

# HL1 | Choosing Between Organic Growth and Acquisition

Higher Level worksheet | Trimester assessment practice

<b>Recommended time</b>	60 minutes	<b>Total marks</b>	40
<b>Assessed focus</b>	strategy choice, organic growth, acquisition, finance, integration	<b>Note</b>	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 statement best explains why acquisitions can grow market share quickly? [1 mark]
  - They remove all need for leadership.
  - They provide immediate access to existing customers and assets.
  - They avoid all borrowing needs.
  - They guarantee cultural fit.
2. Organic growth is most likely to preserve [1 mark]
  - existing culture and managerial control.
  - the target firm's distribution network.
  - government ownership.
  - instant international scale.
3. A joint venture differs from an acquisition because a joint venture [1 mark]
  - never involves shared ownership.
  - is always hostile.
  - shares control with another party over a specific venture.
  - must be financed only through debt.
4. A major financial risk of acquisition-led growth is [1 mark]
  - no increase in fixed commitments.
  - higher debt and pressure on cash flow.
  - automatic reduction in assets.
  - loss of all customers.
5. Which factor most directly suggests an integration risk after an acquisition? [1 mark]
  - High retained earnings
  - Different ERP systems and high staff turnover at the target
  - Strong current margins in the acquiring firm
  - Low capacity use before expansion
6. When demand is growing faster than internal capacity can be added, managers may favor external growth because it is [1 mark]
  - always cheaper.
  - always safer.
  - potentially faster to implement.
  - free from stakeholder conflict.

## Section B: Short answer

7. Explain two reasons internal growth may preserve managerial control and organizational culture. [4 marks]
8. Distinguish between an acquisition and a joint venture as routes to expansion. [4 marks]

## Section C: Data response / case study

### Case study: Velocity Bikes

Velocity Bikes manufactures premium commuter bicycles. Demand is rising quickly as more cities invest in cycling lanes.

Management must choose between adding capacity organically or buying a smaller rival, SwiftPedal.

Indicator	Velocity Bikes now	Organic expansion option	Acquire SwiftPedal
Annual market growth	18%	New line ready in 10 months	Immediate access to target's customers
Current annual output / capacity use	80 000 bikes / 92%	Adds 20 000 bikes of capacity	Target adds 8% market share
Cash available	\$1.2 million	New line costs \$1.5 million	Purchase price \$3.6 million
People and systems	Staff turnover 6%	Culture fit very high	Target turnover 18% and uses a different ERP system
Debt effect	Current debt ratio 29%	Can be mainly self-funded	Debt ratio would rise to 62%

9. Using the data, analyze one reason organic expansion may be too slow for Velocity Bikes. [4 marks]
10. Analyze one advantage and one risk of acquiring SwiftPedal. [4 marks]
11. Recommend the best growth strategy for Velocity Bikes for the next three years. [6 marks]

## Section D: Extended response

12. Evaluate whether rapid expansion justifies higher financial and integration risk. [12 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** - Acquisitions bring customers, staff, products, and infrastructure immediately rather than building them over time.
2. Correct answer: **A** - Because the business grows through its own operations, culture and control are usually easier to maintain.
3. Correct answer: **C** - Joint ventures involve shared ownership and control rather than one firm taking full ownership.
4. Correct answer: **B** - Large purchases often increase borrowing and fixed repayments.
5. Correct answer: **B** - Mismatched systems and weak people stability make post-acquisition integration harder.
6. Correct answer: **C** - External growth can accelerate expansion when time pressure matters.

### Section B guidance

7. Explain two reasons internal growth may preserve managerial control and organizational culture. [4 marks]

- Managers keep authority because the business grows within existing ownership and systems.
- Employees and processes already share a known culture, so fewer values or systems conflicts arise.
- Internal growth avoids the need to integrate another firm's staff, structures, and routines.

*Marking guidance:* Award up to 2 marks per well-developed reason. Maximum 4 marks.

8. Distinguish between an acquisition and a joint venture as routes to expansion. [4 marks]

- An acquisition gives one firm ownership and control of another existing business.
- A joint venture creates a shared venture owned by two or more firms for a specific purpose.
- Acquisitions usually offer more control; joint ventures share risk and decision-making.

*Marking guidance:* Award up to 2 marks for each well-developed distinction. Maximum 4 marks.

### Section C guidance

#### Case study: Velocity Bikes

9. Using the data, analyze one reason organic expansion may be too slow for Velocity Bikes. [4 marks]

- Market demand is growing by 18% while the firm is already using 92% of capacity.
- Even with the new line, extra output arrives only after 10 months, so sales may be lost in the meantime.
- Competitors may capture unmet demand before internal expansion is ready.

*Marking guidance:* Award up to 2 marks for identifying relevant data and up to 2 marks for analysis of why timing matters.

10. Analyze one advantage and one risk of acquiring SwiftPedal. [4 marks]

- Advantage: Velocity gains immediate customers and an extra 8% market share instead of waiting for new capacity to be built.
- Risk: debt would rise sharply to 62%, and integration may be difficult because SwiftPedal has 18% staff turnover and a different ERP system.

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

11. Recommend the best growth strategy for Velocity Bikes for the next three years. [6 marks]

- A strong recommendation may favor organic growth if preserving culture and financial flexibility are the priority.
- A strong recommendation may favor acquisition if immediate scale is essential in a fast-growing market.
- The best responses weigh speed against debt and integration risk, using figures such as 92% capacity use, 18% market growth, the 10-month delay, and the 62% debt ratio.

*Marking guidance:* Award up to 2 marks for relevant case analysis, up to 2 marks for comparison of options, and up to 2 marks for a supported recommendation.

### Section D guidance

12. Evaluate whether rapid expansion justifies higher financial and integration risk. [12 marks]

**Indicative content may include:**

- Rapid expansion can secure market share, scale, and strategic position before rivals act.
- It may be especially valuable in fast-growing markets or when attractive targets are available.
- However, high debt can weaken liquidity and reduce flexibility if expected gains are delayed.
- Integration problems can damage culture, service quality, and employee performance.
- The best judgement depends on market urgency, the firm's finances, and the quality of implementation.

Mark band	Descriptor
0	No relevant business knowledge or no attempt.
1-3	Limited understanding and little or no analysis. Response is mostly descriptive.
4-6	Some relevant understanding and analysis, but development is uneven or only partly applied.
7-9	Good understanding with clear analysis and some evaluation. Uses relevant case evidence.
10-12	Detailed, balanced evaluation with well-supported judgement and effective use of evidence.

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