelevant for his decision to initiate the acquisition. But, on the occasion in which the seller has the entire bargaining power, the values of the acquisition and of the internal growth option decrease by the same amount. Because of the varying level of the fall-back option, the acquisition is not necessarily initiated at the level that maximizes the overall surplus. The falling value of the outside option lowers the acquisition threshold and speeds up the acquisition, particularly when the costs of integrating the acquired business are significant or synergies are not too large.

### 4.2.2 Stock price reactions[98]

The opportunity to grow internally also has a substantial effect on the price of an acquisition. As investors cannot gather full information and therefore are uncertain about the time to complete the internal investment, buyers earn positive returns for a period of time before an acquisition announcement because inactivity signals a lucrative internal growth opportunity.

But after the announcement, the attempt of an acquisition sends a negative signal about the profitability of the internal investment option to the imperfectly informed investors; this lowers its value and has a negative price effect. The bad news generates negative announcement returns, as empirical proofed by Schwert (2000) and Andrade, Mitchell and Stafford (2001). This holds true even though investors correctly anticipate that the company chooses takeovers as its preferred strategy to grow.

### 4.2.3 Mixtures of internal and external growth

While mergers and acquisitions can be successful, many of them produce negative returns while providing growth, if they are not integrated with other growth-creating strategies. Often, external investments are part of growth through internal ventures like the expansion

[98] Margsiri W., Mello A. and Ruckes M. (2006)

into new international markets. Through the acquisition of an existing firm, in the respective market, the company can further build up its own distribution channels with the help of the expertise of the foreign subsidiary. Organic growth initatives may be supported by the infusion of ideas, knowledge and competencies gained through previous take-overs.[99] The acquisition of other companies, typically small or medium sized firms, specifically for their assets or capabilities can be an element of the platform for internal growth.[100] The small firm may have a unique product but lack a missing ingredient like the sales organization that can be provided by another firm and they both can benefit from their complementary resources.[101] Holmes and Schmitz (1990) built such a model in which good managers buy mainly small companies from good developers of new ideas. They stress that good projects and good managers are complements in production.[102]

In competitive markets, mergers are a quick way to increase product offerings if synergies arise from asset complements. Merging firms can exploit the complentary assets and different skills or technologies to create new products and increase their product differentiation relative to rivals. But, the partner has to be related enough so that the firm can skillfully manage the new assets.[103]

The acquring firm can learn and internalize new capabilities for enhancing operational efficiency of the merged firm and, in addition, new skills to improve the effectivness of investments in the future. Through their experience, they enrich their skills in negotiaiton, financing, integration and assimilation. These capabilites will support all further growth strategies of the firm.[104]

## 4.3 Empirical work[105]

Since internal and external investments are both ways of adding to a firm's asset base and productive capacity, they should somehow be related. They both seem to respond similarly to firm-level incentives to grow. Andrade and Stafford (2004) discovered that as there is a strong positive relation between sales growth and the two investment forms. "High q" firms

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[99] Hitt M., Ireland R. and Tuggle C. (2006) p. 6
[100] Kazanjian R., Hess D. and Drazin R. (2006) p. 12
[101] Breadley R. and Myers S. (2003) p. 932
[102] Holmes T. and Schmitz J. (1990) quoted after Jovanovic B. and Braguinsky S. (2004) p. 46
[103] Hoberg G. and Phillips G. (2008) p. 1
[104] Hitt M., Ireland R. and Tuggle C. (2006) p.140
[105] Andrade G. and Stafford E. (2004) p. 3 ff.

are more likely to undertake both forms of investment projetcs than firms classified as "low q".

They also tested mergers and non-merger investment at industry level. They divided the expenditures of their sample firms into six types: Merger, Diversifying Merger, Own-Industry Merger, Capital Expenditures, Research and Development and Non-Merger Investment (defined as the sum of Capital Expenditures, Research and Development and Advertising Expenses). The first three types form the merger-related group and the last three types represent the non-merger or internal investments.

| **Merger expenditures as of total investment expenditures** | | | | | |
|---|---|---|---|---|---|
| | 1970-1974 | 1975-1979 | 1980-1984 | 1985-1989 | 1990-1994 |
| Real total investment (merger and (non-merger) in billions of 1994 dollars | $ 1377 | $ 1954 | $ 2340 | $ 2291 | $ 2168 |
| Merger as of total investment (%) | 3.8% | 4.9% | 9.4% | 12.5% | 7.9% |
| Summary statistics on real investment expenditures by sample firms, and comparison of industry-level investment intensity rankings across 5-year sub-periods from 1970 to 1994 | | | | | |

**Figure 7:** Mergers as of total investment expenditures

Figure 7 displays the real total investment by the sample firms per 5 year sub-period from 1970 to 1994. This total level of investment includes all merger and internal investment groups as defined above. The second line represents the percentage of merger activity as of total investment. Obviously, the relative importance of merger-related investment changes over time.

This picture is drawn more clearly in Figure 8, which also shows the average merger percentage out of total firm-level investment, but per year. Merger activity reached a peak in the second half of the 1980's, corresponding to the period of one of the mentioned economy-wide merger waves. But even after that era, during the recession that arose in the early 1990's, firm-level expenditures on mergers remained significantly higher than in the 1970's. Andrade and Stafford interpret this shift as an overall tendency of companies to acquire others, which later led to the next sharp rise of the late 1990's, the largest merger wave ever.

**Merger activity as percentage of total firm-level investment**

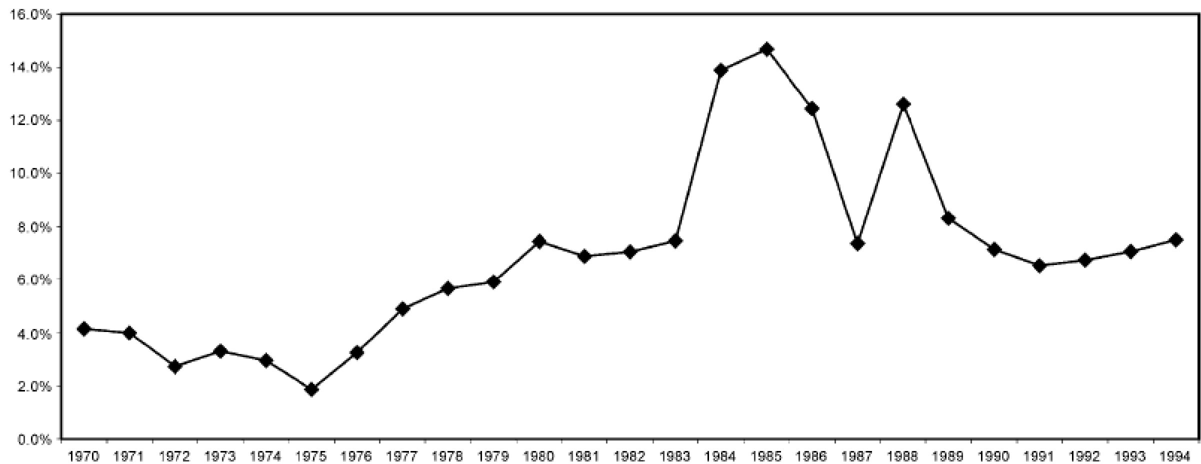


**Figure 8:** Merger activity as the percentage of total firm-level investment 1970-1994 (average across all firms)

With further tests, they demonstrated that there is no evidence that firms merge conditionally during periods of high industry-wide internal investment, and that merger and internal investment intensities showed only little relation within the sub-periods. Some signs were found that merger and internal growth were complements in late 1980, due to the many diversifying mergers. Hence, industries with high fractions of mergers also expanded via internal investment.

To summarize, Andrade's and Stafford's study of internal investment of a given industry is fairly stable through time, while increased merger activity clusters in certain periods supposedly as a way of restructuring in response to changing industry conditions.

Wortmann's (2001) empirical study shows that, from 1988 to 1998, German multinational companies abroad grew mainly through external growth while internal growth played a marginal role. The shift towards external growth increasingly dominating over internal growth began at the end of the 1960's, when already about two thirds of the total foreign direct investments were acquisitions and only about one third were newly founded. The same trend continued well into the 1990's. German multinational companies' employment grew in other industrialized countries primarily externally through the acquisition of already existing capacities, while, in developing countries, they grew primarily internally through setting up and extending additional capacities.[106]

[106] Wortmann M. (2001) p. 1 ff.

Both Aaronovitch-Sawyer (1975) and Kumar (1985) found that firms growing faster through acquisition also tend to have faster rates of internal expansion. One might expect the later to be hindered by the diversion of management resources, the reduction of internal funds, and the displacement of investment opportunities because of acquisition activity.[107] But, as previously mentioned in the chapter about interaction of the two sources, growth through acquisition might generate more opportunities for a firm to carry out profitable new investment. An alternative explanation could be that firms which are very efficient and/or face very buoyant growth of demand will have higher growth and profit rates, and, hence, higher valuations and therefore the most purchasing power in the stock market.

Another field of study, namely market entries, but the same comparison of internal and external investment, is the subject of McCardle and Viswanathan's (1994) model. The entrant can either build up its own entity, which takes time and increases the number of competitors, or buy one of the existing firms on the market. The low-entry-cost type chooses to enter directly, whereas the decision to enter via acquisition signals a high cost entry and may lead to negative announcement returns for the bidding entrant. This is consistent with the mentioned empirical literature on capital market reactions to takeover bids.[108]

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[107] Aaronovitch S. and Sawyer M. (1975), Kumar M. (1985) quoted after Hay D. and Morris D. (1991) p. 371
[108] McCardle K. and Viswanathan S. (1994) p. 1 ff.

