

Cost-benefit study of an expansion for Gruzavik Huesca S.L.

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<p>This thesis focuses on studying and analyzing the cost and relative benefits of a business expansion for the commissioning company, Gruzavik Huesca S.L., based in Spain. The research aims to provide the commissioning company with a recommendation on the most appropriate strategy and location for the business expansion.</p> <p>The theoretical framework presents all the required background information in order to provide a consistent and high-quality recommendation. The framework consists of financial theory covering financial management essentials, financial statements, and financial statement analysis. The theory also covers the different business expansion methods the company can potentially use, followed by academic theory concerning the planning and managing stages of business growth.</p> <p>This research involves both qualitative and quantitative research. Financial statements from the commissioning company were analyzed and interpreted. Multiple theories were studied through secondary research, and a qualitative face-to-face interview was also conducted providing primary research. Factor-rating analysis was also used to choose between locations. The results from said research are presented in a separate chapter in the thesis.</p> <p>The key findings show that Gruzavik Huesca is financially stable and ready to take on a business expansion. The most appropriate method proves to be of geographic expansion. The research yielded Barcelona and Valencia as the most appropriate locations for the expansion of Gruzavik Huesca to a second facility. All this information will serve Gruzavik Huesca when it decides to trigger such expansion.</p>	
Keywords Financial Analysis, Cost-Benefit, Business Growth, Geographic Expansion, Automotive	

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1 Introduction

This chapter aims to introduce the reader to the case company and provide background information about the research project: who is the company, what is the goal of the research and its importance to the company and what are the expected outcomes. The research objective will be presented alongside with the scope. The international aspect of this research will also be explained, and the key concepts will also be defined for the reader.

1.1 Introduction to the case company and research background

The case company in this research is Gruzavik Huesca S.L., a SME specialized in the repair and maintenance of industrial vehicles and machinery. The company currently has one establishment in the city of Huesca, in the Aragon region of Spain. Gruzavik S.L. was founded in 2014 and currently counts with 11 employees. The turnover of the company for the year 2018 was approximately 700,000 euros.

The company's main service consists in the repair and maintenance of industrial vehicles, cargo trucks and passenger cars. The services offered by the company range from simple jobs such as oil and tire changes to complete builds of truck chassis, engine swaps and collision damage repair. The customer base of the company includes both businesses (mainly transport companies) and private individuals. In addition to this, governmental bodies such as the Huesca City Hall have agreements with the company for the repair and maintenance of their vehicles.

The company counts with several suppliers due to the nature of their business. Since the company requires a constant stream of spare parts and other equipment such as tools, machinery and other supplies, there are many important suppliers working closely with the company such as Daimler AG Spain, AD Parts or Renault Trucks, among many others.

The goal of this thesis project is to provide the company with a recommendation about the most suitable location for a second facility. Since the company does not have a separate finance department, the author will also provide the company with an analysis of their financial position through different ratios, which was one of the main requests of the CEO of the company. This analysis will help the author understand which expansion strategy and location would be the most effective and affordable for the company's second facility.

1.2 Research structure

This thesis aims to analyze the financial status of the case company, study multiple expansion models, and suggest the one that fits the best with the company's wishes and needs. The research structure can be presented as follows:

Phase 1. Writing the theoretical framework

- Presenting relevant financial theory
- Analysis of different expansion strategies
- Evaluating the different possible locations

Phase 2. Financial analysis of the company

- Reviewing financial documents:
 - Profit and Loss Account
 - Balance Sheet Statement
- Performing financial analysis on the company
 - Ratio analysis
 - Interpretation of figures

Phase 3. Comparing the different possible locations and strategies

- Statistical analysis
- Factor-rating analysis

Phase 4. Recommendation to the company

- Writing a recommendation for the company about which strategy seems to be the most viable option.
- Analyzing the final outcome of the research.

Phase 5. Presentation to the company

- Providing the company with information about their financial performance.
- Providing the company with a factor-rating analysis of the different possible locations.

1.3 International aspect and risks

Since the case company in this research is based in Spain, this research already counts with an international aspect. Different Spanish locations will be analysed during the study, and the interviews in the research phase will be conducted fully in Spanish and translated. In addition, the results of the research will have to be translated from English to Spanish when presented to the company as the main stakeholders in the company do not have a strong command of the English language.

There is one main risk to deal with when producing this research, and that is the volatility of the Spanish economy. There are many factors that can influence the situation of the Spanish markets, especially when it comes to politics. The current crisis regarding the fight for independence in the region of Catalonia might affect the whole overall picture of the Spanish economy and affect the overall business processes within the country.

The instability in the government of Spain as a whole is another political risk factor, as for the last previous years there has been a failure when trying to choose a new government for the country, which resulted in repeated elections that affected the morale of the Spanish population. Other risk factors at the European community level, such as Brexit, could potentially affect the European economy and consequently, affect Spain too. This could cause the results derived from this research to prove invalid under certain conditions.

1.4 Expected results and benefits

The main result that is expected to come out of this thesis is a carefully elaborated recommendation to Gruzavik Huesca S.L. about which expansion method suits the company the best, and in which location. This will aid the company to decide on the best strategy to proceed with an expansion when it decides to do so, as it will be provided with a study showcasing how ready it is for said expansion to a second facility.

The author will benefit by gaining deep knowledge about different financial metrics and ratios and how to apply them in a practical case. The author will also learn about the different expansion methods that apply in Spain. While writing this research, the author will also improve his communication, research and writing skills.

The case company benefits directly by being provided with a clear recommendation on which location is the best for it to expand in. This will also save the company a lot of time which can be used in attending their customers, since due to the small size of the company, it does not count with enough personnel to assign this kind of research to.

1.5 Demarcation

In this thesis, the main objective is to provide the case company with a recommendation based on the research made by the author. The recommendation will serve as an aid for the case company to decide for an expansion location when the time comes to expand their operations. The thesis will contain research on business growth theory, financial theory and some general information about the automotive repair industry in the country of the case company, in this case Spain. The research will also include a short financial study on the company's financial statements to assess the readiness of the company to take on an expansion. The research does not aim to provide a detailed cost-report of the expansion process or a final guide.

1.6 Key concepts

The following are the principal concepts present in this thesis:

Geographic Expansion involves a company expanding their operations from their original location to one or more additional areas. (Barringer, Greening, 1998).

Financial management is an area of financial decision-making harmonizing individual motives and enterprise goals." (Weston, Brigham, 1981).

Financial statement analysis is an evaluative method of determining the past, current, and projected performance of a company." (Kieso, Weygandt & Warfield, 2007).

Financial ratios are metrics created with the use of numerical values taken from financial statements to gain meaningful information about a company." (CFI, 2020).

Factor-Rating is an analytical method which can be used for selecting the most suitable location for a given industry. (Sharma, Phanden & Baser, 2012).

Market Analysis aims to assess the attractiveness of a market in order to understand the opportunities and threats and how they relate to the strengths and weaknesses of the expanding firm. (NetMBA, 2010).

Key success factors are the elements necessary for a firm to achieve its objectives. (NetMBA, 2010).

2 Managing business growth: a financial perspective

This chapter aims to present the theory needed to fully understand the research that comes out of this thesis work. The chapter will include a study of business growth theories, a study on the possible locations, and also it will present the relevant financial theory to culprit in the final recommendation that is to be made to the case company. The chapter will provide information about the different financial metrics and ratios that are to be used and the financial statements that will be analysed.

Every successful business eventually reaches a point in which the growth level calls for further development. Business expansion can be described as a phase in which a growing company increases the number of their establishments while still maintaining the current locations. Thus, a company must carefully study and evaluate the different possible scenarios in which said expansion can be pursued, and meticulously draw a business plan to be followed. The choice of an appropriate expansion strategy is often the key ingredient for successful performance in growing companies. (Barringer, Greening 1998, 467.)

2.1 Financial Theory

In order to fully understand the financial side of the business growth process, the reader of this research must get acquainted with some of the basic concepts regarding financial management and the different metrics used to analyse the financial health of a company.

2.1.1 Financial Management

Financial management is a fundamental concept for each and every company. This activity involves the planning, directing, auditing and controlling aspects of the financial assets of a business.

The main challenge financial management faces is to coordinate the financial resources of a firm with the goals and objectives of it. Such objectives can be maximizing the wealth of the shareholders', cutting costs and maximizing profits. Those objectives can be achieved by financial management's three principal functions: investing, financing, and managing assets. (Van Horne, Wachowicz 2008, 2.)

