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CAMBRIDGE VCE BUSINESS MANAGEMENT 1&2

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INTERACTIVE TEXTBOOK INCLUDED

VCTA Victorian Commercial Teachers Association

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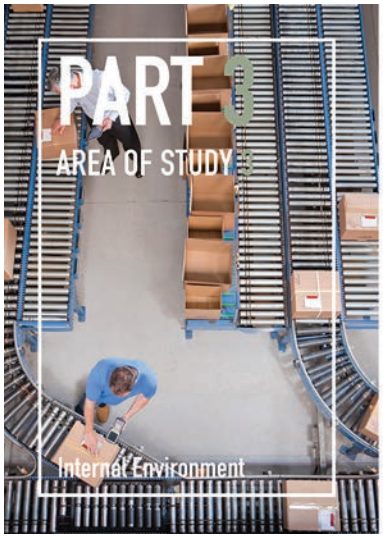
Chapter openers feature four sections introducing the topics being studied:

Overview captures the essence of the content presented.

Key knowledge links to the Study Design and lists the outcomes this chapter will help you achieve.

Key terms gives a summary of the language you need to discuss the topics.

What's ahead presents a visual overview of focus areas.





Section heads link to key knowledge required by the Study Design.

Case studies extend on information to add another layer to your knowledge and understanding.

Each case study is followed by an **analysis** – a set of questions challenging you to apply business management knowledge to a practical business situation.



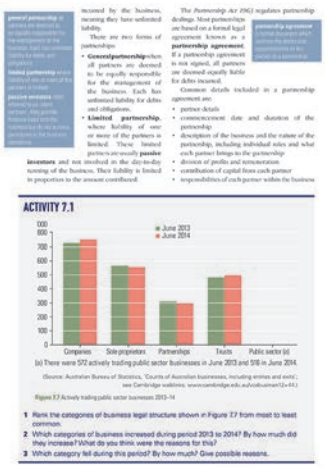


Glossary terms are bolded in the text, defined in the margins and collated at the end of the textbook for easy reference.

A variety of **activities** and research tasks explore key concepts, develop skills, and encourage you to consolidate and extend your knowledge and skills on a wide range of key topics.

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Chapter summaries review the main ideas of the topic to consolidate what you have learned.

Chapter summary questions highlight key areas explored and help reinforce learning.

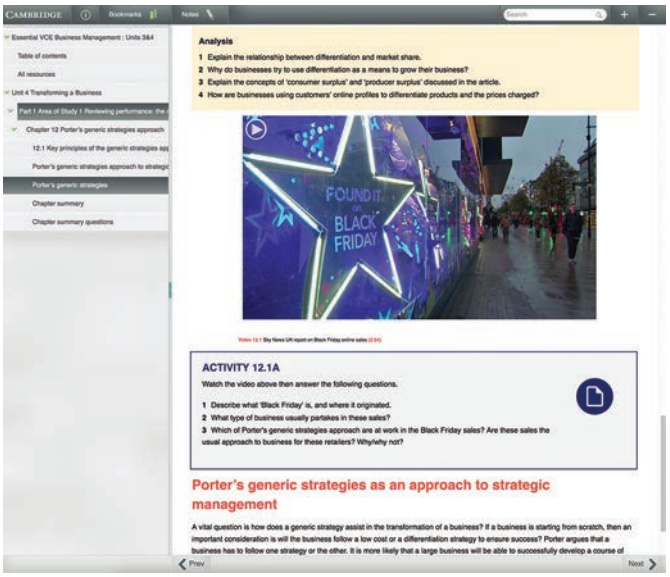
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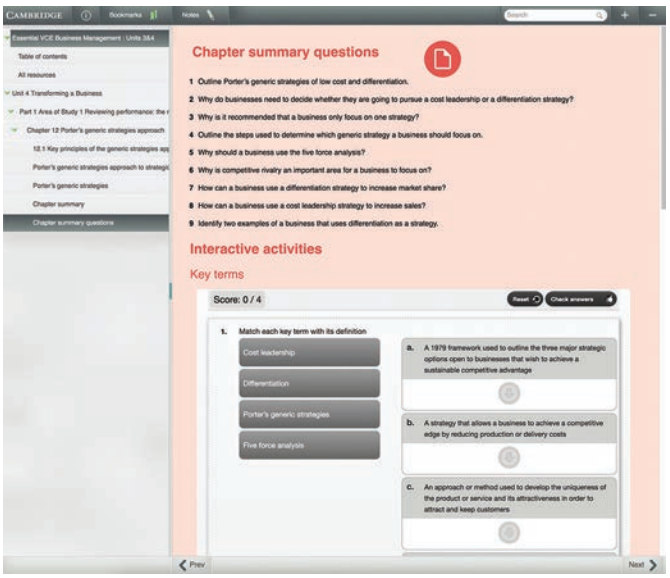
Interactive activities (e.g. drag-and-drop questions) assist recall of facts and understanding of concepts.