# 5 Case study: The internal and external growth of Heineken[109]

In order to see how corporate growth happens in practice, this case study deals with growth of Heineken, an international brewer. It is demonstrated how the company has grown over the last 5 years. After an introduction into the brewery industry, the concepts of the theoretical part, namely the strategies of internal and external growth per se and the direct comparison of the two sources, are applied on this special case in the following chapters.

## 5.1 Company profile

Heineken traces its roots to 1864 when Gerard Adriaan Heineken bought a small brewery in Amsterdam. The following generations of the Heineken family have expanded the brand and company so that now, more than 140 years later, Heineken is one of the world's leading international brewers. Through a global network of distributors and 125 breweries, the corporation has a wide international presence.

Heineken owns and manages a great portfolio of beer brands. In addition to the Heineken® brand, which is available in almost every country on the planet, they brew and sell more than 200 international premium, regional, local and specialty beers in more than 70 countries, including the brands Amstel®, Cruzcampo®, Tiger®, Zywiec®, Birra Moretti®, Ochota®, Murphy's® and Star®.

Moreover, Heineken has an international export operation, shipping beer to major profitable markets such as the US. In some markets, they also produce soft drinks and their wholesalers distribute wine, spirits and soft drinks to the on-trade channel[110]. In 2008, the average number of employees was 56,208 and Heineken brewed a total volume of 125,8 million hectolitres.

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[109] Heineken's annual reports 2004-2008, http://www.heinekeninternational.com/, discussion with Dr. Kurt Herler, Heineken CEE

[110] „on-trade" refers to business with bars, restaurants and hotels, whereas "off-trade" means sales to food and beverage retailers like supermarkets etc.

In 1939 the family-owned enterprise was listed on the stock market as Heineken N.V.[111]. Now, Heineken Holding N.V. holds a 50.005% interest in Heineken N.V.. L'Arche Holding S.A., a company owned by the Heineken family, in turn holds a 50.005% interest in Heineken Holding N.V.. (see Figure 9)

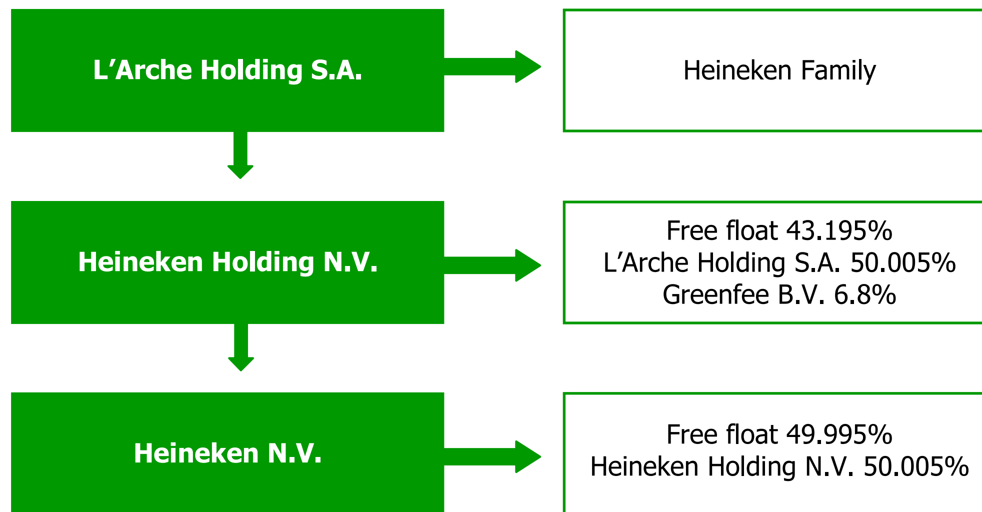


**Figure 9:** Heineken's ownership structure

The shares of Heineken N.V. and Heineken Holding N.V. are listed on Euronext Amsterdam and options of the shares are traded on the Euronext.Liffe options exchange. The company is included in the main AEX index[112]. Heinekens head office is still in Amsterdam.

## 5.2 The global brewery industry

Beer is the most consumed alcoholic beverage and the most popular drink after water and tea on earth.[113] Brewing has historically been a local industry with only a few companies having an international presence. However, during the last decades an increasing consolidation took place. Therefore, the brewery industry is now a global business consisting of some multinational companies but also thousands of small regional breweries.[114]

The dynamics of beer consumption vary significantly across the globe. In mature Western European and North American markets volumes are generally stable or declining modestly.

[111] N.V. is Dutch and stands for corporation
[112] Amsterdam Exchange index
[113] Nelson (2005) p. 1
[114] http://www.carlsberggroup.com/Investor/DownloadCentre/Documents/AR2008Chapters/Carlsberg_AR08_%20p14-23_Markets_and_Strategy.pdf

In contrast, less mature or emerging markets in Eastern Europe and Asia are growing, with some countries even showing rapid growth rates.[115] These new volumes are primarily being driven by increasing disposable income, a steadily growing beer-consuming population base, demographic shifts toward urbanisation, increasing westernisation of tastes among younger generations and the substitution of beer in place of traditional (hard) liquor.

The brand life cycles in the brewery industry are typically very long and customer loyalty, especially to local beers, is extremely high. To introduce a new brand is virtually impossible and always bears immense costs. The only alternative to break into a new market is to take over, or to cooperate with an existing brewery that enables the use of well established brands. The global consolidation process has sped up to a large-scale industry consolidation in the past ten years. In 1998, the top 10 brewers accounted for 34% of the sales in the worldwide beer market. In 2008, this figure had risen to 59%.[116]

Heineken set foot on American soil in 1933 and four years later the first Heineken beer was brewed outside the Netherlands, in the Dutch East Indies. Over the following 70 years, growth and acquisitions substantially expanded the brewing company. The take over of Brau Union Austria in 2003 extended the pre-eminence of Heineken in Eastern Europe. At a cost of € 1.5 billion Heineken acquired Brau Union's total volume of 26 million hectolitres. In 2008 Heineken completed the largest acquisition in the company's history when it bought parts of Scottish & Newcastle businesses in the amount of € 6.9 billion.

Concerning Heineken's main competitors, South African Breweries (SAB) acquired Miller Brewing from the world's biggest cigarette manufacturer Philip Morris in 2002. SAB bought several other brands in the following years, changed its name to SABMiller and is now one of the biggest players in the beer market.[117]

Another major industry merger involved the Belgian based Interbrew and Brazil's AmBev in 2004.[118] Finally, in 2008, this merged company, called InBev, took over its US-rival Anheuser-Busch, the owner of the top-selling beer brand Budweiser, for a total value of $52

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[115] http://www.carlsberggroup.com/Investor/DownloadCentre/Documents/AR2008Chapters/Carlsberg_AR08_%20p14-23_Markets_and_Strategy.pdf
[116] http://www.carlsberggroup.com/Investor/DownloadCentre/Documents/AR2008Chapters/Carlsberg_AR08_%20p14-23_Markets_and_Strategy.pdf
[117] http://archives.cnn.com/2002/BUSINESS/05/30/sab.miller/
[118] http://www.guardian.co.uk/business/2004/mar/03/money

billion. Anheuser-Busch InBev is now the global leader in yearly beer sales, with leading positions in the top five markets in China, the U.S., Russia, Brazil and Germany and one of the world's five largest consumer products companies.[119] Heineken's acquisitions will be discussed in the external growth section.

## 5.3 Heineken's position in the beer market

In the brewery industry, the common measure for size and growth is based on the volume of beer the company brews and sells within a year. As shown in Figure 10. Heineken, with a volume of 125.8 million hectolitres, is in third place when it comes to consolidated beer volume. Ahead of them are the two mentioned brewers Anheuser-Busch InBev and SAB Miller and are followed by Carlsberg and Molson Coors.

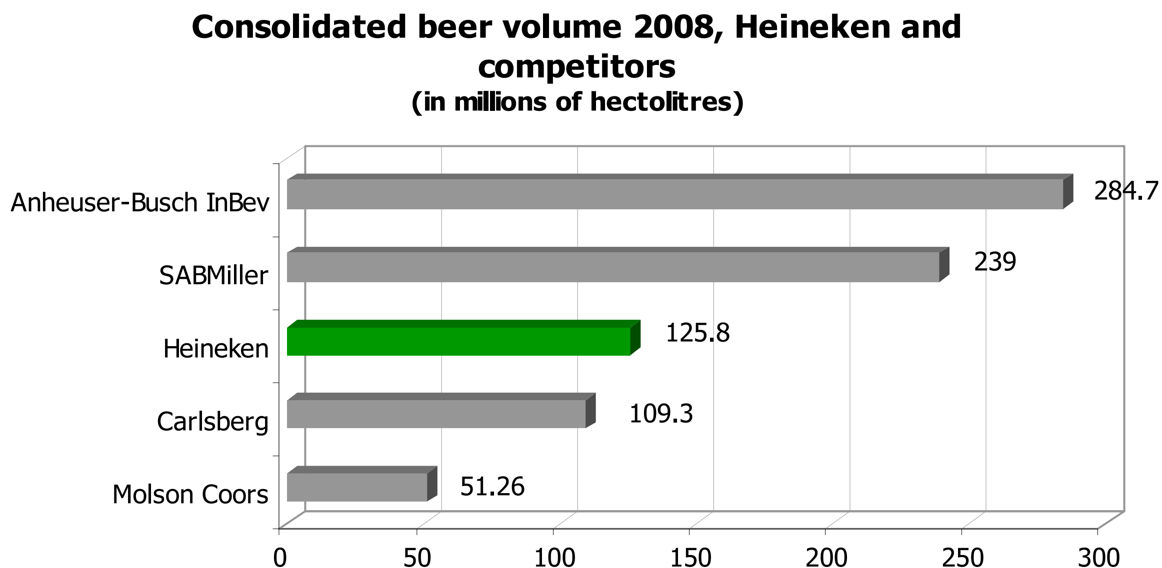



**Figure 10:** Consolidated beer volume2008, Heineken and competitors, in millions of hectolitres[120]

Concerning the economic crises, past experience indicates that beer consumption is relatively resilient in a period of economic downturn. For Heineken, the impact on consumer sentiment was felt in Western Europe and the Americas and volumes in many markets declined. There were some challenging market conditions such as heavy increases in raw ma-

[119] http://www.anheuserbusch.com/Press/PressImages/FINAL%20PRESS%20RELEASE.pdf
[120] annual reports 2008 of the companies

terial and packaging costs and a worsening economic environment. Some shifts from on-trade to off-trade consumption and from mainstream beers to economy beers occurred.