- **Investment management** is certainly the most important element of financial management. This organ of financial management helps business owners evaluate how many assets the firm holds and how it should use them. This evaluation reassures business owners that their financial assets are nurtured, accounted for and used in the best and most efficient manner.
- **Financing** refers to the management of the liabilities of a firm. This element helps business owners to understand what the best strategy is to finance their company. Some firms may be fully financed by debt, while some other might be completely debt-free. The financing activity deals with key factors such as dividends, retained earnings, loans...
- **Asset management** is the third vital component of financial management. When the assets are gained and the financing function of the company is active, it is crucial for the firm so manage said appropriately. In most companies, asset management tends to focus more on the current assets of the company rather than the fixed ones, due to their volatile nature. (Van Horne, Wachowicz, 3.)

2.1.2 Financial accounting: Fundamental terms and definitions

In order to fully understand the financial statements of a firm, we first need to understand where all the numbers come from. Financial accounting has the main objective of gathering all the financial transactions of a company and other financial documents and presenting them in a format that can be understood by external users such as shareholders, creditors, suppliers, governmental regulators and even customers. (Sreelakshmi 2017, 3.)

In the following text, the most frequent accounting definitions and terms will be explained in order to ensure a coherent grasp of what financial accounting means and does. (Van Horne, Wachowicz 2008, 5-7.)

- The **basic accounting equation** is the foundation of the accounting system. (Van Horne, Wachowicz 2008, 6.) It is defined as follows:

$\text{Assets} = \text{Liabilities} + \text{Equity}$
--

- An **asset** is a resource which the company owns and uses to generate profit. Those can be classified as tangible (capital assets which exist physically) and intangible (patents, goodwill, trademarks, brand name, etc.) Assets can also be current (can be converted into cash easily) and non-current (takes over a year or operating cycle to convert them into cash).
- A **liability** is a financial obligation which the company carries until a future date. It comprehends the monetary resources that the firm owes to outside parties. Just like assets, liabilities are also classified as current (period within a year) or long-term (due more than one year in the future).
- **Equity** translates as the difference between the assets and the liabilities in the accounting equation. Practically, equity is the amount of financial resources that the firm owes to the owners.
- A **transaction** is a business exercise in which money, or a money substitute is exchanged between parties. Transactions are classified as either cash transactions or credit transactions.
- A firm's **capital** is closely linked to equity and very often confused as the same concept. However, capital refers to the amount invested in the business by the firm's owners, be it as cash or any other type of investable asset. It is often portrayed as "share capital" in financial statements. (Van Horne, Wachowicz 2008, 3.)

2.1.3 Financial statements

Financial statements are documents which portray the business activities of a firm, as well as its financial performance. The data obtained from them is used by investors and shareholders to analyse the general financial situation of a firm. The annual report is a compilation of all of the financial statements of a firm. (Subramanyam 2014, 19.)

Although there is a multitude of financial statements in the annual report of a company, in this research only the following two fundamental financial statements will be presented.

- **Balance sheet**

The balance sheet is one of the main financial statements. It provides a snapshot of the financial position of a company at a given point in time. Assets, liabilities and equity are displayed in this document.

Assets are presented on the left side of the balance sheet, divided between current and non-current assets. The right side is formed by the liabilities, divided between current liabilities and long-term liabilities; and the shareholders' equity.

The balance sheet informs about the amount of financial resources that the company owns, as well as the amount that is owed to other parties. (Sreelakshmi 2017, 3.)

However, even though operating activities can alter either side of the balance sheet, this document does not present activities that arise over a period of time. This type of activities is represented in the income statement of a company.

- **Income Statement**

This financial statement, also known as Profit and Loss Statement, assesses the financial performance of a company over a period of time. In the majority of the cases, the period is either a year or a quarter.

The income statement is a portrayal of the operating activities of the company and it depicts the total revenue acquired by the company and all the expenses induced with the goal of earning that revenue. The bottom line of this statement is known as the Net Income, which displays the total profit the company earned or the loss it suffered. (Subramanyam 2014, 20.)

There are a few different approaches to the **analysis of a financial statement**. Those can be classified as follows:

- **Comparative analysis**

The comparative approach to financial analysis is also often referred to as *horizontal* analysis. This method consists in an evaluation of the changes in different accounts of the company from period to period. Usually, horizontal analysis is performed on a basis of year-to-year comparative.

Comparative financial statement analysis is useful to expose trends and their extent, speed and direction.

Typically, change analysis is performed in the form of amounts and percentages, and the results are compared to the average change for the period. (Subramanyam 2014, 28.)

- **Vertical analysis**

It is common procedure to express the total of the basic accounting equation (Assets = Liabilities + Equity) as equal to 100%. For this exact reason, vertical analysis becomes a powerful tool for the evaluation of financial statements such as the balance sheet. Unlike comparative analysis, vertical analysis, as the name suggests, is performed as an up-down evaluation of the accounts of the financial statement.

These accounts are expressed as a percentage of the respective total of 100%. Vertical analysis is singularly successful in helping to understand the internal structure of a financial statement, but it is also suitable for performing comparisons between different companies. However, it is worth noting that vertical analysis is limited by the fact that it fails to display the relativity in size of the companies being compared. (Subramanyam 2014, 31.)

- **Ratio analysis**

Ratio analysis is one of the prevalent methods of financial statement analysis. A ratio is a calculation which expresses the mathematical relation between two factors. Those instruments can be used by a firm to get insight on elemental circumstances and to identify areas that need further investigation. (Subramanyam 2014, 35.)

Ratios tend to be focused on a future timeframe and are often being used by accountants and analysts to forecast the financial future of the company. (Barnes 1987, 449.)

There is a plenitude of financial analysis ratios. However, for convenience of the case company this research will focus solely on the following most common financial analysis ratios:

Liquidity ratios – Those ratios assess the capability of the firm to meet its obligations.

- **Current ratio** – Determines the ability of the firm to pay off their short-term liabilities with their current assets.

$$\text{Current ratio} = \text{Current Assets} / \text{Current Liabilities}$$

- **Acid-test ratio** – Determines the ability of the firm to pay off short-term liabilities with quick assets.

$$\text{Acid-test ratio} = \frac{\text{Current Assets} - \text{Inventories}}{\text{Current Liabilities}}$$

- **Cash ratio** – Determines the ability of the firm to pay off short-term liabilities with cash and cash equivalents.

$$\text{Cash ratio} = \frac{\text{Cash, Cash Equivalents}}{\text{Current Liabilities}}$$

Leverage ratios – Those ratios assess the amount of the company's capital that comes from debt. In this research, only the Debt to Assets ratio will be studied.

- **Debt to assets ratio** – Determines the amount of assets financed with debt.

$$\text{Debt to assets ratio} = \frac{\text{Total Liabilities}}{\text{Total assets}}$$

Efficiency ratios – Those ratios assess how efficiently a company uses its resources. In this research, the focus will rely solely on the Asset Turnover ratio.

$$\text{Asset turnover ratio} = \frac{\text{Net sales}}{\text{Total assets}}$$

Profitability ratios – Those ratios assess the capacity of the firm to create earnings from its operations. This research will only make use of the Return on Assets ratio.

$$\text{ROA} = \frac{\text{Net Income}}{\text{Total Assets}}$$

(Subramanyan 2014, 37.)

2.2 Prominent strategies of business expansion for SMEs

The 21st century has been extremely successful for the sector of SMEs regarding business growth. For this reason, it is important to be able to determine the complications, challenges and success aspects relevant to the growth of an SME. (OECD 2010.)

Generally, SMEs tend to undertake growth in the form of internal expansion, licensing, franchising, mergers and acquisitions, and exporting. Wholly owned geographic expansion may be overlooked by some companies due to factors such as high economic disbursement or the necessity of a large investment in terms of time. It can also simply be incompatible with the goals of the expanding company. (Barringer, Greening 1998, 468.)

2.2.1 Internal expansion

Internal expansion refers to a firm increasing their business capacity in the **same fixed location**. The benefits of an internal expansion are the reduced costs in comparison to other growth strategies. Since there is no need to allocate any economic resources in a new geographical site, the overall cost of the expansion is drastically lower. (Barringer, Greening 1998, 468.)

However, this strategy may not be the best bet for the case company, as it is difficult to expand operations in a vehicle workshop without a significant increase in space for the business premises, and without a new group of consumers which would be a present factor in other expansion types.

2.2.2 Licensing

Licensing refers to when a proprietary owner, otherwise known as a **licensor**, grants permission under a contract to a foreign entity known as the **licensee** to engage and participate in activities which would result illegal in any other circumstance. The licensing method is particularly popular among smaller firms. (Wall, Minocha & Rees 2015, 42). The licensee purchases the right to exploitation of a set of technologies and know-how from the licensor. The licensor often protects the intellectual property rights involved in this process by copyrights, patents or trademarks. The licensee generally is obliged to pay a royalty on each unit sold to the licensor. (Ireland, Hoskisson & Hitt, 2007, 225.)