Roll-over definitions of glossary terms enhance understanding.



A downloadable **PDF Textbook** is available with note-taking and search functions.

All worksheets and end-of-chapter content are available as **downloadable documents**.



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KEY KNOWLEDGE TABLE

	AREA OF STUDY	CHAPTER	KEY KNOWLEDGE
PLANNING A BUSINESS UNIT 1	Part 1 AOS1 The business idea	1 The business idea – inspiration and planning	• The personal motivation behind starting a business such as the desire for independence both financially and personally, to make a profit and to fulfil a market and/or social need • The characteristics of successful business managers and business entrepreneurs and how these characteristics contribute to business success • Sources of business opportunity, including innovation and entrepreneurship, recognising and taking advantage of market opportunities, changing customer needs, research and development, technological development and global markets
		2 Business concept development – 'getting off the ground'	• The importance of goal setting in business • The importance of business concept development • The relationship between business opportunities and business concept development • Market research and initial feasibility studies
		3 Business contributions to society – innovation and entrepreneurship	• The contribution that businesses make to the economic and social wellbeing of a nation • The methods by which a culture of business innovation and entrepreneurship may be fostered in a nation, such as government investment in research and development, council grants for new businesses, business mentorships, school-based educational programs in entrepreneurship, and the creation of regional business start-up hubs
	Part 2 AOS2 External environment	4 Overview of the macro, operating and internal environments – influence of the macro environment on business planning	• Macro factors that affect business planning • An overview of the key legal and government regulations affecting businesses in the planning stage • Societal attitudes and behaviour such as values, beliefs and trends • Economic conditions such as how interest rates, tax rates, business and consumer confidence levels affect business planning • Technological issues such as how the market may change in the future and developments in technology

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	AREA OF STUDY	CHAPTER	KEY KNOWLEDGE
PLANNING A BUSINESS UNIT 1			• Global issues such as overseas competitors, overseas markets, offshoring labour, exchange rates, patenting, copyrights, trademarks and online sales that affect business planning • Corporate social responsibility issues such as environmental considerations and planning the production of goods and services which are in society's best interests
		5 Influence of the operating environment on business planning	• Customer needs • Customer expectations • Competitors' behaviour • Suppliers and the supply chain such as the resources required for the business and the considerations about where these resources are sourced and how they reach the business • Special interest groups such as environmental lobby groups, business associations and unions
	Part 3 AOS3 Internal environment	6 Resourcing, locating and financing a business	• Business resource needs and factors affecting their choice: natural, labour and capital resources • Business locations and factors affecting their choice • Sources of finance available to establish a business and factors affecting their choice
		7 Business structures and models	• Costs and benefits of purchasing an existing business compared with establishing a new business • Types of legal business structures such as sole trader, partnership, franchise, private limited company, public listed company and the factors affecting choice of business structure • Types of business models such as online business, bricks and mortar business, social enterprise, franchise, importer and exporter
		8 Business support services	• Legal services • Financial services • Technological services • Community-based services • Formal and informal networks • Business mentors
		9 Business planning	• Planning tools such as a SWOT analysis • Features and construction of business plans and benefits of using them • Corporate social responsibility management issues regarding business planning

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KEY KNOWLEDGE TABLE

	AREA OF STUDY	CHAPTER	KEY KNOWLEDGE
UNIT 2 ESTABLISHING A BUSINESS	Part 1 AOS1 Legal requirements and financial considerations	10 Establishing a business – legal requirements	• An overview of key legal and government regulations to be considered when establishing a business, including: – Registration of a business name – Registration of a website domain – Trade practices legislation – Business tax compliance – WorkSafe insurance
		11 Establishing a business – policies and procedures	• The need for policies and procedures to achieve compliance with legal requirements and establish business routines • The importance of establishing bank accounts, financial control systems and record-keeping strategies • The importance of choosing appropriate suppliers, including the benefits and limitations of suppliers which meet the corporate social responsibility objectives of the business • Technological and global issues that may affect decision making when establishing a business, such as generating customer data bases and contacts with overseas suppliers and retailers
	Part 2 AOS2 Marketing a business	12 Marketing the business	• The relationship between marketing, establishing a customer base and business objectives • External (macro and operating) and internal environment factors affecting the establishment of a customer base and brand identity • Market research practices such as data collection techniques, analysis and interpretation • Target market attributes such as market dimensions, segments, consumer trends and behaviour
		13 Extended marketing mix, related marketing strategies and corporate social responsibility issues	• The 7Ps model of marketing: product, price, place, promotion, people, physical evidence and process • Product life cycle: introduction, growth, maturity, decline, extension and the relationship between each of these stages and the choice of marketing strategy