In contrast, Africa and Middle Eastern markets still experienced strong growth, driven by good macro-economic and social developments and by the rising popularity of international brands. These were the fastest growing areas in terms of volume and profit. The Asia Pacific region continued its solid growth.

## 5.4 Heineken's strategy and organisation

Through the creation of a global portfolio that combines the power of local, regional and international brands, Heineken seeks to be a leading brewer in each of the markets in which they operate.

Heineken's strategy is to be a broad market leader with all their local brands and, at the same time, be premium segment leader with the international Heineken® brand. Combining these two policies they try to become the number one or two player in key identified markets where they see good opportunities to grow. This attitude comes from the fact that a company can only influence the market if it is one of the market leaders. When a market is already in the hands of competitors, Heineken tries to develop a premium segment with Heineken® beer and, if feasible, with specialty beers.

Since 2005, the company is divided into five operating regions: Western Europe, Central and Eastern Europe, the Americas, Africa and the Middle East and Asia Pacific. Each region is headed by a regional president who reports directly to the chairman of the executive board, Jean-Francois van Boxmeer. In all of their active markets, Heineken aims at comprehensive coverage through a combination of wholly-owned companies, licence agreements, stakes in breweries, strategic partnerships and alliances with independent distributors or via their own beverage wholesalers.

In Western, Central and Eastern Europe where it brews and sells nearly 50 percent of their beer volume (see Figure 11), Heineken is the largest brewer. It has owned breweries and has built up substantial market positions in Africa and the Middle East for more than 50 years. Most of the subsidiaries there also produce and sell soft drinks. Heineken also exports to the

U.S. and owns breweries in Central America and the Caribbean. In the Asian Pacific region Heineken has a joint venture with Fraser & Neave called Asia Pacific Breweries and owns a 37 percent stake in United Brewery Limited, the market leader in India.

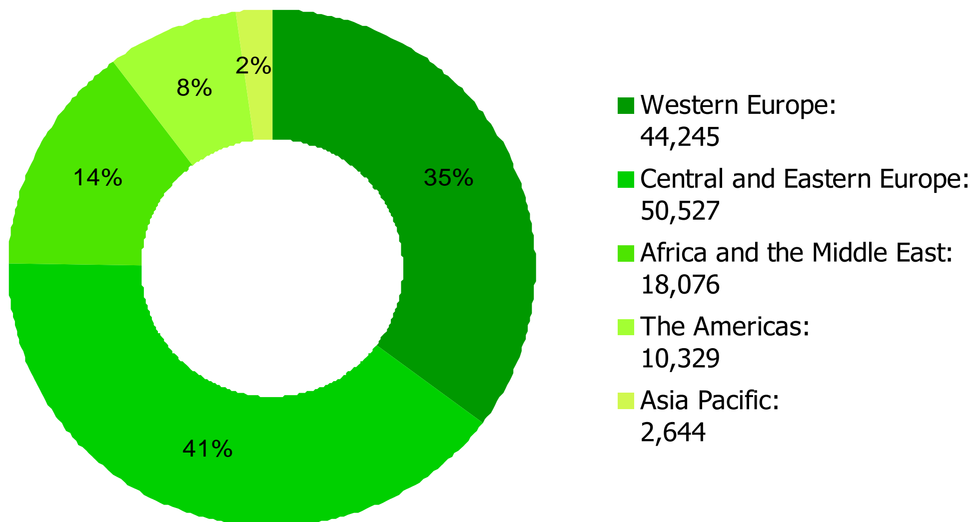



**Figure 11:** Geographic distribution of Heineken's consolidated beer volume 2008

## 5.5 Heineken's growth strategy

To achieve sustainable growth Heineken invest in building the brands in terms of value, volume and profitability, innovation and execution. They try to improve their financial performance by ensuring that acquisitions, partnerships and distribution strategies create value.

Over the last few years, the Heineken® brand as the company's flagship brand has been at the heart of the growth and key differentiator. The brand is positioned in the international premium segment and is the leading beer brand in Europe. Growing in almost all of the European and African markets, Canada, Chile, Argentina, Indonesia, Taiwan and South Korea, it reached a volume growth of 4.7 percent in 2008.

Alongside this, many of the local brands in Heineken's portfolio perform strongly. Some examples are shown in Figure 12:

| Country | Brand | Volume growth in percent 2008 |
|---|---|---|
| Nigeria | Star | 12 % |
| Nigeria | Gulder | 15 % |
| Rwanda, Congo, Burundi | Primus | 18 % |
| Russia | Three Bears | 39 % |
| | | **volume growth in percent 2007** |
| Germany | Paulaner | 8 % |
| Mexico | Dos Equis | 17 % |

**Figure 12:** examples of growing brands and its volume growth in percent 2008 and 2007

### 5.5.1 Heineken's key priorities for action

"The goal of Heineken is to grow the business in a sustainable and consistent manner, while constantly improving profitability."[121] Therefore, Heineken's management sets four key priorities for action:

1. To accelerate sustainable top-line growth[122]
2. To accelerate efficiency and cost reduction.
3. To speed up implementation: faster decision making and execution.
4. To focus on selective opportunities

According to the main focus of this work, these priorities for action can be divided into internal and external growth as shown in Figure 13.

| Internal growth | External growth |
|---|---|
| 1. sustainable top-line growth* | |
| 2. efficiency and cost reduction | |
| 3. implementation and decision making | |
| 4. focus on selective opportunities** | |

**Figure 13:** Heineken's key priorities divided into internal and external growth

[121] annual report 2004 p. 5
[122] growth in net revenue

***Sustainable top-line growth – A mixture of internal and external growth**

Improving sales revenue and volume growth is central to the growth strategy of any branded consumer business and can hardly be reached by only external or internal sources of growth.

Creating strong consumer appeal and building strong brand positions are market investments which are considered parts of internal growth. But, Heineken also aims for sustainable growth by actively participating in the beer industry consolidation.

****Focus on selective opportunities – A mixture of internal and external growth**

As part of Heineken's strategy, they balance their position in stable and profitable markets such as Europe and North America, with a growing presence in rapidly expanding and promising beer markets such as Russia. To focus on those markets where Heineken believes it can win, the company has to make choices. This has an impact on the investments in its internal operations and on mergers and acquisition. While in some markets they expect to reach a good position through organic growth, they constantly increase their focus on acquisitions and partnerships in these times of global consolidation.

For example, they clearly signalled their intent in parts of Asia, one of the most promising beer markets, where they acquired several Russian breweries in 2005 and concentrated on South-East-Asia in 2006 and 2007. Although China is a very big market, Heineken forgoes a leading position in that market because the prices of the Chinese beers are very low while the quality is very high.

Heineken also decided to invest in the US beer market by the nation-wide roll-out of Heineken Premium Light®, the first true line extension in the history of the Heineken brand. This launch included all mentioned forms of internal growth, expenditures on research and development, market investment like packaging and marketing, and physical investment.

### 5.5.2 Heineken N.V.'s growth in numbers

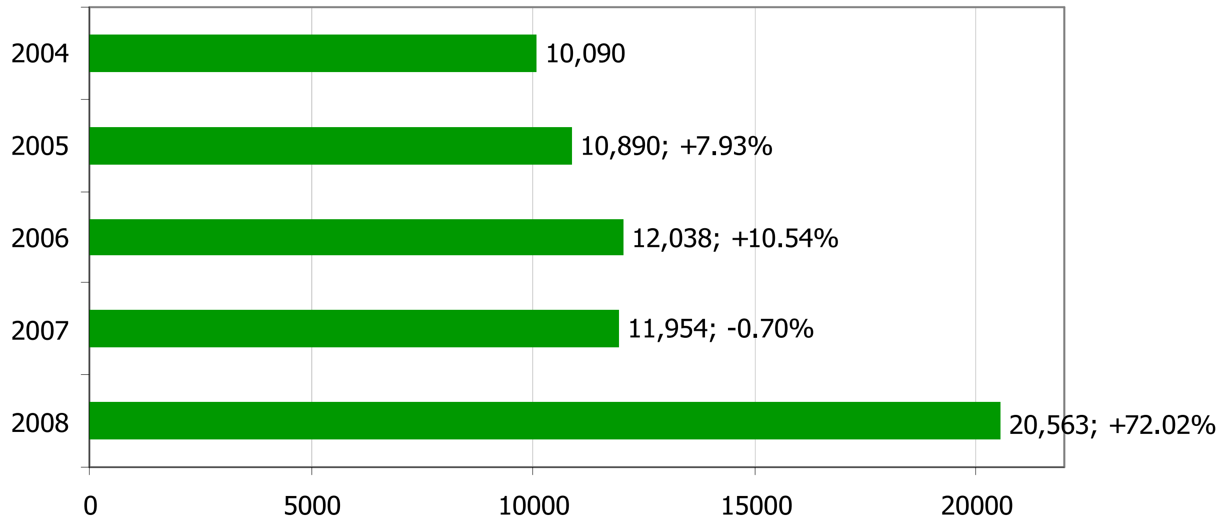



**Figure 14:** Heineken N.V.'s total assets in millions of Euros, 2004-2008

As stated before, total assets are the best and most basic measurement for total corporate growth. As shown in Figure 14, Heineken's total assets grew constantly from 2004 to 2007 and increased sharply in 2008. This enormous rise of 72 per cent was the result of the Scottish & Newcastle acquisition, Heineken's major take over so far.