When it comes to the **advantages** of licensing, since the licensee is the party bearing the risks and investing in the different facilities needed for manufacturing, marketing and distribution of the product or service, Ireland à al. (2007, 225) report that licensing is one of the least costly expansion methods. According to Wall à al. (2015, 43), licensing is also a potentially great tool for raising brand awareness without making substantial investments.

However, licensing also presents **disadvantages**. Selling the know-how and the technology of the firm to a different company results in the licensor having very little control over the manufacturing and marketing of their product or service. Moreover, licensing is the method that presents the least potential returns, since those must be shared by both licensor and licensee.

Problematic situations may arise for the licensor if the licensee produces products or services of a standard which is inferior to the one set by the licensor. Another negative scenario could arise if the licensee learns the technology of the licensor and decides to produce and sell a similar product or service after the license concludes, becoming a competitor. Ultimately, if a firm wants to move on to a different form of ownership, licensing may turn out to be an inflexible choice. (Ireland à al. 2007, 226.)

2.2.3 Franchising

As Caves & Murphy (1976, 572) define, franchising is another expansion method in which a **franchisee** obtains the right to undertake business activities using the name of the **franchisor** or their trademark, instead of using any patent or technology as in licensing.

Wall à al. (2015, 44) differentiate franchising in two different categories:

- **First-generation franchising** – In which the franchisor is only lightly involved.
- **Second-generation franchising** - In which the franchisor is more involved in the business, establishing a “start-up position”, which consists of careful guidance on operating the franchise. For example, it is common for the franchisor to offer staff training to the franchisee.

The franchisor has far mar control on the daily operations of the business in second-generation franchising. Typically, businesses such as vehicle rental agencies, restaurants, hotels and fast-food chains use this method of expansion. Wall à al. (2015, 44) report that an estimated amount of 1 million franchised businesses are established worldwide, which account for \$1,000 billion of turnover and more than 11 million jobs.

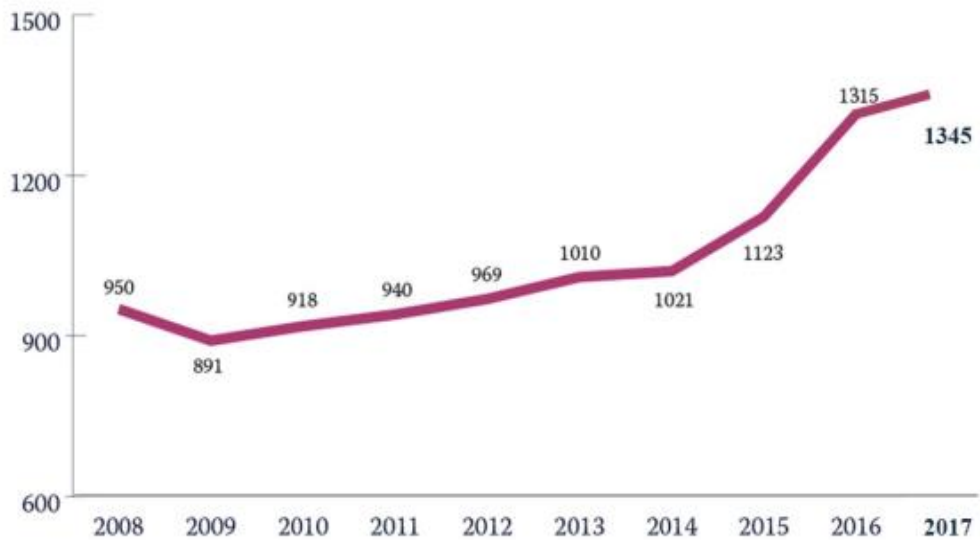


Figure 1. Evolution of the number of franchisors in Spain (Barbadillo y Asociados 2015, 1)

According to Barbadillo y Asociados (2018, 1), the number of franchisors operating in Spain grew from 1.315 in 2017 to 1.387 in 2018. As it can be observed in figure 1, the Spanish franchising industry has been growing for eight consecutive years.

The franchising business in Spain has grown a total of 33,8% when compared to the numbers taken from 2010, a time of struggle in the Spanish economy due to the financial crisis affecting the country back then. If the current figures are compared with the ones of 1994, a growth of 810% can be observed.



Figure 2. Evolution of the number of franchised establishments in Spain. (Barbadillo y Asociados 2015, 2)

As it can be observed in Figure 2, the number of franchised businesses in the Spanish territory grew from 68.133 in 2016 to 68.500 in 2017; an increase of 1,3% which can be appreciated in the figure 2.

Franchised businesses currently represent 11.1% of the retail trade in Spain.

As reported by Barbadillo y Asociados, this number is going to keep progressively growing in the upcoming years to proportions similar to the ones found in the United States.

Franchising provides multiple **advantages** for the franchisee, such as the fact that the franchisee is buying into an already existing brand and receiving support from the franchiser from the very beginning. Global branding becomes a key factor for franchisees when establishing a franchise, as customers are already familiar with the business beforehand and they know what to expect.

For the franchisor, the main advantage is that the expansion process can be less expensive and hassle-free since the franchisee tends to be well-acquainted with the local environment.

The **disadvantages** of franchising for the franchisee are primarily the limited control over what can and cannot be done. Typically, franchisees cannot decide to change elements such as uniform codes, pricing or opening hours by their sole decision, since usually franchised companies operate following a standardised approach for all of their branches. (Wall à al. 2015, 45.)

Although franchising and licensing are the prominent contractual expansion modes, especially when it comes to internationalisation, other non-equity expansion methods exist, such as management contracting, technical service agreements and contract-based partnerships. However, those were not analysed in this research as they were not found to be relevant to the case company due to their naturally cross-borders nature, given that the company plans an expansion within the territory of continental Spain.

2.2.4 Mergers and Acquisitions

Mergers and Acquisitions, commonly referred to as M&A, is a form of expansion more suitable for big companies. This expansion form follows the reasoning that affirms that two companies united are more valuable than two separate companies. (Wild, Wild 2016).

In a merger, two companies, usually with shared characteristics such as size and industry, agree to join their companies and operate as one united company.

When one company prevails as dominant over the other and establishes itself as the owner company, the process is then called an acquisition.

M&As are very similar to Strategic Alliances, with the exception that in the last, companies cooperate without forming a separate company. (Ireland à al. 2007).

2.2.5 Exporting

It is also very common practice for many SMEs to kick-off their expansion process by exporting their goods or services to other countries. The main advantage presented by exporting is the lack of a need to establish a separate company in another country. (Ireland à al. 2007.)

However, since the case company sells a non-exportable service and plans a national expansion, this type of expansion won't be studied further in this research.

2.3 Planning and managing a geographic expansion

Although the methods mentioned in the previous chapter are the popular choices when it comes to business growth, there is still many small and medium enterprises which are in growing phase that opt for a strategy of geographic expansion. This concept involves a firm expanding their operations from their original location to one or more additional areas. Geographical expansion is exceptionally applicable for industries in which a company can't truly expand further in their present location but could potentially benefit consumers in other regions with their products or services. These types of companies face a set of unique challenges in their growth procedure. After all, as reported by Horn, Lovallo & Patrick in a McKinsey & Co Article, for every successful new market entry, there are another four companies failing.

According to Barringer and Greening, there are mainly two types of reasons for a small enterprise to grow. These are classified as economic reasons and personal reasons. Economic reasons tend to be the key motivator for business growth, as a business ultimately pursues wealth creation. However, there can still be personal reasons present, such as the CEO of a company deciding to expand their business to make room for new family employees in the case of a family-owned business. (Greening, Barringer & Macy 1996, 234.)

2.3.1 Pros and cons of expansion

The most exceptional advantage of business growth is the potentiality for a company of making use of the economies of scale. Economies of scale make it possible for businesses to bring down costs per unit as they increase the output of production, by for example, enabling an enterprise to purchase the needed inventory in bulk obtaining discounts, or spreading the cost of a marketing promotion over a larger group of sales. Administrative overhead costs can also be reduced as the general cost will be spread over a larger production. Other advantages brought by business growth include an increase in resources, higher sales and profits, new customers in new markets and a reduction of external risks such as competition or market changes.

When it comes to the disadvantages of expansion, the main peculiarity is that naturally, a larger firm becomes gradually more complex than a small one. This brings challenges such as a possible shortage of cash during the growth process, a compromising of quality when increasing the production output, and increased capital requirements. (NIBusiness 2019.)

Thus, a business planning for growth must carefully assess their readiness and carefully study every relevant factor to be able to elaborate a business plan before launching the expansion process. Unplanned and poorly managed growth can be the biggest disruptive factor for a company and take a toll in every aspect of a growing firm.

2.3.2 Choosing a location

It is a very common procedure for small and medium enterprises to expand to close by locations. Although usually SMEs tend to expand to neighbouring locations, there are a few variables that can be studied by the firm in order to find out the most appropriate potential expansion region. (Wild, Wild 2016.)