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ESTABLISHING A BUSINESS UNIT 2

AREA OF STUDY	CHAPTER	KEY KNOWLEDGE
		• The features and value of customer relations strategies such as providing quality customer service and establishing customer loyalty programs • Corporate social responsibility management issues with regards to establishing a customer base, such as green marketing
	14 Public relations	• An overview of public relations and its relationship to business objectives • Public relations strategies such as planned and crisis public relations, the importance of maintaining a positive relationship with the customer base and the implications if this relationship is not maintained
Part 3 AOS3 Staffing a business	15 Staffing a business	• The relationship between the performance of staff and achieving business objectives • Identification of the staffing needs of the business such as the knowledge, skills and ideas staff can contribute to the business • The effects that developments in technology may have on staffing needs
	16 Recruitment and selection of staff	• Job analysis and its relationship to job design and related documentation, job descriptions and job specifications • Recruitment methods and the advantages and disadvantages of each method: – Internal such as intranet and word-of-mouth – External such as websites, online recruitment agencies and social media • Selection methods such as interview, psychological testing, work testing, online selection, and the advantages and disadvantages of each • Employment arrangements such as full time, part time, contractual and casual
	17 Expectations and legal obligations	• Employer expectations such as contracts of employment, business loyalty and terms of notice • Employee expectations such as conditions of employment, remuneration, job security and work–life balance • Legal obligations for staffing such as occupational health and safety (OH&S), equal employment opportunity legislation and the Workplace Gender Equality Agency • The purpose and common methods of employee induction
	18 Global and corporate social responsibility issues	• Global issues such as overseas recruitment • Corporate social responsibility issues regarding establishing the staffing of a business

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KEY TERMS

Term	Definition
Analyse	Break into parts and examine; e.g. essential components in decision-making or problem-solving process.
Apply	Use theory to help in a practical example. Show or make links, relationships or connections.
Compare	Bring together for noting the points of likeness and difference; e.g. compare management theory and practice, compare the management style of manager A with manager B.
Define	Accurately state or explain the precise meaning of a word, phrase or term.
Describe	Provide a detailed account of something.
Discuss	Examine an issue or response and state arguments or opinions covering both sides of the issue or response involved in the stimulus material.
Distinguish	To recognise or show points of difference between two or more concepts of items. Note the distinctive characteristics.
Establish criteria	Determine criteria or measures to conduct an evaluation.
Evaluate	Apply weighted criteria to the relative strengths and weaknesses of the arguments raised in the stimulus material, as well as being able to provide your opinion.
Explain	To make the meaning of something clear, detailed and understandable
Identify	Determine or establish as being a particular thing. To determine the key characteristics or features.
Illustrate	Provide an example to support your statement/comment.
Interpret	Use knowledge and understanding to explain or make clear the meaning of something.
Label	To describe or designate; e.g. specific management style.
List	Enter in a list with others.
Outline	Provide a brief description of the terms or topic.
Propose	To put forward (a plan or suggestion) for consideration by others.
Provide reasons/ justify	Justify your choice or answer. Give valid reasons or evidence to support an answer or conclusion.
Recognise	To identify the existence of something or someone; e.g. the contribution of businesses within the local, national and global markets.
Recommend	To be able to present and state facts, ideas or feelings appropriate to the issue or response covered in the stimulus material.
Record	To write something down or use some other permanent form so that it can be used or seen again in the future.
Research	To investigate, explore or study in order to establish facts and reach new conclusions.

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Term	Definition
Select	To choose one in preference to another.
Share	To have or use something at the same time as someone else.
Understand	To interpret, perceive or view (something) in a particular way.