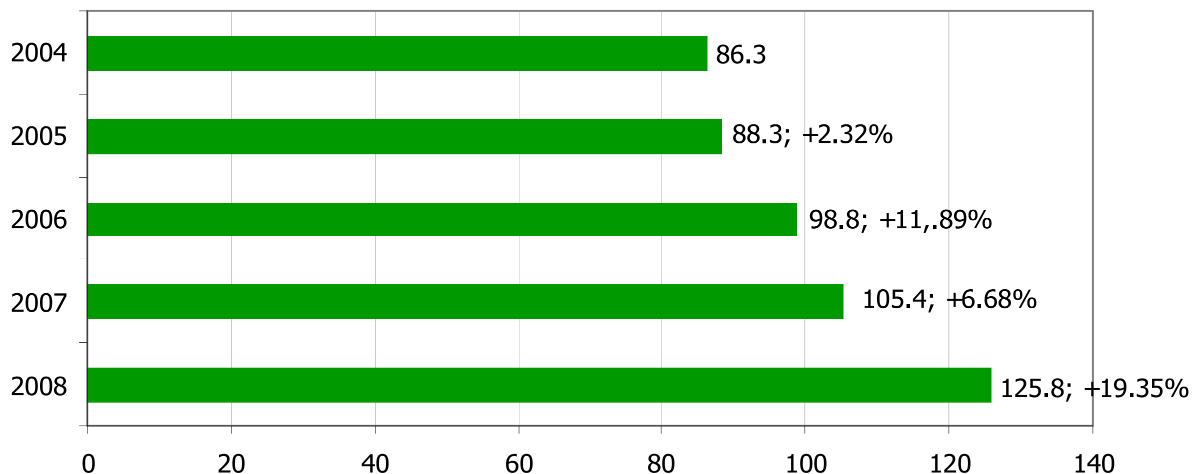



**Figure 15:** Heineken N.V.'s consolidated beer volume in millions of hectolitres, 2004-2008

The company's consolidated beer volume, the most common measurement in the brewery industry, also grew steadily over the last 5 years (see Figure 15). This stable growth was the outcome of Heineken's balanced growth strategy. The acquisition of Scottish & Newcastle businesses and other first time consolidation accounted for two thirds of the addition in 2008. The rest was driven by strong performances in Africa, Central and Eastern Europe and Asia Pacific. Volumes in Western Europe and the U.S. were lower as markets were affected by weakening economies.

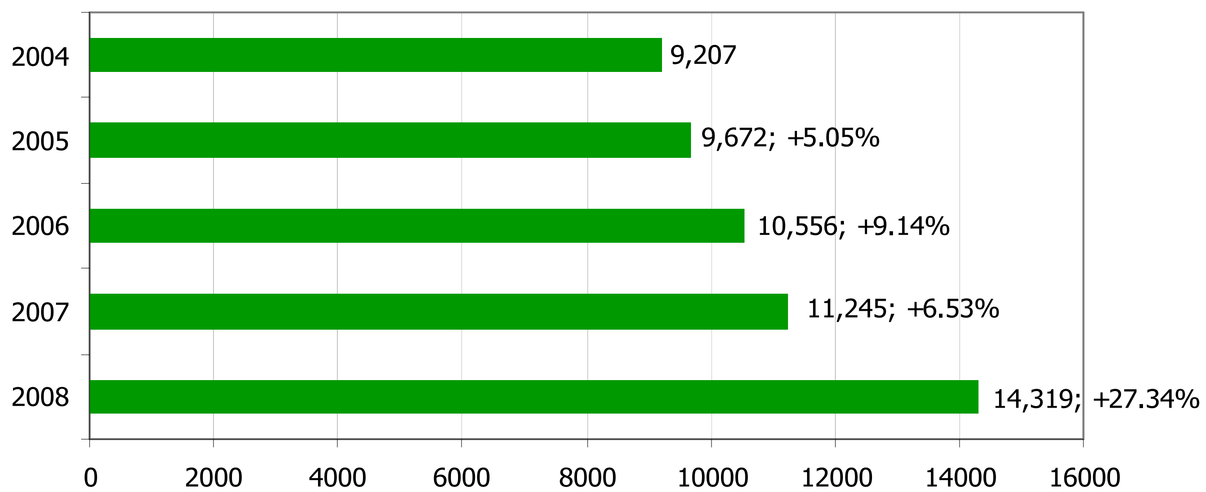



**Figure 16:** Heineken N.V.'s revenue (top-line) growth in millions of Euros, 2004-2008

As one can see from Heineken's annual reports and key priorities for action, revenue or top-line growth is an important measurement for the company. Figure 16 graphically demonstrates that also these numbers increased consistently from 2004 and 2008, again with a higher rise in 2008 as a result of the acquisition. How much of the revenue growth was due to internal or external sources will be stated in Figure 21 in the comparison section.

## 5.6 Heineken's internal growth

### 5.6.1 Research and development

To gain sustainable top-line growth, innovations in production, packaging, communication and marketing are key components of Heineken's strategy. Innovative products and packaging contribute to the strength of the brands, the Heineken® brand in particular. To broaden the scope of their innovation efforts Heineken established an Innovation Team within the organisation. As stated in the theoretical part of this work, development and innovation are essential in order to respond quickly to the changing needs of consumers and to stay competitive.

For consumer goods, the packaging plays an important role and helps the company to differentiate its brands from their competitors. Examples of Heineken's innovative packaging are beer systems like the DraughtKeg®, BeerTender®, David Draught Beer System® and Xtreme Draught®.

The DraughtKeg® is a pressurised and disposable 5-litre 'go-anywhere' draught system. It comes complete with an easy to install tap. The beer stays fresh for 30 days after opening.
(see Figure 17)

**Figure 17**: DraughtKeg®

It is sold in over 100 markets worldwide and in France the portfolio was extended with the introduction of Pelforth and Heineken Premium Light DraughtKeg® in 2008 and 2009.[123]

The Beer Tender® is a self-contained draught system for dispensing draught beer in and around the home. The Krups machine, filled with a 4-litre keg, serves the beer at precisely the right temperature. The kegs are available filled with Heineken and also with many
local beers. (see Figure 18)

**Figure 18**: BeerTender®

[123] http://heinekendraughtkeg.com

In 2003, it was first introduced in the Netherlands and Austria and is being expanded step by step to other markets, like the USA and Spain in 2008. Heineken also combined the DraughtKeg® and BeerTender® innovations and launched a unique one-way BeerTender® keg.

Another innovation is the David Draught Beer System®. This system is aimed at lower volume outlets in the on-trade, to have a draught beer system instead of bottles. The quality of the beer is improved because a one-way usage beer line is delivered with each keg. Cleaning is no longer needed.

In 2006, the David system was extended by the roll-out of the mobile Xtreme Draught® concept, a slimmer, more mobile version. Xtreme Draught® uses either the new 'Ten Can' (10-litre draught keg) or the standard 20-litre David keg, making it flexible and easier to guarantee freshness. (see Figure 19)

The David system is now available in 90 markets and has delivered more than 1 million hectolitres since its introduction in 2002, despite the gradually declining on-trade draught market.

**Figure 19:** Xtreme Draught®

In the context of product development, the latest innovation has been the introduction of the Heineken Premium Light® in the USA, which is described in the next chapter, geographic expansion. In 2006, innovations accounted for approximately 40 % of all growth of the Heineken® brand.

### 5.6.2 Market investment

**Geographic expansion**

As mentioned before market entries in the brewery industry are most common via acquisitions of strong brands because the high consumer loyalty acts as a barrier to entry. Heineken uses a mixture of the two strategies explained in the theoretical geographic expansion part. On the one hand, Heineken applies the global strategy and exports the standardized Heineken® brand to new markets or simply brews it there, as in the following cases.

In Asia, it completed greenfield projects in Vientiane, Laos, Mongolia and India in 2008. As stated before, Africa and the Middle East are Heineken's fastest growing regions. South Africa is one of the largest beer markets and has a rapidly increasing premium segment due to economic growth and the emergence of new middle-class consumers. For that reason, Heineken decided to build a new brewery in South Africa, to be operational in the second half of 2009. The brewery is a joint venture, 75 percent owned by Heineken and 25 per cent by Diageo. It has an initial capacity of 3 million hectolitres and will brew mainly Heineken and Amstel beer but has the built-in flexibility to expand as demand for additional beer brands increases. The 80-hectare site, located south-east of Johannesburg, and the new brewery will create around 225 permanent new jobs.

On the other hand, Heineken also adopts the multi-domestic strategy because consumer tastes and behaviour differ widely around the world. It buys local brands and adds them to its brand portfolio. In the case of the U.S. market, they even invented a new product, which can be seen as the first true brand extension in Heineken's history.

Changes to the beer itself have not been a feature of Heineken's approach to innovation during the last 140 years. However, North American consumer tastes and needs differ considerably from those in Western Europe and the rest of the world. In the U.S. beer market, light beer accounts for nearly 50 % of total volume, whereas in other markets it accounts for just a small percent.