Some of these variables include:

- **Market size** – This metric informs about the proportion of a market in a given point in time. Thanks to this variable, it is possible to estimate which region is the biggest and which one is the smallest, and everything in between. It is usually displayed as total population of an area.

- **Market Consumption Capacity** – The aim of this variable is to measure the spending power of a region. Usually it is calculated from the amount of the population belonging to the middle class, which is considered the backbone of an economy's buying power.
- **Local Cost Structure** – It is also crucial for the expanding firm to assess the prices of the relevant costs in the potential locations. Costs such as rent, shipping or labour are key factors when deciding on a location.
- **Competition** – Obviously, a firm also needs to evaluate the situation of the competition in the potential expansion locations. If a region is already saturated with companies from the same industry, it may not be the greatest idea to enter that market.

2.3.3 Planning for growth

Planning is the most valuable phase of the growth process for any company. As stated by Barringer and Greening, even neighbouring locations can turn out to be very different from the home site of a firm. The firm will be facing the conventional difficulties that follow growth, but on a higher complexity level, since it will expand in an unexplored and unfamiliar location. Factors such as the demographic layout, the customer inclinations, and even the product or service offered by the business itself are vital and should be considered in a pre-expansion planning phase.

An important planning tactic for firms is to use external sources of assistance to assess the readiness of the company to expand and to achieve an accurate, useful and diligent growth plan. For example, many firms choose to hire consultants, external data analysts or even lawyers when undergoing the planning for expansion phase. (Barringer, Greening 1998, 484.)

It is critical for the growing company to evaluate and determine which locations or markets enjoy the highest potential for growth. Selecting a market is not an easy task and there are many factors that come into play when deciding a new location.

Some of these factors include the market size, the buying power of the population in that area, the status of the economy in the location, the legislation involved, and last but not least, the competition that might be present in the desired market. (Axial 2015.)

Another step for a successful entry strategy is to carefully characterize the role of management in the firm after the expansion process has concluded. In most cases, when a small firm grows and becomes relatively large in size, the owner of the firm should embrace a change from managing direct activities to managing other people.

However, this step is very often inevitable and straight-forward, since when establishing more than one location, one owner or manager cannot physically be present in two spaces at the same time. (Barringer, Greening 1998, 485.)

2.3.4 Managing growth

The business expansion process does not end with simply planning the growth. Once the growth process has started, the firm must be able to manage and maintain the business growth.

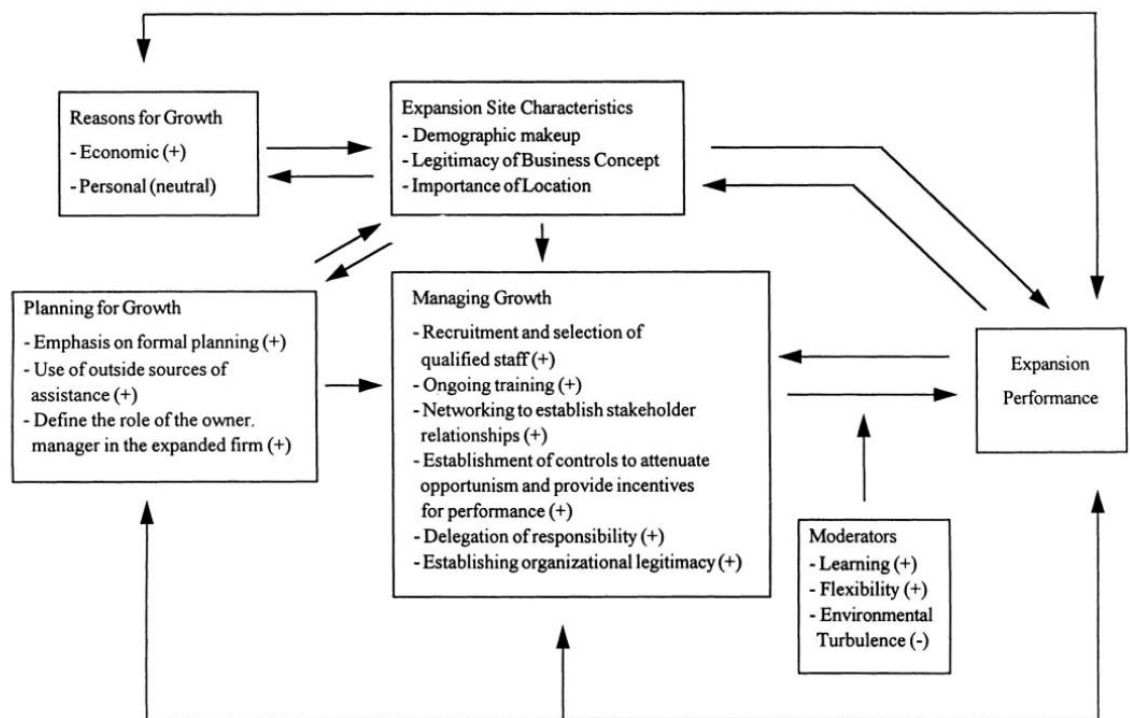


Figure 3. Theoretical Model of antecedents for effective small business geographic expansion. (Barringer, Greening 1998, 484)

The above figure by Barringer and Greening does an outstanding job in matching the different phases and stakeholders for business growth. As it can be observed, one of the fundamental issues a company must manage when expanding is the hiring and selection of qualified workforce. Successfully growing companies tend to spend an elevated amount of time and economic resources in selecting new employees and educating existing staff to be prepared for the possible added responsibilities.

A successfully trained employee is one whose view on the value and vision of the company's future aligns with the view of the owner of the enterprise. Those companies usually have little to no turnover in employees during their expansion process.

Barringer and Greening also affirm that just because a company is doing well in one location, it does not necessarily implicate the company is going to achieve the same level of success in the expanded location. Some companies' assets are unique and not easily transferable to a new location. For example, one location might simply be highly successful due to the enthusiasm of the manager, which the expanded location's manager might not share.

3 Research design and methods

The purpose of this chapter is to explain the research design utilized by the author and the relevant methods. This chapter will also introduce who the author will interview during the thesis process. My research consists of both qualitative and quantitative data.

Qualitative research applies to the information which cannot be measured and has an exploratory approach. It is most useful to gain insight about opinions, trends, motivations and underlying reasons. The qualitative research that will be used in this research takes the form of individual interviews which aim to answer questions relevant to the theory framework and the objectives of this thesis. Quantitative research, on the other hand, informs about quantities. A quantity is a set of information that can be measured and represented with numerical figures. It is focused on numbers and it is able to reveal the timeline of the data being analyzed. The quantitative research tools that will be used by the author in this research include bar graphs and histograms. All the financial statements such as balance sheets, profit and loss accounts and other financial data that will be handled by the author can also be considered quantitative information.

When it comes to data collection, both primary data and secondary data will be collected during the writing of this thesis. Primary data refers to the first-hand research the author will be performing when, for example, interviewing the different stakeholders. It is the author's responsibility to decide why, what, how, and when to collect the primary data, as well as to ensure that the primary data being collected is accurate, real and trustworthy. The interviewee will be the CEO of the case company in question. The name will be omitted by the interviewee's own request.

Secondary data on the other hand, refers to data that has been previously collected by someone other than the author. The main benefit of collecting secondary data is that it is the best way to make primary data collection a more accurate process by helping the author understand the theoretical framework behind his research. It also provides a hugely beneficial basis for comparison for the primary data that has been collected. However, secondary data presents the main challenge of the data being outdated, inaccurate, irrelevant to the research objective, and insufficient. It becomes the author's responsibility to make sure that all of these requisites for secondary data are being met during the writing of this thesis.

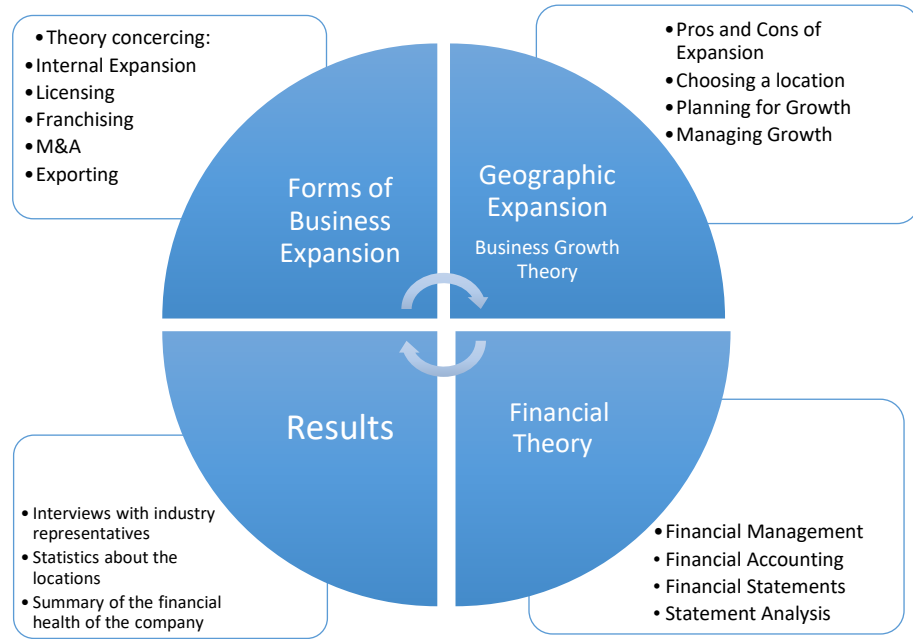


Figure 4. Outline of the research process.

