

SL1 | Internal and External Growth Essentials

Standard Level worksheet | Trimester assessment practice

Recommended time	45 minutes	Total marks	30
Assessed focus	internal growth, external growth, risk, control, funding	Note	IB-style school material; not official IB content.

Instructions: Answer all questions. Use precise business terminology. For case-study questions, refer directly to the information provided. The answer key and marking guidance are included at the end of this PDF.

Section A: Multiple choice

1. Which example best illustrates internal growth? [1 mark]
 - A company acquires a rival chain of stores.
 - A coffee business opens two new branches using retained earnings.
 - A manufacturer forms a joint venture with a supplier.
 - A streaming firm merges with another platform.
2. External growth occurs when a firm mainly expands by [1 mark]
 - improving staff training within existing operations.
 - reducing waste and raising productivity.
 - integrating with another organization.
 - reinvesting profits in current machinery only.
3. One likely advantage of organic growth is [1 mark]
 - instant access to another firm's customers.
 - lower integration risk.
 - guaranteed rapid market share gains.
 - no need for any capital investment.
4. When one company buys another with the support of the target's leadership, the deal is usually called a [1 mark]
 - takeover.
 - franchise.
 - strategic alliance.
 - acquisition.
5. Why can debt-financed external growth be risky? [1 mark]
 - The business will lose all control over strategy.
 - Managers cannot change any systems after the purchase.
 - Interest and repayment commitments can put pressure on cash flow.
 - Borrowing automatically prevents future expansion.

Section B: Short answer

6. Distinguish between internal growth and external growth. [2 marks]
7. Explain one reason organic growth may be slower than external growth. [2 marks]
8. Explain one financial risk of funding an acquisition through bank borrowing. [3 marks]

Section C: Data response / case study

Case study: BeanTrail Coffee

BeanTrail Coffee operates four profitable outlets in one city. Demand for premium takeaway coffee is rising, and the owner wants to expand before national chains enter the area.

The owner is comparing an internal growth option with an external growth option.

Option	Upfront cost	Funding	Immediate market access	Operational issue
Open two new BeanTrail stores	\$300 000	Retained earnings	Low - customers must be built from scratch	High brand consistency and full managerial control
Acquire RoastRush (three local stores)	\$620 000	Bank loan	High - stores and customers acquired immediately	Different IT system and debt ratio would rise from 30% to 58%

9. State which option is internal growth and which option is external growth. [2 marks]

10. Explain one advantage and one disadvantage of opening new branches using retained earnings. [4 marks]

11. Recommend whether BeanTrail should open new branches or acquire RoastRush. [4 marks]

Section D: Extended response

12. Evaluate the view that small businesses should usually begin with internal growth before considering external growth. [8 marks]

Answer key and marking guidance

Use the mark guidance flexibly. Credit other valid business points and well-supported judgements where they are relevant to the question.

Section A answers

1. Correct answer: **B** - Opening branches with retained earnings expands the firm's own operations without combining with another business.
2. Correct answer: **C** - External growth involves combining with, acquiring, or partnering closely with another firm.
3. Correct answer: **B** - Organic growth usually avoids the cultural and systems integration problems linked to acquisitions.
4. Correct answer: **D** - An acquisition is a purchase made with the agreement of the target company's leadership.
5. Correct answer: **C** - Borrowing increases fixed financial obligations, so weak post-deal performance can strain cash flow.

Section B guidance

6. Distinguish between internal growth and external growth. [2 marks]

- Internal growth expands the business through its own operations, such as new products, branches, or capacity.
- External growth expands the business by integrating with another firm through a merger, acquisition, takeover, or partnership.

Marking guidance: Award 1 mark for each clear distinction.

7. Explain one reason organic growth may be slower than external growth. [2 marks]

- Organic growth builds customers, capacity, and systems from within, so results are usually incremental.
- External growth can provide immediate access to assets, staff, and customers that already exist.

Marking guidance: Award 1 mark for identifying a reason and 1 mark for explanation.

8. Explain one financial risk of funding an acquisition through bank borrowing. [3 marks]

- Borrowing raises interest and repayment obligations.
- If the acquired business underperforms, the buyer may face cash flow pressure or reduced financial flexibility.
- Higher debt can also increase gearing and make future borrowing more difficult.

Marking guidance: Award 1 mark for the risk identified and up to 2 marks for developed explanation.

Section C guidance

Case study: BeanTrail Coffee

9. State which option is internal growth and which option is external growth. [2 marks]

- Opening two new BeanTrail stores is internal growth.
- Acquiring RoastRush is external growth.

Marking guidance: Award 1 mark for each correct classification.

10. Explain one advantage and one disadvantage of opening new branches using retained earnings. [4 marks]

- Advantage: the owner keeps strategic control and brand consistency because BeanTrail builds on existing systems.
- Advantage: no new borrowing reduces financial pressure and risk.
- Disadvantage: growth will be slower because customers must be won branch by branch.
- Disadvantage: the business gains no immediate access to RoastRush's customers or locations.

Marking guidance: Award up to 2 marks per well-developed point. One advantage and one disadvantage are required.

11. Recommend whether BeanTrail should open new branches or acquire RoastRush. [4 marks]

- A strong answer may recommend internal growth because the cost is lower, debt stays lower, and the owner keeps better control over culture and systems.
- A different recommendation may be justified if the answer argues that immediate market access is essential before larger rivals enter.
- For full marks, the judgement should use case evidence such as the higher debt ratio, IT mismatch, or the need for faster expansion.

Marking guidance: Award up to 2 marks for relevant analysis and up to 2 marks for a justified recommendation using case evidence.

Section D guidance

12. Evaluate the view that small businesses should usually begin with internal growth before considering external growth. [8 marks]

Indicative content may include:

- Internal growth can preserve culture, control, and financial stability.
- It may be more suitable when the business has limited access to finance or values operational consistency.
- External growth can still be attractive when speed matters or when a target firm offers locations, customers, or expertise that would take years to build.
- The best choice depends on market urgency, finance, management capability, and the firm's tolerance for integration risk.
- A balanced conclusion should state that internal growth is often the safer first step, but not always the best strategic choice.

Mark band	Descriptor
0	No relevant business knowledge or no attempt.
1-2	Limited knowledge. Response is mainly descriptive with little application to the question or case.
3-4	Some understanding shown. There is partial analysis, but points may be generic or unevenly developed.
5-6	Good understanding with relevant application. Analysis is mostly clear and balanced.
7-8	Strong, well-structured evaluation. Uses evidence, weighs alternatives, and reaches a supported judgement.

A fully effective response should balance advantages and disadvantages, apply relevant evidence, and finish with a clear judgement.