Heineken started to develop Heineken Premium Light in 2004. It has fewer calories, fewer carbohydrates and a lower alcohol content than normal lager beers. The product is the first light beer in the premium sector. Market testing was successful in Phoenix, Dallas, Providence, and Tampa in 2005. In 2006, Heineken Premium Light was launched in every state in the U.S. In its first year, sales of 680,000 hectolitres exceeded the estimated 400,000 hectolitres and it became the number two imported light beer brand in the States.

**Figure 20:** sleek can

The packaging of the new beer has been specifically designed to create strategic differentiation from Heineken Lager Beer and also from other light beer brands. The bottles are slimmer and taller, on the label

"Light" is clearly highlighted and the dominant colour of silver is used to further add premium and lighter beer product cues. Also, the introduction of the "embossed" can and the new "sleek can" brings additional differentiation and should help support the next phase of growth of Heineken Premium Light. (see Figure 20)

**The growth of revenue from existing customers**

While expanding into new markets and working on product innovations, Heineken continually tries to reinforce and increase its share in all the markets where it operates by increasing the efficiency and effectiveness of their market investments. As the distinctive features between the beers are relatively low it is very important to build strong brand positions.

The consistent growth of the brands requires solid creative brand management, which is coordinated centrally. For the Heineken® and Amstel® brands, central guidelines and standards for brand style, brand value and brand development were established. At a central level, Heineken also supports local management of the entire brand portfolio, through benchmarking programmes designed to optimise marketing, sales and distribution.

The aim of these market investment efforts is strengthening the brand portfolio by improving the quality and consistency of communications whilst leveraging its global presence and brand activation properties. Heineken is a major sponsor of music and sporting events, like the UEFA Champions League, and is also famous for their amusing TV-spots. Additionally, they have advertising campaigns to increase sales of existing customers, like the following example.

Winning customers at the point of purchase has been the key rationale behind the Extra Cold programme. It builds on consumer insight that on different occasions they seek a beverage that both cools and refreshes. The original Heineken beer is served Extra Cold at -2°C in sub-zero degree fridges and frozen draught beer founts. The campaign covers both draught and packaged beer. Since the launch of the programme in 2005, Extra Cold draught beer has been installed in 62,000 outlets.

In 2008, the campaign was promoted by using a specially designed 'Heineken Extra Cold Truck' that visited 23 cities in 12 European countries. Visitors were invited to the truck's ice

bar experience and guided through various interactive cooling down stages before reaching 'Extra Cold' at –8˚C.

### 5.6.3 Physical investment

Concerning the physical investment in addition to the mentioned greenfield investments, Heineken just opened its newest brewery in Seville. This modern and technologically advanced brewery will increase annual production capacity in Seville from 3 to 5 million hectolitres and hence is one of the company's largest breweries in terms of volume. Thanks to state-of-the-art technology, the new brewery's efficiency ratio is twice that of the old brewery. This technical improvement will also significantly enhance Heineken's environmental credentials as well as its cost efficiency.

The use of new technologies in production can improve efficiency and cut costs in operations, two aims of Heineken's key priorities. The past years saw an increase in the cost of resources, particularly the cost of energy. Therefore, Heineken started a Total Productive Management programme (TPM) to implement first-time-right and zero-loss practices to lower production costs through better purchasing and more economic use of energy. This plan and other initiatives running since 2003, allowed cost savings of € 170 million in 2005. In 2006, TPM was established in every significant operation and continues to be a major programme within the organisation.

In addition, Heineken tries to increase the efficiency of the production network and ongoing operations in order to enhance profitability. In 2006, they started the next three-year initiative "Fit2Fight". It aimed to make gross savings of € 450 million of the fixed-cost base by the end of 2008. The Fit2Fight rationale and the techniques became more and more embedded in the organisation and are now crossing all disciplines. In 2008, Heineken delivered an additional gross cost savings of € 164 million, achieving € 19 million more than the forecasted three-year plan cumulative amount of € 450 million.

The efficiency improving programme included the realization of many reorganisation projects, amongst others, centralisation of back office activities, right-sizing of breweries etc. Highest impact is in the supply chain, wholesale business and support functions in Europe and Americas. The savings are reinvested to further boost top-line growth. The focus of

these programmes is on the core business, while economies of scale and IT support functions are leveraged.

Also portfolio reviews play an important role when it comes to efficient investment. Heineken regularly reviews the entire portfolio of brands to identify those which are strategic and which truly create value. These are the winning brands in which they invest time, energy and money.

### 5.6.4 Other factors

**People, organisational structure and leadership**

In 2005, the organisational structure of Heineken was changed in order to increase the speed at which decisions were made and implemented across the business. The creation of a new streamlined management structure was the first step. The restructured and smaller Executive Board and the creation of the Executive Committee facilitate empowerment and delegation. The flatter and less complex structure throughout the whole company should facilitate this key priority of action.

The focus is also on enabling the employees to use their potential and building a true performance based culture. One example for the successful implementation was the re-launch of Amstel in South Africa in 2007. Within six months the brewing, packaging, shipping, marketing, sales and distribution was up and running.

**Knowledge**

Heineken also began the implementation of an internal project on information logistics, which will support and simplify company-wide decision-making processes, by ensuring that the right level of accurate information on any aspect is available in a timely manner. At the same time, it launched a major change programme to centralise IT and to introduce common systems and processes. The brewing company distributes its knowledge and experience to all its levels to develop brand and portfolio management skills and to optimize sales and distribution processes.

### 5.6.5 Heineken N.V.'s internal growth in numbers

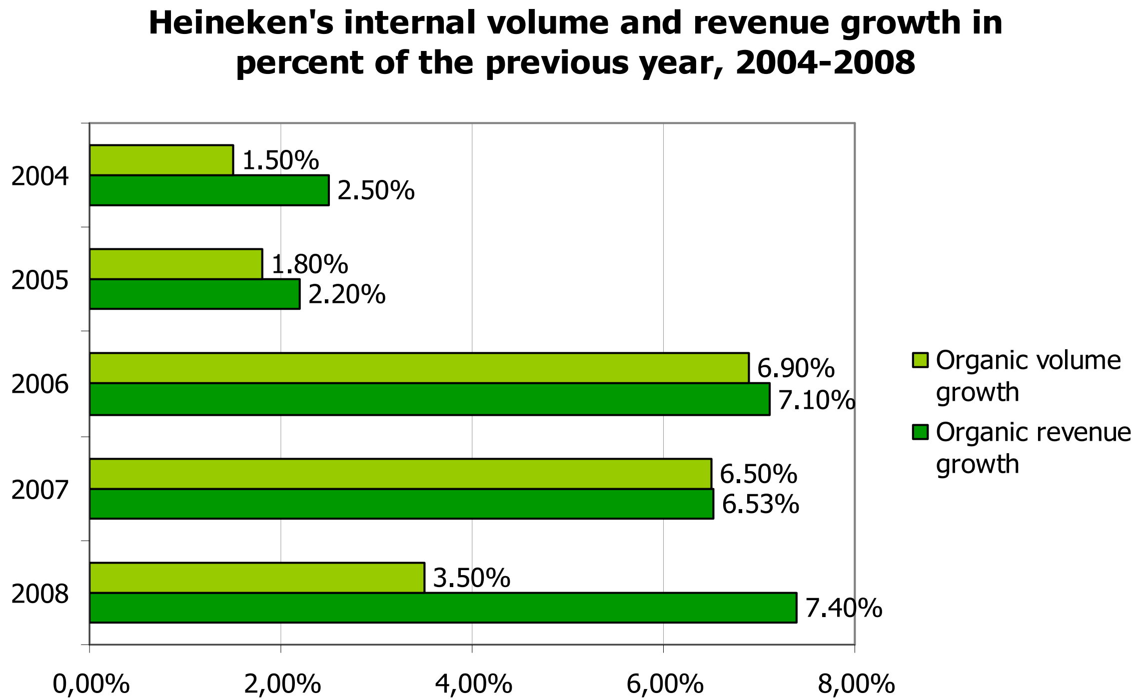



**Figure 21:** Heineken N.V.'s internal volume and revenue growth in percent of the previous year, 2004-2008

Organic revenue growth is defined as growth in revenue excluding the effects of foreign exchange rate movement, consolidation change, exceptional items, amortisation of brands and customer relationships and changes in accounting policies. The percentage shows how much the revenue increased through internal growth in comparison with last years figure. Organic volume growth is the rise in consolidated volume excluding the effect of new acquisitions.

The organic beer volume growth increased significantly over the past 5 years with a small decline in 2008 (see Figure 21). This neglect of internal volume growth may be due to Heinekens focus on the acquisition of Scottish & Newcastle in 2008 and the global slowdown in growth due to the economic crisis, mainly in Western Europe. Volumes sold with new packages and draft beer systems grew 22 %, mainly driven by the success of DraughtKeg®.
Whereas the internally created volume growth was relatively low, the organic revenue growth of 2008 was still increasing compared to 2007. The difference between the internal revenue growth and internal volume growth was a result of price increases across the vast majority of markets during the year and the mentioned cost reduction programs. To cover

the effect of rising input and energy prices Heineken passed on the higher costs to the consumer.

The average internal revenue growth over the last 5 years was 5,15% and the average organic volume growth was 4,04% during these years. Through a combination of focused marketing investment, increased emphasis on innovation and a continuing commitment to meeting customer needs, the internally created top-line performance improved steadily from 2004 to 2008.