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ABOUT THE AUTHORS

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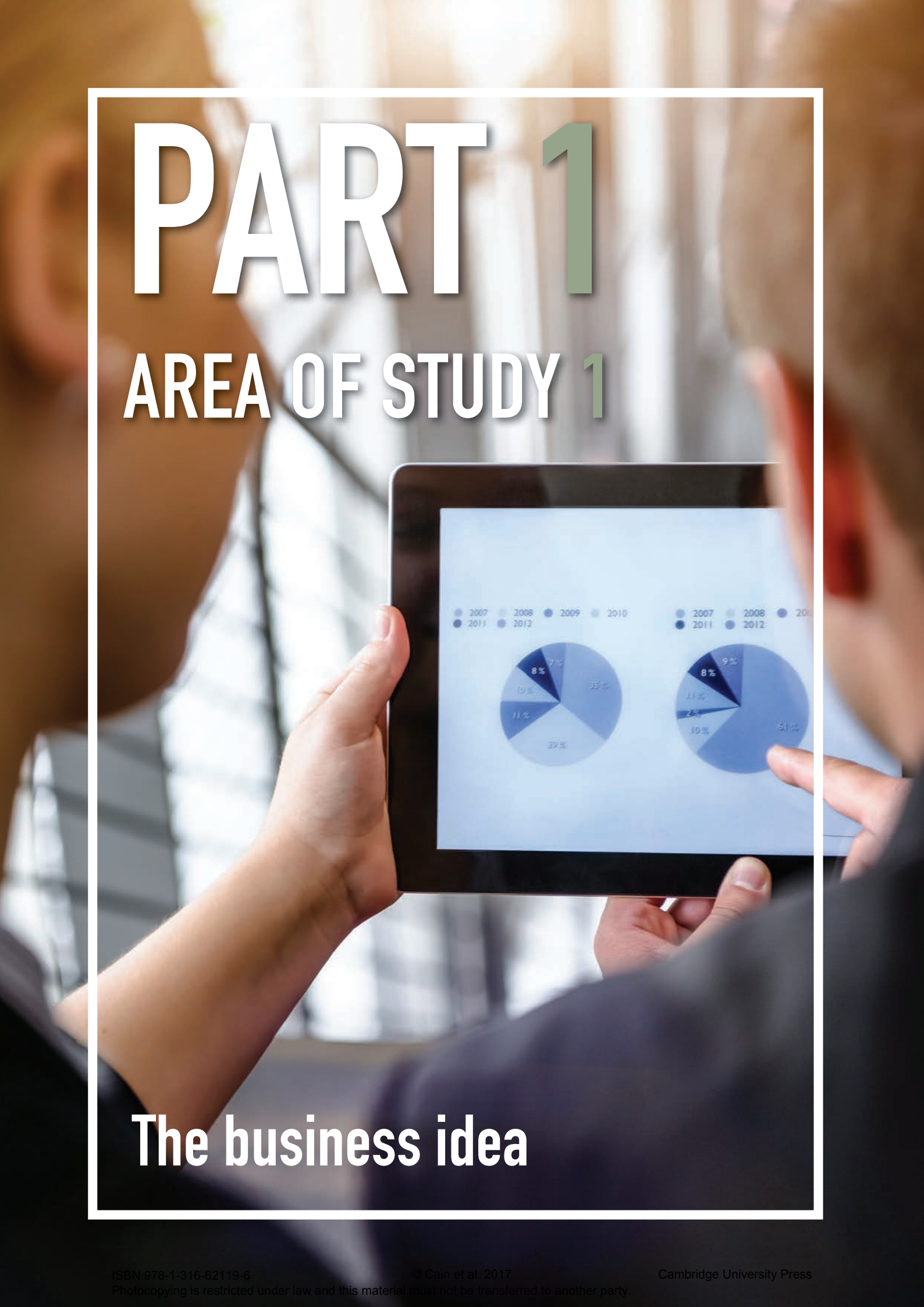
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UNIT 1
PLANNING A BUSINESS

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PART 1

AREA OF STUDY 1

The business idea

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CHAPTER 1

The business idea – inspiration and planning

Key terms

- brainstorming
- competitive advantage
- decision making
- demographic
- entrepreneurship
- gap in the market
- innovation
- qualities
- skills
- SWOT analysis

Overview

In this chapter students will initially examine the range of personal motivations behind a business start-up. The personal characteristics and qualities possessed by successful entrepreneurs will follow. A self-appraisal of personal suitability to operate a small business is also conducted. Students will also become acquainted with different sources of business inspiration for innovative business ideas and opportunities in the market.

Key knowledge

Students will learn the following about small business decision making and planning:

- The personal motivation behind starting a business such as the desire for independence both financially and personally, to make a profit and to fulfil a market and/or social need
- The characteristics of successful business managers and business entrepreneurs and how these characteristics contribute to business success
- Sources of business opportunity, including innovation and entrepreneurship, recognising and taking advantage of market opportunities, changing customer needs, research and development, technological development and global markets.