The above figure provides a visual representation of the four pillars of this research. Combining the theories concerning the different expansion methods with theory about planning and managing business growth, while keeping on sight the financial aspect of the process, will aid the author in achieving trust-worthy, accurate and theoretically backed results.

The overlay matrix (see appendix number 1) offers a visual depiction of how the theoretical framework correlates with the research methods and information sources to offer the final results of this research.

Factor rating will be used by the author to analyze the different expansion locations available to the case company. This analytical technique proves very useful for choosing a business location. Qualitative and quantitative factors are mixed by assigning quantitative importance to qualitative factors. An importance weight is assigned to the factors, and a score is given to each factor by the CEO of the company during one of the interviews. The location with the highest score out of all will be recommended to the case company.

4 Results

This fourth chapter aims to present the outcome of the research performed by the author during the writing of this thesis. Results from the qualitative and quantitative research will be presented in the following subchapters, and those will attempt to answer the investigative questions presented in the Overlay Matrix (see appendix 1).

4.1 Analysis of the financial situation of Gruzavik Huesca

The first step when planning for a business expansion is making sure the company is financially stable and prepared for it. Thanks to the financial department of Gruzavik Huesca S.L., the author was able to review the balance sheet statements and the profit and loss accounts for the 2014-2018 timeframe. The quantitative research of this thesis is heavily based on said statements. However, by request of the case company, only the financial statements of the two last available years will be publicly presented in the research. The importance of those statements has been explained in chapter 2.1.

Since the financial documents from the year 2019 were not yet available, the author focused on the documents from 2018 and 2017. The documents were used by the author to perform financial analysis to gain understanding about the general financial situation of Gruzavik Huesca S.L. The documents that the author will present in this research have been translated from their original language (Spanish) to English by the author and simplified for easier handling and understanding.

Profit and Loss Account	Gruzavik Huesca S.L. 2017	Gruzavik Huesca S.L. 2018
Revenue	€ 622.320,51	€ 704.479,51
Other operational revenue	€ 1.085,47	€ 450,11
Purchases	-€ 275.680,61	-€ 305.304,11
Staff expenses	-€ 261.487,27	-€ 288.704,65
Other operational expenses	-€ 53.533,59	-€ 60.457,37
Amortization expenses	-€ 12.307,50	-€ 7.840,24
Subsidies	€ 4.865,04	€ 3.318,39
Operating Income	€ 25.262,05	€ 45.941,64
Financial expenses	-€ 732,48	-€ 810,71
Net Income before Taxes	€ 24.529,57	€ 45.130,93
Tax expense	-€ 6.247,39	-€ 11.507,52
Net Income	€ 18.282,18	€ 33.623,41

Figure 5. Profit and Loss Account of Gruzavik Huesca for the years 2017 and 2018 (simplified)

The above pictured Profit and Loss account statement for Gruzavik Huesca shows a significant increase in revenue and net income from 2017 to 2018. The net income nearly doubled from 18,282.18 EUR to 33,623.41 EUR.

Gruzavik Huesca S.L.		Balance sheet				
Assets						
Current assets:	▼	2017	▼	2018	▼	Fluctuation
Cash and Cash Equivalents		87.399,75		45.835,97		-48%
Investments		3.684,72		3.684,71		0%
Inventories (Spare parts)		30.245,00		33.542,83		11%
Accounts receivable		49.271,49		90.539,31		84%
Total current assets		170.600,96		173.602,82		
Fixed assets:	▼	2017	▼	2018	▼	
Technical Equipment		5.694,05		5.694,05		0%
Machinery		42.370,57		42.370,57		0%
Tools		14.038,71		15.938,02		14%
Furniture		330,00		330,00		0%
Other equipment		4.203,44		4.813,36		15%
Transport Vehicles		4.026,45		4.026,45		0%
Other fixed assets		1.939,91		2.533,70		31%
Accumulated depreciation		(49.813,93)		(57.654,17)		16%
Deferred tax assets		5.155,78		717,05		-86%
Total fixed assets		27.944,98		18.769,03		-33%
Total assets		198.545,94		192.371,85		
Liabilities and owner's equity						
Current liabilities:	▼	Previous year	▼	Current year	▼	
Current liabilities		74.193,35		81.168,20		
Total current liabilities		74.193,35		81.168,20		9%
Long-term liabilities:	▼	Previous year	▼	Current year	▼	
Long-term liabilities		3.318,39		-		-100%
Total long-term liabilities		3.318,39		-		
Owner's equity:	▼	Previous year	▼	Current year	▼	
Equity		121.034,20		111.203,65		
Total owner's equity		121.034,20		111.203,65		-8%
Total liabilities and owner's equity		198.545,94		192.371,85		
Balance		0,00		0,00		

Figure 6. Balance sheet of Gruzavik Huesca for the years 2017 and 2018 (simplified)

Following the financial statements found above the financial analysis will be performed. As explained in subchapter 2.1.3, ratio analysis is one of the most effective methods when it comes to financial performance evaluation. The ratio analysis yielded the following results:

In regard to **liquidity**, Gruzavik Huesca has a current ratio of 2,14, obtained by dividing their current assets by their current liabilities. This ratio indicates Gruzavik Huesca's liquidity and their ability to pay their short-term debt. Although the ideal value for the current ratio depends largely on what industry the company is operating in, generally healthy businesses have a current ratio between 1,5 and 3. In this case, the ratio of 2,14 indicates good short-term financial health.

The acid-test ratio, or quick ratio, returned a value of 1,73 for Gruzavik Huesca. As mentioned above in the second chapter, this ratio informs about the ability of the company to make payments for their short-term obligations. The standard recommended value for the quick ratio is 1 or higher. However, this varies largely by industry. In this case, the ratio of 1,73 can be considered quite normal and average.

The cash ratio, or coverage ratio, measures the ability of the case company to pay off their current liabilities only with cash or cash equivalents. In the case of Gruzavik Huesca, the cash ratio returned a value of 0,56. Since this number is lower than 1, this indicates that Gruzavik Huesca would need more than their cash and cash equivalents to pay for their short-term liabilities.

When it comes to analyzing Gruzavik Huesca's financial **leverage**, only the debt-to-assets ratio was analyzed. This ratio informs about the amount of the company's total assets that are financed by creditors. In the case of Gruzavik Huesca, the debt-to-assets ratio yielded a value of 0,42, which means that the assets of the company are 42% financed by creditors and 58% by the owners. Since the value is closer to the lower side, this indicates less leverage and less risk, which is good news for Gruzavik Huesca.

The **efficiency** of Gruzavik Huesca's financials was analyzed through the asset turnover ratio. This ratio informs about the capacity of Gruzavik Huesca to achieve sales based on their assets. With a value of 3,66, Gruzavik Huesca can be considered very efficient at generating sales based on their assets.

The return on assets ratio was used to analyze the **profitability** of Gruzavik Huesca. This ratio informs about the net income produced by the total assets in order to evaluate how profitable the company is. The ROA of Gruzavik Huesca has a value of 17%. This means that Gruzavik Huesca earns 17 cents per each euro of sales. This number can be interpreted in many different ways since it depends on the economic situation of the country and the industry, but generally, a positive ROA ratio is beneficial, and naturally, the higher the number, the better.

4.2 Possible business expansion strategies

As mentioned previously in the introduction of chapter 2, any business that reaches a certain level of growth will eventually consider expanding at some point. This is not different for Gruzavik Huesca. As stated previously on chapter 2.2, small and medium businesses generally take on business growth with an internal expansion, some form of contractual expansion, mergers and acquisitions or by exporting. Geographic expansion is another increasingly popular method that the case company has specifically asked the author to research.

Beginning with internal expansion, this method would not work for Gruzavik Huesca S.L. due to the nature of the business and their current location. The company is not able to grow any larger in their current building (see subchapter 2.2.1). Moreover, the company aims to expand their customer base by establishing presence in a different Spanish province.