## 5.7 Heineken's external growth

In order to remain an independent company, Heineken has to play an active role in the consolidation process of the global beer industry. According to their last key priority of action, it continuously looks for external growth opportunities and selective investments in the brewing sector which fit well into their strategy to be a broad market and premium segment leader.

### 5.7.1 Heineken's mergers and acquisitions

Generally, they establish broad leadership by acquiring strong brands, which are then combined into a new, larger company. Every newly acquired company receives specific, focused action plans aimed at improving its performance. Subsequent employee training, organisational improvements, and introducing new technology reinforce the positions of the local beers. This results in the creation of an extended distribution network for both the local beers and Heineken® beer.

As shown in Figure 22, Heineken focused on markets in Europe but also acquired several breweries in Africa and Asia during the past 5 years.

| Target company | Country | Year | Mn hl | % stake acquired |
|---|---|---|---|---|
| **Western Europe** | | | | |
| Eichhof Brewery | Switzerland | 2008 | 0.361 | 100 |
| Scottish & Newcastle | UK, Finland, Belgium, Portugal, Ireland | 2008 | not available | 100 (Belgium 99.7) |
| Würzburger Brauerei | Germany | 2005 | 0.360 | 90.7 |
| Fürstlig Fürstenbergische Brauerei | Germany | 2004 | 0.700 | 100 |
| Hoepfner Brauerei | Germany | 2004 | 0.200 | 100 |
| **Central & Eastern Europe** | | | | |
| Rechitsa Brewery | Belarus | 2008 | 0.285 | 80.8 |
| Drinks Union | Czech Republic | 2008 | 0.9 | 100 |
| Bere Mures | Romania | 2008 | 1.2 | 100 |
| Holding Company of the Syabar Brewing Company | Belarus | 2007 | 600,000 | 100 |
| Rodic Brewery | Serbia | 2007 | 0.5 | 100 |
| Krusovice Brewery | Czech Republic | 2007 | 700,000 | 100 |
| Ivan Taranov Breweries | Russa | 2005 | 2,900 | 100 |
| Baikal Brewery | Russia | 2005 | 0.557 | 100 |
| Stepan Razin Brewery | Russia | 2005 | 1.400 | 100 |
| Patra Brewery | Russia | 2005 | 0.715 + 0.040 softdrinks | 100 |
| Sobol Beer Brewery | Russia | 2004 | 0.200 | 100 |
| Volga Brewery | Russia | 2004 | 0.400 | 100 |
| Shikhan Brewery | Russia | 2004 | 0.700 | 95 |
| BBAG | Austria, Poland, Hungary, Czech Republic and Romania | 2003/2004 | 26,000 | 100 |
| **Africa & Middle East** | | | | |
| Tango Brewery | Algeria | 2008 | 140,000 | 100 |
| Consolidated Breweries | Nigeria | 2004 | 0.965 | 50.1 |
| Tempo | Israel | 2004 | 0.500 + 1.800 softdrinks | 40 |
| **Asia** | | | | |
| Aurangabad Breweries Ltd | India | 2006 | not available | 76 |
| Foster's brewery | Vietnam | 2006 | not available | 100 |
| Kingway Brewery | China | 2004 | not available | 9.9 |

**Figure 22:** Heineken's acquisitions per operational region 2004-2008

As stated before, Heineken made its largest acquisition ever in 2008 when it purchased parts of Scottish & Newcastle businesses, licences and investments. It took over Scottish & Newcastle together with Carlsberg S/A. They formed a consortium agreement called Sunrise Acquisition Ldt. that regulated the allocation of the consideration, brands, businesses and separation steps after the acquisition. Heineken bought Scottish & Newcastle's operations in the United Kingdom, Portugal, Finland, Belgium, Ireland, India and the U.S., with core brands including Foster's, Kronenbourg 1664, Newcastle Brown Ale, Sagres, Lapin Kulta and Beamish (see Figure 23). This take-over is in line with Heineken's acquisition strategy that is focused on defending and strengthening leadership positions in key markets, in this case Western Europe.

**Figure 23:** Scottish and Newcastle leadership positions and brands 2008

During the last few years Heineken took over a lot of companies. Every acquisition, though, also includes a lot of risk. Different cultures, business principals and external influences can be major obstacles to a successful integration. Also, overvaluation of targets and estimated synergies are common mistakes in the acquisition process. Such failures may affect the corporate values, the reputation and quality standards. Large acquisitions like that of Scottish & Newcastle can also hinder the realisation of long-term business plans.

In order to mitigate these risks, Heineken continuously improves its due diligence processes, cost and integration plans. Due to its long history of external growth it has gained a great

deal of experience, ensuring that the acquisitions contribute to its growth strategy and accelerate its sustainable top-line growth.

### 5.7.2 External growth in numbers

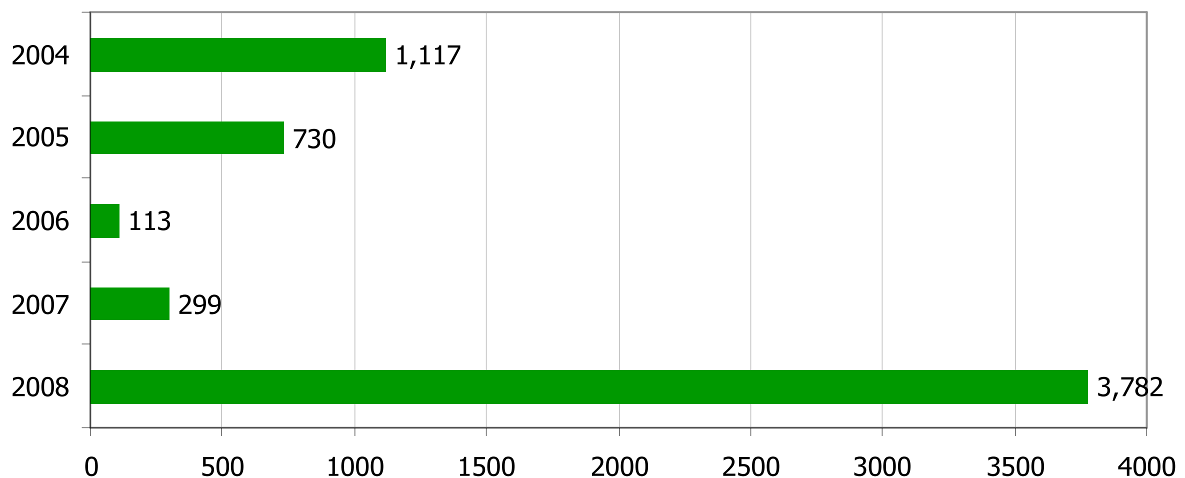



**Figure 24:** Heineken's net cash outflow for acquisitions in millions of Euros, 2004-2008

Figure 24 shows clearly that 2008 was a year of outstanding external growth. Heineken spent 12 times as much for acquisitions than the year before. The huge net cash outflow was mainly through the major acquisition of Scottish & Newcastle that Heineken has completed in this year.

## 5.8 Heineken's internal vs. external growth

Heineken's key priorities for action show clearly that it seeks to strike a balance between internal and external growth. It tries to accelerate its sustainable top-line growth through innovations, marketing investments and at the same time focuses on selective opportunities through greenfield investments and acquisitions.

According to the internal vs. external growth concept in the theoretical part of this work, there is a direct comparison of these two sources of growth. Also, in practice, their advantages and disadvantages can be weighted against each other.

### 5.8.1 The comparison

#### 5.8.1.1 Time

As stated in the theory part of this work, mergers and acquisitions are always a faster way to obtain access to the cash flows of new assets. If the company already has a brewery in a certain market and just wants to expand the scale, as was the case in Seville, internal growth might be the preferred choice. Heineken built a new brewery equipped with the latest technology and almost doubled their production capacity via internal growth.

But if a brewer wants to enter a new market, it first has to assemble all assets by itself, build a brewery, build up the reputation of its brand etc. All this takes a very long time and it is much faster to take over an existing player in the market and add it to the company's portfolio, as Heineken did with all their acquisitions in the past. For example, in 2008 Heineken increased its volume by 27 million hectolitres with just the single acquisition of the Scottish & Newcastle businesses.

#### 5.8.1.2 Costs

External growth in the brewery industry is always very expensive because the goodwills are extremely high. The purchasing prices are sometimes even double the amount of the book value, because brand names and the reputation they enjoy with their clients are very important in this sector. The buyer often pays the higher price to enter the market or to increase its market share because it sees potential synergies with its own business. For its acquisition of Scottish & Newcastle Heineken paid a goodwill of 3,651 million Euros.

Also the acquisition, integration and restructuring costs related to the Scottish and Newcastle acquisition were very high, amounting to 138 million Euros. For Part of it accounted the formation of the Sunrise Acquisition Ldt., which carried out the acquisition. Nevertheless a large scale expansion like this would not have been possible via internal growth.

#### 5.8.1.3 Economies of scale and synergies

Economies of scale play an important role for brewing companies, especially for purchasing of raw materials in the agricultural market, where prices are constantly increasing. But also

in the filling process a lot of money can be saved. Where once every small brewery had its own bottling, the companies now have centralized fillings in every county and transport all their different beers to this one factory. Volume continues to be a key factor in benefiting from scale efficiencies. Through external growth, for example, the large Scottish and Newcastle acquisition, Heineken can realize higher economies of scale than via any internal growth process.

Following the acquisition synergies in the Western European market are expected through a stronger presence enabling Heineken to secure its position and to increase its market share through appropriate commercial investments. The same effect is expected for the Americas especially in the U.S., Canada and the exports to the Caribbean. For both regions, cost synergies will be realized through more efficient central purchasing, sourcing and selling in respect of both the Scottish & Newcastle and Heineken brands. The expected annual synergies should amount to about 184 million Euros after four years of integration, of which 140 million Euros are cost synergies and 44 million Euros are revenue synergies. This extent of synergies would be impossible to achieve via internal growth.