What's ahead

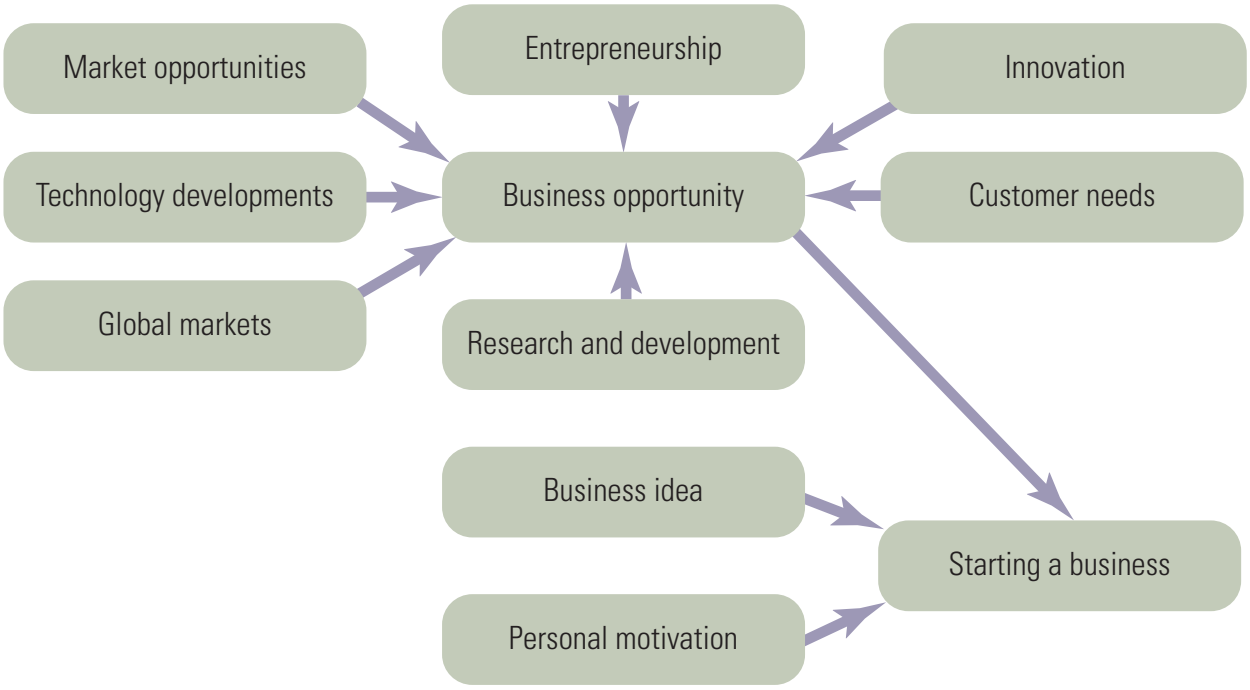


Figure 1.1 Factors to think about when considering a business opportunity

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1.1 Starting a business

Effective **decision making** is an integral component of a successful business operation. Managing a business involves making decisions about all aspects of the business. To succeed, good decision making is vital from business inception, and this continues throughout the life of the business.

decision making a multistep approach whereby a selection is made between a range of different alternatives

Many key decisions are made prior to business commencement. These include:

- personal suitability to start and operate a business (personality type, skill levels, experience, knowledge and personal traits). This involves asking: Is this business right for me?
- where to look for inspiration for business ideas
- the business concept (type of business).

Assessment of personal suitability to start a business

The first step for a person starting a business is to conduct a self-evaluation focusing on the following:

- Personal motivation, or reasons, for going into business must be examined. It must then be ascertained whether or not these reasons are valid.
- A self-appraisal of personal skills, abilities and personality type should be completed. This will demonstrate whether there is a reasonable chance of success.
- Personal and business objectives must be established and clarified.