Licensing also turns out to be inappropriate for Gruzavik Huesca as this is not a common expansion procedure for small and medium vehicle workshops in Spain. It would be too difficult for the case company and simply counterproductive to find the resources needed to expand via licensing. This method does not align well with the objectives of the case company since Gruzavik Huesca is not aiming to share returns between licensor and licensee, as it is explained in chapter subchapter 2.2.2.

Franchising could potentially work for Gruzavik Huesca S.L. as in this method it would have far more control in the operations compared to licensing. As shown in chapter subchapter 2.2.3, franchising is also becoming increasingly popular in Spain as an expansion method for small and medium sized enterprises.

However, after an interview with the CEO of the case company, it was agreed that franchising is not the appropriate expansion method for Gruzavik Huesca S.L. since it would prove difficult to find a franchisee. The reasoning behind this is that since it is already quite costly to set-up a vehicle workshop because it requires a large building, machinery, tools and other specific equipment, the other party may as well just set up their own independent establishment. Gruzavik Huesca is also mostly only popular among the population of the Huesca province, which leaves the value of the brand name good-for-nothing when it comes to other provinces.

A Merger and Acquisition approach has been automatically discarded since this method is more suitable for big companies, as stated in subchapter 2.2.4. Exporting also serves no purpose to Gruzavik Huesca as the company is selling a service which cannot be exported.

This leaves the company with the possibility of expanding through a wholly owned geographic expansion. This translates to Gruzavik Huesca opening a second establishment in a different Spanish province in the same exact way it had opened their first, by acquiring all the needed machinery, equipment and staff and setting-up shop in a second building. According to the interview between the author and the CEO of Gruzavik Huesca, during the founding stage of the company, a loan was asked from the bank to cover for the costly expenses that a vehicle workshop set-up requires. This can be observed in the figure 6, which illustrates the standing amount of the loan in the long-term liabilities section. In 2017 the amount was 3318.39 EUR. As shown in the 2018 column, the loan was completely paid-off.

This leaves the company open to requesting another loan if needed for opening the second location, as there were no financial difficulties paying off the first loan. Apart from financing, the only other factors the company needs to worry about when opening a wholly owned second location are the recruitment of qualified staff, the purchase of the needed tools and equipment, and naturally, the location of the second establishment.

4.3 Choosing a suitable expansion location

As explained previously in chapter 2.3, subchapter 2.3.2, when Gruzavik Huesca decides to expand and is in the stage of choosing the location, variables such as the market size, the market consumption capacity, the local cost structure and the competition in the desired locations need to be analysed in order to find the most appropriate option.

Gruzavik Huesca has previously communicated to the author their interest in the Catalonia, Madrid and Valencia regions. The focus will rely on the cities of Barcelona, Madrid and Valencia.

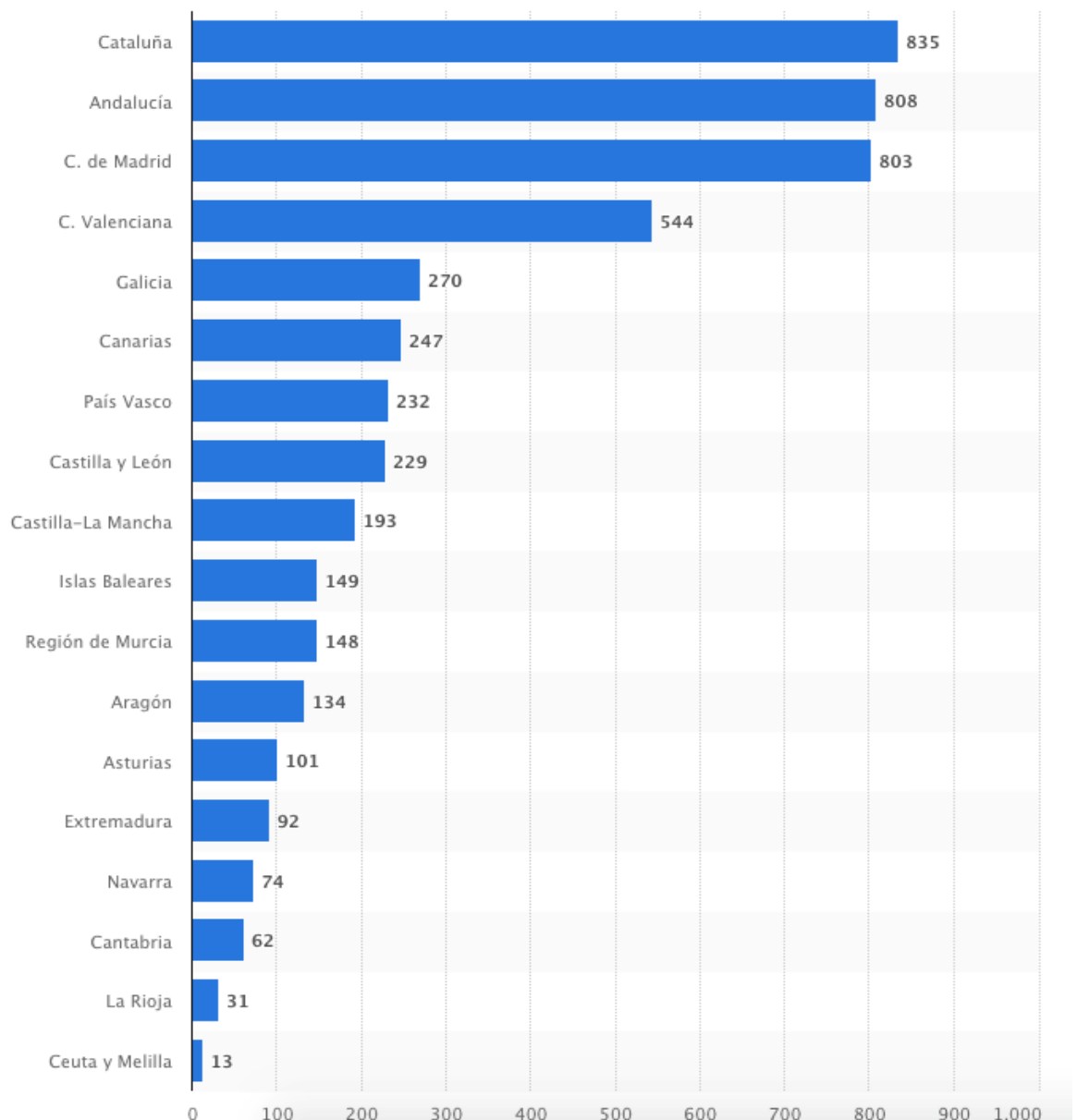


Figure 7. Turnover of vehicle workshops per province in Spain in million euros. (Statista 2018)

The above figure illustrates the turnover of the vehicle workshop industry in each Spanish province. Catalonia leads the graph with a turnover of 835 million euros for the year 2018. Madrid follows closely with a turnover of 803 million euros, while Valencia is the lowest of the three with a turnover of 544 million euros. Catalonia counts with the advantage of being one of the provinces close to the French border, and therefore, a direct transit point for all the vehicles crossing between Spain and France. (Statista 2018)