#### 5.8.1.4 Market entry

What is mentioned in theory, about the difficulties to enter a market, is particularly true for the brewing industry. Customers stick to a certain brand, are loyal buyers and rarely accept new ones. It is extremely difficult and expensive to introduce new brands in the beer market, where there are already millions of existing brands. Also governments and regulations on foreign investment make it hard to enter certain markets as is the case in Asia. Accordingly, market entries via internal growth, like greenfield investments, are relatively scarce compared to the alternative of external growth.

Especially in emerging markets, Heineken buys local brands, adds them to its organisation and uses these well established brands to introduce the Heineken® brand step by step over the existing distribution channels.

#### 5.8.1.5 Market power

Heineken tries to be the number one or two player in every market in which it is active. Companies need to be in a leading position to affect the beer market. For example, it has a better position in negotiations with retail chains, which can easily throw out a minor brand, if it takes a couple of prominent brands out of their product range, it will be hard to satisfy all customers.

Gaining market power in selective markets depends on the size of the additional share the company wants to achieve. In the mature markets of Western Europe, where a lot of brands including Heineken are long-established, Heineken increases its high market share steadily through incremental innovations and marketing efforts. But in other countries where Heineken is not one of the top brewers a leading position can only be reached through mergers and acquisitions. See the example of Scottish and Newcastle's positions taken over by Heineken in the United Kingdom, Belgium, Finland and Portugal in Figure 25.

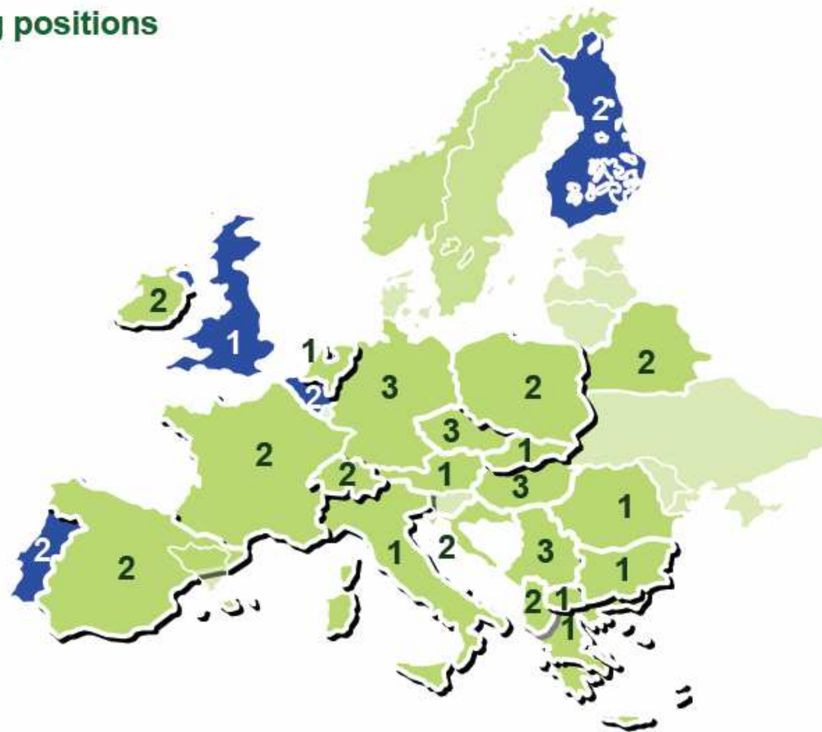



**Figure 25:** Heineken's increased leadership positions in Europe 2008

Heineken uses a mixture of internal and external growth to gain market power. To be a major player in the global brewery industry, is also important to remain independent and not get eaten up by rivals, as in the case of Anheuser-Busch in 2008.

### 5.8.1.6 Integration

The integration of new greenfield breweries, or additional physical investments, is relatively easy as Heineken's systems and processes are used right from the start. But, when it buys breweries that have existed for hundreds of years there might be resistance to adopting the new owner's procedures instead of keeping their own established ones. These problems might particularly arise in the case of cross cultural acquisitions.

Heineken constantly works on its integration activities, which includes significant involvement by relevant group departments, operating companies and regional management to carryout effective integration plans. For example Scottish and Newcastle acquired entities are already fully integrated into Heineken's regional structure and have started to use its common systems. Key management in the local operations has been retained to facilitate a rapid integration. A large part of the synergies can only be realised through coordination of the Western European region.

### 5.8.1.7 Risks

Expanding a business inherently involves taking risks. When a company increases its volume internally, there is always an uncertainty about the level of additional demand for it. The building of a new brewery additionally includes procurement and start-up risks. Additionally, the acquisition of an existing brewery does not guarantee a stable demand and the purchased assets can be old and non-functional.

Structured risk assessments are part of Heineken's change projects, common process and system implementations, and acquisitions and business integration activities. The risk management and control systems are considered to balance Heineken's risk profile.

### 5.8.2 Heineken N.V.'s Internal vs. external growth in numbers

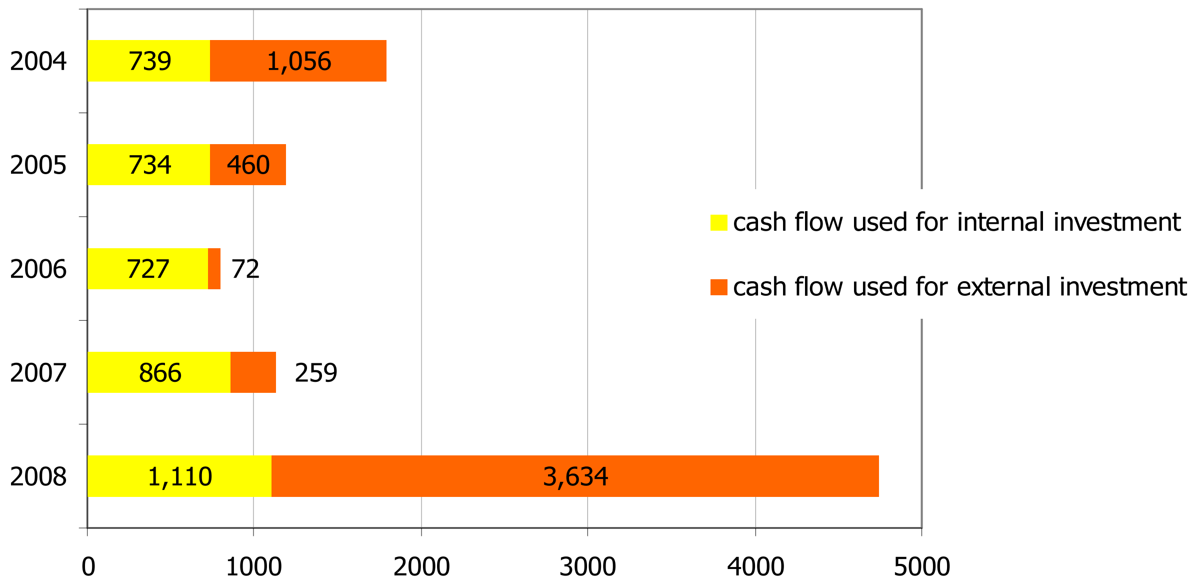
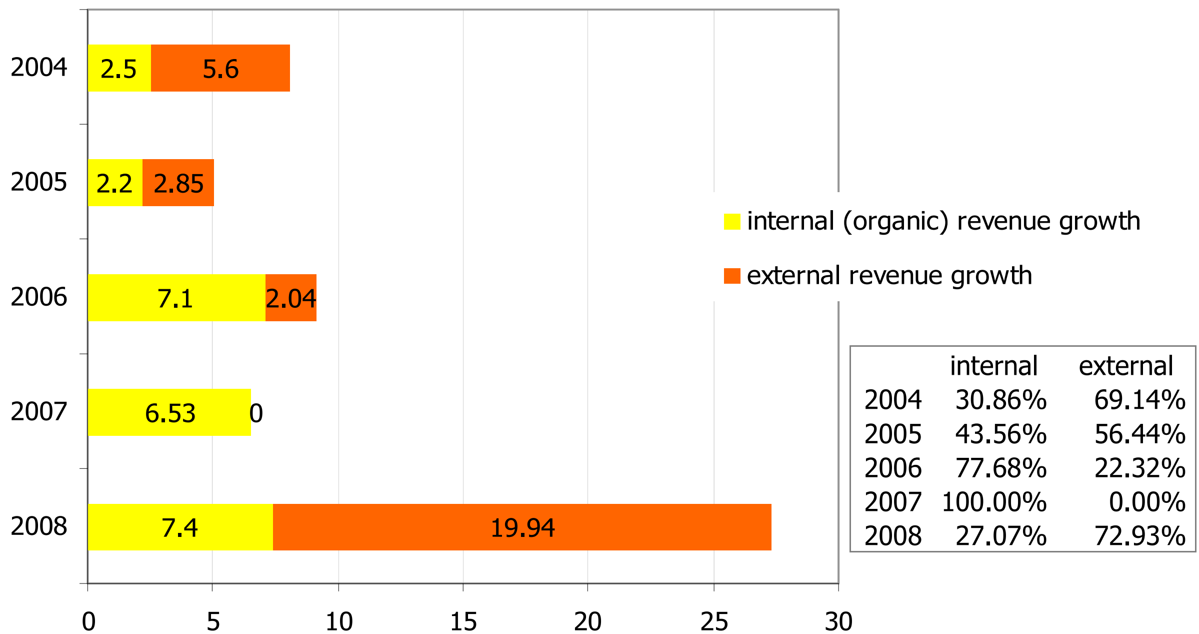



**Figure 26:** Heineken N.V's cash flow used for internal and external investment, in millions of Euros, 2004-2008

Figure 26 illustrates how much of the cash flow Heineken invested into internal and external growth. The green bars show that internal investment was relatively stable between 2004 and 2008. But the cash flow used for external investment, represented by the yellow bars, fluctuated and as shown in the external growth part was very high in 2008 because of the acquisition of Scottish and Newcastle.




| | internal | external |
|---|---|---|
| 2004 | 30.86% | 69.14% |
| 2005 | 43.56% | 56.44% |
| 2006 | 77.68% | 22.32% |
| 2007 | 100.00% | 0.00% |
| 2008 | 27.07% | 72.93% |

**Figure 27:** Heineken N.V's revenue (top-line) growth in millions of Euros, 2004-2008

Also revenue growth can be divided into internal and external growth. Interesting is that, as shown in Figure 27, in 2007 all of the revenue was created internally. This might be due to the preparation for the major acquisition in the next year. External growth added nearly 20% to revenue in 2008, of which the Scottish and Newcastle acquisition represented 90%.