Personal motivation behind starting a business

People decide to start a business for a variety of reasons, including:

- a desire for independence and to be their own boss. Being a business owner means being in control and assuming responsibility for decision making. A self-employed person has freedom to innovate and problem solve without needing to ask a 'boss' for permission. Many people find it frustrating to work in environments that do not have this freedom or allow personal independence.
- potential wealth and financial independence. Business ownership is often viewed as a path to wealth.
- self-worth: many see business ownership as a means of recognition as a successful person
- potential for flexible working hours and conditions: a business owner may be able to choose their hours of work and have flexibility in where they work (e.g. from home)
- to overcome unemployment
- to follow family tradition
- to fill an identified gap in the market. Many small businesses are founded because someone recognised that people had an unfulfilled market need, meaning that they simply wanted to buy something not yet available on the market.
- to fulfil a social need. Social enterprises are businesses that trade for community benefit, selling products for the sole purpose of delivering social or environmental benefit to communities. For many people the motivation behind starting a business is to give back or provide a service to benefit society. Social enterprises operate using a business model. They aim to create profits. Unlike other business models, however, these profits are distributed to social causes, not shareholders/owners. Key motivations behind the establishment of a social enterprise are usually one or more of the following:
  - to provide employment, training and support for disadvantaged groups
  - to meet a community need by providing products not currently produced, often because they are not profitable
  - to generate profits for redistribution to social programs or charities.



Figure 1.2 Businesses are often established to meet a community need.

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All of the above reasons are valid; however, a person starting a business must assess whether or not they are doing so for the right reasons. They must clearly identify and evaluate:

- their personal objectives in starting a business
- the things that are important to them (family, lifestyle, interests, wealth and status)
- whether the business idea under consideration can realistically satisfy their personal objectives
- if operating the business will allow them to access things that are important to them. For example, a person considering opening a business requiring them to work 80 hours a week, and who also sees family and lifestyle as personal priorities, will find the business simply will not allow them to achieve these priorities. A person who values wealth and status, and who is prepared to work long hours, would be better suited to that particular business.

A person starting a business must assess if personal goals, needs and wants can be realistically met through the business.

ACTIVITY 1.1

Research a social enterprise.

1 Select one of the following social enterprises:

- Ceres Fair Food
- Swags for Homeless
- Pollinate Energy
- Asylum Seeker Resource Centre Food Justice Truck
- Melbourne Farmers Markets

2 Using the internet, research and answer the following:

a When was this enterprise founded and by whom?
b What were the original aims of the founders?
c What activities does this enterprise engage in?
d Who benefits? How do they benefit?

Motivation for starting a business

The following case studies provide two examples of motivations leading to the establishment of a business.

CASE STUDY 1.1

Synergy Repairs: to fulfil a social need

Synergy Auto Repairs is a North Melbourne-based smash repair workshop that was established in 2014 by Mission Australia. This social enterprise was created in partnership with the National Motor Vehicle Theft Reduction Council (NMVTRC), and offers on-the-job training while building the careers of its participants by catering to their interest in automobiles.



Figure 1.3 Synergy Repairs

This initiative was created to provide work experience for troubled youth, specifically those who have had previous concerns with the law.

Participants are mentored by auto industry professionals during the six-month program, giving them the skills they need to be fully accredited in the industry, and leading them to job opportunities such as panel beating and spray painting. Synergy continues to aid and support its participants by giving them practical experience and skills to join the workforce.

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CASE STUDY 1.1 continued

Analysis

1 Describe the products sold by Synergy Repairs.

2 Identify and describe two factors that indicate Synergy Repairs is a social enterprise.

3 Describe the likely motivations behind the establishment of this business.

CASE STUDY 1.2

Double Shot Express'o: to fulfil a personal need



Figure 1.4 Double Shot Express'o

These guys are the very definition of a no-nonsense espresso bar: Hole in the wall, minimal food & absolutely cranking espresso.

Starting with their first site on the Pacific Highway at Belmont, NSW, they have expanded to two more locations also on the highway at Swansea & Charlestown. The creation of two brothers Chad & Luke, along with their mum, Julie…

Chad: I'm a motor mechanic by trade and ended up building trains – putting the engines in diesel locomotives. Then I decided to get a coffee van with my brother, I thought it looked pretty cruisy and the lifestyle looked good.

Julie: Ha! So he thought…

So, what motivated you to get into the coffee game?

Chad: I was sick of working 6 days a week, 12 hours a day for someone else. I actually didn't like coffee to start with, until my brother got his coffee van. He had been running his coffee van for about 4 years, and then we did that for another 2 years, until the shop started to get too busy and we sold the van.

Julie: I think Luke first saw the market and said: people just want good coffee in a hurry. And this (the Belmont store) is actually where it all started, the hole in the wall thing.

People talk a lot about 'lifestyle' when starting a coffee business, but you seem to be able to pull it off. What's your secret?

Chad: The secret is to have a good manager (looks at Julie and laughs).

Julie: There's the 3 of us. I couldn't do it on my own.

Chad: We've all got our own things that we do. If [it] was just any one of us, it wouldn't be a lifestyle, we'd be going home from work and doing all the finances, doing all the maintenance and stock.