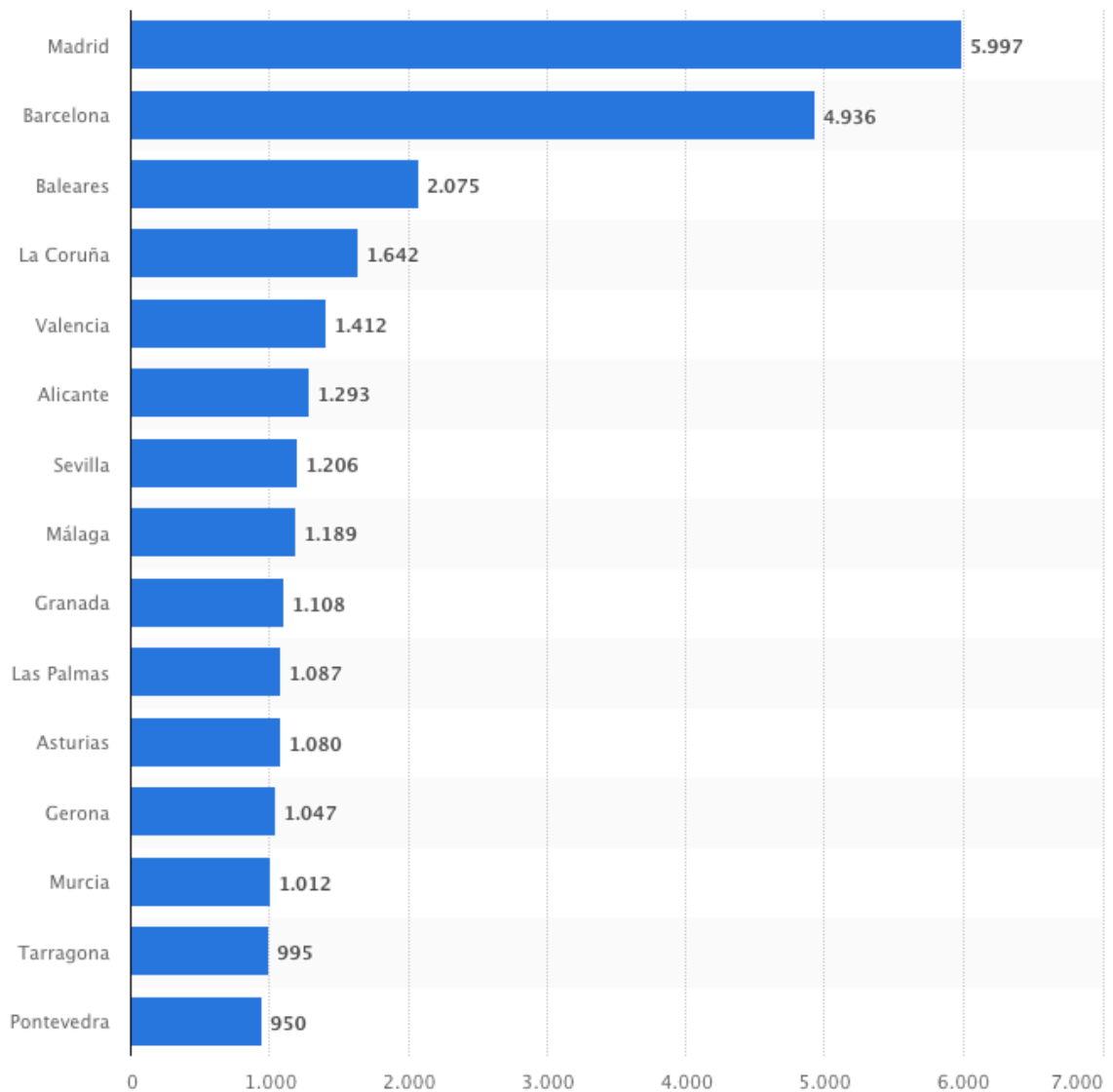


Figure 8. Ranking of the Spanish provinces with the highest number of vehicle workshops. (Statista 2016)

In the figure 8 it can also be noticed that the province with the highest number of vehicle workshops in 2016 was Madrid, with 5997 vehicle workshops. This is not surprising since Madrid is the capital of the country and counts with the highest population. Barcelona follows closely with 4936 workshops, due to the reasons stated previously. Valencia is in the 5th place with 1412 workshops as of 2016. (Statista 2016)

Table 1. Spanish provinces with the highest number of vehicles. (DGT 2018)

PROVINCE	TOTAL
Total	33729982
Madrid	4891178
Barcelona	3719207
Valencia/València	1747090
Alicante/Alacant	1362594
Sevilla	1261763
Malaga	1193142
Murcia	1073793
Balears (Illes)	1030451
Palmas (Las)	868705
Santa Cruz de Tenerife	829626
Cadiz	787838
Coruña (A)	785115
Pontevedra	716054
Granada	691130
Asturias	689100
Bizkaia	685264
Girona	642141

Table 1 informs about the total number of vehicles (trucks, vans, cars, motorcycles and industrial vehicles) per province in Spain in the year 2018. Madrid had the highest number of vehicles with a total of 4,891,178 vehicles, followed by Barcelona, with a total of 3,719,207 vehicles. Valencia had 1,747,090 registered vehicles on the roads. (DGT 2018)

Table 2. Ranking of Spanish provinces with the highest purchasing power (Gfk 2019)

Province	Population	Purchasing power per capita in euros
Araba / Alava	328,868	20,305
Gipuzkoa	720,592	19,225
Madrid	6,578,079	18,262
Bizkaia	1,149,628	18,186
Navarre	647,554	18,087
Barcelona	5,609,350	17,224
Tarragona	795,902	16,726
Lleida	432,866	16,627
Girona	761,947	16,578
Huesca	219,345	16,154

As it can be observed in table 2, the province of Álava had the highest purchasing power in 2019, with a value of 20,305 EUR in 2019. Gipuzkoa followed closely with a value of 19,225 EUR. The province of Madrid had a purchasing power per capita of 18,262 EUR, while Barcelona is 6th on the list with 17,224 EUR per capita. The province of Valencia did not make it to the top 10 in the year 2019. (Gfk 2019).

Table 3. Spanish provinces with the highest price for industrial sites. (ERI 2017)

PROVINCE	Price per square meter in €
ANDALUCIA	321,26
ARAGON	223,64
ASTURIAS	285,48
BALEARES	642,27
CANARIAS	553,69
CANTABRIA	404,27
CASTILLA Y LEON	228,23
CASTILLA-LA MANCHA	230,87
CATALUÑA	451,33
COM. MADRID	647,55
COM. VALENCIANA	310,47
EXTREMADURA	211,60
GALICIA	223,71
LA RIOJA	299,17
MURCIA	201,05
NAVARRA	328,10
PAIS VASCO	595,34

The last factor that needed to be analysed in order to choose a location is the cost structure. The most important factor when analysing the cost of a location is the price of the location itself, that is, the cost of the space that will be purchased or rented by Gruzavik Huesca. In the interview held between the author and the CEO of Gruzavik Huesca, it was pointed out that Gruzavik Huesca is aiming to rent the second property for the expansion. In order to obtain a general outlook of the real estate situation in Spain, the average price per square meter of industrial buildings in 2017 (latest data available) is presented above in table 3.

Catalonia presents an average price per square meter for industrial sites of 451.33 EUR. Madrid has the highest price of the three provinces, with 647.55 EUR per square meter. Valencia is the cheapest province out of the three with 310.47 EUR per square meter. (ERI 2017)

As explained in chapter 3, factor-rating was chosen as a tool to analyse and select the most appropriate location. The factor rating-system yielded the following results.

Factor-rating Gruzavik Huesca		SCORES OUT OF 10			WEIGHTED SCORES		
FACTOR	WEIGHT	BARCELONA	MADRID	VALENCIA	BARCELONA	MADRID	VALENCIA
Cost of location	0,3	6	4	9	1,8	1,2	2,7
Turnover per province	0,2	8	7	5	1,6	1,4	1
Purchasing power	0,2	7	8	3	1,4	1,6	0,6
Competitors	0,2	5	4	8	1	0,8	1,6
Vehicles	0,1	8	9	5	0,8	0,9	0,5
Total	100%				6,6	5,9	6,4

After analysing the cost, turnover, purchasing power, number of competitors and number of vehicles of each location, the three provinces Gruzavik Huesca was the most interested in gave the following results:

- Barcelona: 6.6 points.
- Madrid: 5.9 points.
- Valencia: 6.4 points.

While according to this analysis Barcelona would be the most attractive location, it is important to note that Valencia has a very similar score and depending on the company's needs it might prove to be a more suitable location.

The factor-rating table will be attached as an appendix in a bigger size for easier reading. (see appendix 2)

5 Discussion

The last chapter of this thesis will provide a summary of the key findings, present a recommendation to the case company, evaluate the overall research process and provide the author's reflection on his personal learning.

5.1 Key findings

This chapter aims to summarize the contents of the chapter number 4, which are directly linked to the contents presented in the theoretical framework in chapter 2. The key findings will be presented according to the order of the investigative questions in the overlay matrix (see appendix 1).

5.1.1 IQ1: What is the financial situation of Gruzavik Huesca S.L.?

To assess the financial health and the readiness of Gruzavik Huesca to take on an expansion, a financial analysis was performed on the financial statements of the company in chapter 4.1.

The Profit and Loss account shows a growth in revenue from the year 2017 to 2018. This indicates a higher turnover for the company, which is a good sign. The company made more purchases in 2018 and paid more to its employees. The operating income nearly doubled while the financial expenses didn't grow significantly. Even though naturally Gruzavik Huesca had to pay more tax on the revenue for 2018, the net income also nearly doubled, with a final result of 33,623.41 EUR versus the 18,282,18 EUR from the previous year.

As it can be observed in the balance sheet presented also in chapter 4.1, Gruzavik Huesca had 48% less cash in the bank in 2018 compared to the previous year. In the interview with the CEO, it was clarified that the reason behind the decrease is that one of the founders retired and the company had to pay a portion of the company cash according to his share in the company. The accounts receivable account of the company grew significantly in 2018, which translates to the company making more money from its customers. The company didn't need to invest in any new equipment, machinery or tools either. One interesting point in the liabilities section of the balance sheet is that the company went from having 3,318.39 EUR of long-term liabilities in 2017 to having none in 2019. As it has been explained in section 4.2, this represents the company completely paying off the bank loan that was taken when funding the company in 2014.