# 6 Conclusion

Growth and innovation are among the essential competitive and organizational challenges facing domestic and international companies today. Considering the “opportunity environment” of the firm, there are alternative strategic options, namely internal development versus the external acquisition, for the use of the funds available. Both strategies of growth can be applied in various forms and shapes to expand the demand and the supply side of the company.

The firm can expand its demand internally via market expenditures, like a geographic expansion into new markets, or try to increase the revenue from existing customers. Another option is to pursue an extensive research and development policy in order to introduce new products to the market. To extend the supply side, the company has to make physical investments which are often linked to process research and development.

The advantage of internal growth is that it is freely configurable. The choice is not only reduced to existing capacities on the market, but the company can also invest in state-of-the-art resources. Furthermore, the buyer is not forced to take over additional capacities and segments that do not fall under his core competence.

But, as stated in the empirical section and the case study, it is not internal growth but mergers and acquisitions that play an ever increasing role nowadays. It has been noted that mergers will be chosen in those cases where the purpose is to increase market share by large scale, since the internal growth process would result, at least in the medium time horizon, in the creation of additional capacity and fiercer competition. The consolidation process in certain industries, like the brewery industry, reduced the big players to a handful.

When it comes to the comparison of internal and external growth, all their characteristics and differences have to be taken into consideration. The overview in Figure 28 can be used as a general guidance in the decision making process. But, according to the circumstance and target growth, their advantages and disadvantages have to be weighted differently.

| | Internal growth | External growth |
|---|---|---|
| **time** | slower | faster |
| **cost** | lower | higher |
| **economies of scale** | lower | higher |
| **market entry** | harder | easier |
| **market power** | incremental increase | significant increase |
| **integration** | easier | harder |
| **risks** | higher | lower |

**Figure 28**: Comparison of internal versus external growth

The situation on the resource market, the competitive and financial situation and the risk taking behaviour of the company play important roles in the selection process. Growth involves substantial uncertainty which may confound the strategy and structure of a company.[124]

The suitability of the respective choice between internal or external source of development and growth also depends on the firm's size. Certain strategies make more sense for bigger companies than for smaller ones and other ways generate more growth for smaller companies than for corporate groups.

The sample firm of this work, Heineken, tries to reach an optimal combination of internal and external growth. Besides the acquisition of several small breweries, it completed its biggest acquisition in history last year, when it took over parts of Scottish and Newcastle's businesses for 6.9 billion Euros. Heineken has to play an active role in the consolidation process of the brewery industry to make sure it is not taken over by one of its competitors.

But, the brewer is also very innovative; it invented the DraughtKeg, a disposable 5-litre "go anywhere" draught system and the BeerTender that allows dispensing draught beer at home. Additionally, Heineken completed greenfield investments in the Asian Pacific and just opened a very modern brewery in Seville. The brewer's main aim is to become and remain the number one or two player in each of its active regions. Market power and well established brand names are significant to be able to influence the beer market.

[124] Hitt M., Ireland R. and Tuggle C. (2006), p.136 ff.

Heineken's changing positions and opportunities in different markets show that no general statements about the optimal growth strategy can be made upfront because the choice between internal and external growth always depends on the particular case.

# 7 Appendix

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## 7.3 List of abbreviations

| | |
|---|---|
| AEX | Amsterdam Exchange index |
| CEO | Chief Executive Officer |
| CFROI | Cash Flow Return on Investment |
| etc. | et cetera, stands for “and other things” or “and so on” |
| EVA | Economic Value Added |
| ff. | implies “and the following pages” |
| N.V. | Naamloze Vennootschap, Dutch, stands for corporation |
| p. | paginae, stands for page |
| R&D | Research and Development |
| S.A. | Société Anonyme, French, stands for corporation |
| U.S. | United States of America |
| vs. | versus |

## 7.4 Summary

A company can grow in two ways, internally and externally. Internal growth can be achieved through market, research and development and physical investments. External growth refers to expansion via mergers and acquisitions, which play an ever increasing role nowadays. The first part of this work analyses the strategies, empirical work, advantages and disadvantages of internal and external growth and then compares the two sources of growth.

Internal growth is freely configurable and the choice of additional assets is not only reduced to existing capacities on the market. The integration of new products or factories are often easier because less adjustment mechanisms are necessary and there will be less resistance by the employees than during any external growth process. Additionally internal growth avoids costs like legal fees, taxes, fees to investment banks and other merger and acquisition promoters, as well as costs for the goodwill.

Nevertheless, when the company decides to grow internally, it has to assemble all assets by itself and cannot obtain immediate access to the cash flows of the new set of assets. By taking over an existing firm the company achieve a large scale expansion with a single transacting. It can reach a higher capacity level and access the cash flow potential of new markets in a much faster way. External growth creates higher economies of scale, synergies and market power. It reduces uncertainty about the existence and level of demand likely to be available for the products and services.

In the second part of this paper, the theoretical concepts of growth are applied to Heineken's case, on of the world's largest brewers. The case study describes which of the growth strategies Heineken put into practice and how this was accomplished. For example Heineken just completed its biggest acquisition in history last year, when it took over parts of Scottish and Newcastle's businesses for 6.9 billion Euros. But, the brewer is also very innovative and completes a lot of greenfield investment. Heineken tries to reach an optimal combination of internal and external growth.

Heineken's changing positions and opportunities in different markets show that no general statements about the optimal growth strategy can be made upfront because the choice between internal and external growth always depends on the particular case.

## 7.5 Summary in German

Hinsichtlich des Wachstums kann sich eine Unternehmung zwischen den Formen des internen oder des externen Wachstums entscheiden. Internes Wachstum kann durch Markt, Forschungs- & Entwicklungs- und physischen Investitionen umgesetzt werden. Der Begriff externes Wachstum bezieht sich auf Ausweitung der Unternehmung durch Akquisitionen oder Fusion. Der erste Abschnitt dieser Arbeit behandelt die Strategien und empirische Untersuchungen der jeweiligen Wachstumsform und vergleich die beiden miteinander.

Internes Wachstum ist frei gestaltbar, denn die Auswahl beschränkt sich nicht nur auf die am Markt angebotenen Kapazitäten. Die Eingliederung neuer Produkte und Produktionsstätten in die vorhandene Organisation gestaltet sich wesentlich einfacher und es ist mit weniger Widerstand der Arbeitnehmer zu rechnen als bei der Zusammenlegung zweier fremder Unternehmen. Außerdem bringt der interne Wachstumsprozess keine Kosten wie Honorare an Investmentbanken, Anwälte etc. mit sich und auch Aufschlag für den Goodwill fällt weg.

Doch wenn ein Unternehmen beschließt aus eigener Kraft zu wachsen, muss es alle Güter selbst beschaffen und es dauert in der Regel lange bis erste Erlöse erzielt werden. Im Gegensatz dazu, kann sich eine Unternehmung durch den Erwerb eines unabhängigen, fremden Unternehmens mit einer einzigen Transaktion sogar verdoppeln. Außerdem erreicht man auf diesem Weg höhere Größenvorteile, Synergieeffekte und mehr Macht am Markt. Auch die Ungewissheit über die zukünftige Nachfrage ist bei der Übernahme eines bereits bestehenden Unternehmens beschränkt.

Im zweiten Teil dieser Arbeit, werden die theoretischen Konzepte am Fallbeispiel Heineken, einer der führenden Bierkonzerne weltweit, angewendet. Es wird dargestellt welche Wachstumsstrategien Heineken verfolgt und wie es diese umsetzt. Gerade erst im letzten Jahr tätigte Heineken seine bisher größte Akquisition, als es Teile seines Konkurrenten Scottish und Newcastles um 6,9 Milliarden Euro übernahm. Das Unternehmen ist aber auch sehr innovativ und baut immer wieder modernste Brauereien auf der ganzen Welt. Heineken verfolgt somit eine Kombinationsstrategie beider Wachstumsformen. An diesem Beispiel sieht man deutlich, dass keine optimale Wachstumsstrategie existiert und die Wahl von externem und internem Wachstum, je nach Situation unternehmensspezifisch zu betrachten ist.

## 7.6 Curriculum Vitae

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| | | |
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| **Persönliche Daten** | geboren: | 22.12.1984 in Steyr, Österreich |
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| | Englisch: | verhandlungssicher |
| | Spanisch: | gute Kenntnisse |
| | Italienisch: | gute Kenntnisse |