The locations you've gone for seem to be the ones that other people have overlooked, what was it that you saw in them?

Chad: They're all on the Pacific Highway, which has a lot of traffic. A lot of people work north of here, so we're getting people from Belmont, Swansea, and the Central Coast. Previously, they could go to Maccas or a take-away shop, but not a place that specifically focussed on espresso coffee…

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So, you were targeting commuters?

Chad: Basically yes, tradies and people commuting to work.

Julie: When Chad worked as a tradie, he recognised that these guys want coffee really early. It's not what you personally want, you've got to know your customers. It's been a conscious decision not to be like a cafe. …

The locals are loving your coffee. How do you keep up such a high standard with your team?

Chad: We're constantly watching them, we try and make it so that one of us is always working with them until we know that they can do a good job and that they want to do a good job.

What was the biggest challenge you had to overcome to get to this point?

Chad: I would say, finding the right staff that actually have a passion for making coffee. Everyone says they know how to make coffee, but there's not that many that know how to do it well.

(Source: Peaberrys website, 'Café case study: Double Shot', 26 October 2015.)

Analysis

1 Describe what Double Shot sells. How is it different from other coffee providers?
2 Explain how the owners of Double Shot were able to maintain their lifestyle while still running their business.
3 Identify the gap in the market found by the owners of this business.
4 Identify the likely motivations behind the establishment of the business.

Now look at the businesses described in Case studies 1.1 and 1.2.

5 Identify two similarities between them and the motivation behind the establishment of each.
6 Identify two differences in the motivation behind the establishment of these businesses.

1.2 Skills and qualities of successful business operators

To be successful in business requires numerous **skills**. Some of these will be specific to the type of business; others will be generic. They include:

skills the ability to do something well, gained through training and experience

- Communication skills: essential for dealing effectively and successfully with the range of people with whom the business comes into contact, such as staff, customers, suppliers, professional advisers and government agencies.
- Technical skills and appropriate qualifications: necessary to successfully complete tasks within the business. For example, a lawyer requires legal skills, knowledge and qualifications, a swimming school operator requires knowledge about how people learn to swim, and a hairdresser requires skills and trade qualifications in cutting and colouring hair.
- Planning and organisational skills: required to manage workflow and time effectively. It is



Figure 1.5 Effective communication skills are essential for business success.

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Figure 1.6 A business owner will require the ability to negotiate with a range of people.

important to keep up to date with paperwork and organise workspace effectively.

- Accounting and financial skills: necessary to monitor the financial position of the business. Good financial management is essential.
- Marketing, sales and promotional skills: required to promote the business and products to potential customers. A business operator must be able to identify who their customers are and devise ways to get them to purchase the product the business is selling.
- Administrative skills: required in establishing effective and efficient procedures within the business so that processes run smoothly.
- Analytical skills: the ability to analyse or study the nature of a given situation or set of circumstances.
- Time management skills: the ability to use time, which is a limited resource, effectively. There must be an ability to focus on tasks that directly move the business towards achievement of its objectives in a time-efficient and effective way.
- Computer skills: include knowledge of relevant software packages.
- Negotiation skills: are important when doing deals with clients/customers, suppliers or anyone with whom the business comes into contact.
- Leadership skills: someone starting a business may be required to effectively lead both staff and the business as a whole. They may need to oversee teams of people, and inspire and motivate them to work towards achievement of business goals and objectives. This requires development of trust, plus excellent communication skills.

Figure 1.7 A small business owner will require marketing skills.



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ACTIVITY 1.2

SKILLS AUDIT

Refer to the list of personal skills and qualities below. Consider which of these you think you already have, which you need to acquire, and how you could acquire those you are lacking.

Place this information in a table (such as the one below) in your workbook.

The first skill is completed for you as an example.

Skill	Why is this skill necessary in small business?	Self-evaluation – positives	Self-evaluation – negatives	Strategy for developing expertise in this area
Communication skills	• To deal effectively with all aspects of the business, including selling, staff, government agencies, suppliers	• I am good at communicating with my peers on a one-to-one basis • I write very clearly • I speak two languages	• I need help when communicating with large groups • I do not read the body language of other people well	• TAFE course • Read book on body language • Ask a friend for assistance
Technical skills				
Analytical skills				
Financial management skills				
Leadership skills				

Table 1.1 Skills audit table

ACTIVITY 1.3

Identify the skills required to successfully complete the following business-related tasks:

1. Manage staff on a day-to-day basis.
2. Ensure that all financial obligations are met.
3. Select and operate an appropriate computer program.
4. Successfully make sales.