According to the ratio analysis performed in the chapter 4.1, Gruzavik Huesca shows a healthy current ratio of 2,14; which indicates that the company has a satisfactory level of liquidity and is able to pay their short-term debt if needed. The quick ratio also returned a satisfactory value of 1,73, which reassures the capacity of Gruzavik Huesca to make payments on their short-term debt. However, according to the cash ratio of 0,56, Gruzavik Huesca would need financing other than cash to pay their short-term liabilities.

Gruzavik Huesca counts with a low level of leverage, which translates to low risk, since the company majority is financed by the owners and not by creditors. Gruzavik Huesca is also very efficient at generating sales based on their total assets, as it is proven with the healthy asset turnover ratio of 3,66. Gruzavik Huesca can also be considered a profitable company within its industry, presenting a return on assets of 17%.

The overall financial picture of Gruzavik Huesca seems to be very satisfactory according to the financial analysis performed. The company is on a path of growth, which if they are able to maintain and increase, will mean the company won't face a problem when expanding to a second location as long as they manage their assets and their investments carefully.

5.1.2 IQ2: What are the possible expansion strategies?

As analysed in chapter 4.2, internal expansion, licensing and franchising are not the ideal options for Gruzavik Huesca when it chooses to expand. Mergers and acquisitions and exporting were automatically discarded as they were considered irrelevant.

The study performed by the author came to the conclusion that the best way for Gruzavik Huesca to expand their operations is to open a wholly owned second location in a different province. In other words, the best strategy for Gruzavik Huesca to expand is to perform a geographic expansion. It is very likely that Gruzavik Huesca would need a bank loan to finance the expansion process, but this procedure already proved effective when the company was founded back in 2014.

Gruzavik Huesca would need to choose a suitable second location, prepare all the needed documents (which can be a lengthy process in Spain), find and recruit qualified and capable staff and purchase all the needed machinery, equipment and tools for the second location.

5.1.3 IQ3: Which location is the most suitable for Gruzavik Huesca's business expansion?

In order for the author to study which location is the most appropriate for Gruzavik Huesca to expand to, various statistical data was analysed in chapter 4.3. The case company had specifically shown interest in the provinces of Barcelona, Madrid and Valencia.

Different key factors have been analysed. The turnover of vehicle workshops per province in Spain was one of them, as the author felt like it is a good indicator of the potential success Gruzavik Huesca can achieve in each province. The provinces with the highest turnover turned out to be Barcelona, followed by Madrid and Valencia in the last place. This is likely due to the fact that Catalonia is one of the most populated regions in Spain, and also one of the most economically and technologically advanced. As stated in chapter 4.3, Catalonia counts with the advantage close to the French border, and therefore, it is a direct transit point for all the vehicles crossing between Spain and France.

In order to find out the amount of competition present in each province, the ranking of Spanish provinces with the highest number of similar workshops operating was also analysed. Madrid turned out to have the highest number of competitors, although Barcelona was not too far behind. Valencia had the key advantage in this factor, as it is the province out of the three with the lowest amount of competition, approximately 4 times less than Madrid.

The number of vehicles in each province was also analysed by the author to be able to understand the client base of each region. Madrid once again leads the list, while Barcelona has a little over a million less vehicles. Valencia, meanwhile, counts with almost three times less vehicles than Madrid, which makes it not as attractive as the other two provinces in this sense.

Finally, the top 10 provinces in Spain with the highest purchasing power were also presented in the research. Madrid is the highest of the three provinces in the list, while Barcelona follows closely. Valencia did not make it to the top 10, so it is assumed that the purchasing power per capita is significantly lower than those presented.

A factor rating system was used by the author to figure out which location seems to be the most attractive bet for Gruzavik Huesca. The result will be presented in the next chapter.

5.2 Recommendation

The purpose of this subchapter is to provide the case company with a recommendation which is based on the research performed in this thesis. The general conclusion of the results will be presented in the following paragraphs.

When it comes to the financial aspect, Gruzavik Huesca demonstrates a positive financial performance. The company is careful when it comes to managing their assets and their liabilities and it has been able to grow significantly since the company was founded. For this reason, the author believes the company shouldn't have a problem by deciding to open a second location within Spain, as long as Gruzavik Huesca maintains a good cash-flow and is able to manage their assets appropriately.

The research performed by the author suggests that Gruzavik Huesca should carry on a wholly owned geographic expansion, since all the other expansion modes were either not appropriate or simply incompatible with the goals of the company.

A factor-rating analysis was carried out by the author in chapter 4.3 in order to find out which one of the three Spanish provinces Gruzavik Huesca is the most interested in was the most suitable for the expansion. The results of the factor-rating analysis suggest that Barcelona is the most attractive location for Gruzavik Huesca's second facility. However, in the case that the company decides to follow such advice, the author recommends the company to plan ahead and account for all the potential costs that an expansion to Barcelona could bring, especially since it is the province with the highest cost for rent.

In the event that the company does not want to take on a significantly large bank loan for the expansion, another possibility would be Valencia, which has almost the same score in the factor-rating as Barcelona does. Valencia counts with the advantage of being the province with the cheapest rent cost, and unlike Barcelona, the current political issues are also not present.

5.3 Trustworthiness of the research

In order to assure that the data collected and presented in this research is accurate and relevant, the author elaborated a carefully structured research plan with academically approved methods of study.

The validity, credibility and reliability of the information is backed by the fact that the sources are based on academic level books, financial theory books, academic articles, governmental webpages from Spain, and a qualitative interview with someone from the industry. Some of the academic material was borrowed from Haaga-Helia's own library, while some books were retrieved by the author himself. The financial statements were provided by the case company itself, which guarantees the above stated qualities.

The only challenge related to the sources that the author faced when elaborating this research was translating the financial documents from Spanish to English.

5.4 Personal learning

This chapter will serve as a summary of the personal learning process the author went through during the writing of this thesis.

Firstly, writing such a lengthy report serves as a great training tool when it comes to time-management. The author decided to treat the thesis the same way he would treat a business project. The research required planning, dividing the workload into different stages and meeting self-imposed deadlines. The theoretical framework writing stage served the author to test the knowledge gained during his studies, but it also opened doors to new information about the specific topics that were covered in this research. This thesis is also a great example of the application of pure financial theory in a real-life company. The author had the opportunity to interact with a company in an international setting, and to guide it in their future business plans. The interview performed by the author helped the author to polish his networking and personal skills. Other skills such as critical thinking, business understanding and decision-making skills were also improved during the writing of this research.

To conclude, this thesis has served as the perfect learning tool to combine theory and academic knowledge with a real-life scenario involving a real company. The author has faith that the results produced by this thesis serve the company in their future business expansion plans.

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Appendices

Appendix 1. Overlay Matrix

Investigative Questions	Theoretical Framework	Research method	Source	Results
IQ1: What is the financial situation of Gruzavik Huesca S.L.?	Chapter 2.1	Secondary and primary research.	Academic literature. Articles. Company financial statements.	4.1
IQ2 : What are the possible expansion strategies?	Chapter 2.2	Secondary and primary research.	Academic literature. Articles. Qualitative interviews with CEO of the case company.	4.2
IQ3 : Which location is the most suitable for a business expansion?	Chapter 2.3	Secondary and primary research.	Academic literature. Statistics. Qualitative interview with CEO of the case company.	4.3

Appendix 2. Factor-rating analysis

Factor-rating Gruzavik Huesca		SCORES OUT OF 10			WEIGHTED SCORES		
FACTOR	WEIGHT	BARCELONA	MADRID	VALENCIA	BARCELONA	MADRID	VALENCIA
Cost of location	0,3	6	4	9	1,8	1,2	2,7
Turnover per province	0,2	8	7	5	1,6	1,4	1
Purchasing power	0,2	7	8	3	1,4	1,6	0,6
Competitors	0,2	5	4	8	1	0,8	1,6
Vehicles	0,1	8	9	5	0,8	0,9	0,5
Total	100%				<u>6,6</u>	<u>5,9</u>	<u>6,4</u>

Appendix 3. Interview with the CEO of Gruzavik Huesca

Questions discussed:

- What is your view on the financial performance of the company in the last years?
- How would you explain the fluctuations between years present in the financial statements?
- What is the main goal of performing a business expansion?
- Which expansion methods is Gruzavik Huesca most interested in?
- What are your preferred locations?
- How did the company finance itself when the first location was opened?
- Does the company have any financial long-term goals or objectives?
- Is the company planning to hire more staff for the second location?
- What are the most important factors for Gruzavik Huesca when choosing between locations?
- What importance weight and score would you give to said factors?

This interview was conducted in Spanish. The questions and the results have been translated into English in this research. The interview was not audio-recorded by request of the case company. The name of the interviewee is omitted by their own request.