Characteristics of successful business managers and business entrepreneurs

Certain personal **qualities** are recognised as being advantageous to starting a business. These include:

- *Preparedness to take risks*: a start-up business requires an owner to risk personal assets. He/she must be able to live with the possibility of failure. Calculated risk takers who do their homework, and who are constantly looking for advice and mentors, are usually more successful. Fear of uncertainty and potential failure is often a deterrent to establishment of a business.

qualities
personal characteristics of an individual that make up their personality and determine how they act in a situation

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- *Ability to think outside the square*: people able to devise original ideas, who can come up with different ways of approaching things, and who recognise opportunities others cannot, are more suited to starting a business. Successful business operators are often rule breakers who defy conventional wisdom, engaging in smart, aggressive risk taking.
- *Innovative thinkers*: successful business operators are usually able to come up with new ideas, then develop and improve them. This often requires creativity and inquisitiveness.
- *Resilience*: for success, a business operator must be prepared to persist and persevere over the long term. Patience and determination are required to see things through. Establishment of a successful business may require years of hard work. Success rarely happens overnight.
- *Vision*: the ability to spot an opportunity and imagine something that others have not. This requires curiosity, an open mind and listening skills.
- *Confidence*: self-belief and enthusiasm are business assets. Successful business development requires a person to possess the self-assurance that they have something the market needs or wants to buy, plus the confidence that they can provide it.
- *Ability to work independently* without requiring guidance (self-starter): successful entrepreneurs are often intrinsically motivated to achieve personal goals, enjoy challenges and are naturally competitive.
- *Willingness to accept responsibility*.
- *Ability to set goals and work towards achievement*.
- *Flexibility* and ability to change direction when required: important when responding to changing tastes, consumer demands and alterations in market conditions. A successful business is able to change course quickly when things do not go to plan. To do this, the business owner must be nimble, adaptable and able to make decisions both quickly and adeptly.
- *Ability to learn from mistakes*.
- *Capacity for hard work*.
- *Ambition*: needed to achieve long-term goals.
- Ability to be *practical*: be a 'doer', rather than someone who theorises.
- *Ethical*: in the long term, clients and customers will lose interest in those who lie and cheat. Long-term business success therefore requires an ethical approach.

Figure 1.8 Successful business owners have a number of important characteristics.



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ACTIVITY 1.4

Read the descriptions of the qualities and skills of these potential business owners and answer the questions that follow.

1. Surjeet is a qualified chef who has worked in an Indian restaurant for five years. He is highly regarded in the industry and is thinking of opening his own restaurant. He has a temper and often loses his cool with customers and fellow staff members alike. His wife works in marketing. Surjeet's friends say that he is a very determined person who wants to be a multi-millionaire within 10 years.
2. Tina is a professional dancer with extensive experience appearing in stage and television shows. She is very quiet and lacks confidence, but is noted in the industry as an excellent dancer. Tina is extremely shy about speaking to groups of people, but loves children. She has a teaching qualification.
3. Mick has just left school at the end of Year 11. He has good computer skills, is confident and spends his days surfing the internet. He wants to set up his own computer repair business. He failed English in his last year of school.
4. Lydia is sports mad. For eight years she has worked in a chain of stores that sells sporting shoes, but has recently become very disillusioned after being passed over for promotion in favour of the store owner's daughter. Lydia feels that her selling skills and technical expertise in fitting sports shoes are better than anyone's in this industry. Her partner is currently unemployed.

QUESTIONS

1. Identify the skills Surjeet possesses that could help his new restaurant succeed. What personal qualities could hinder his chances of success? Explain.
2. Assess if Tina should start her own dance school. Identify the skills she has that would help her. Discuss her major drawback.
3. Identify the skills Mick should try to acquire before he starts his own computer repair business. Make a recommendation on where he can acquire these skills.
4. Propose the action you believe Lydia should take. Justify your answer.
5. Suggest and justify an appropriate type of small business for each person.

CASE STUDY 1.3

Successful entrepreneurs

Australia is a nation of successful entrepreneurs. We have seen innovation and initiative, with start-ups that are leading the way. It appears that starting a new business and seeing it through to completion has become the Australian dream.

However, there a number of qualities required to achieve success in starting a new business. These qualities include but are not limited to: curiosity, vision, self-belief, perseverance and passion.

- It is important to ask lots of questions. This will ensure details are not overlooked and the potential of every opportunity is explored. **Curiosity** will help entrepreneurs to discover and innovate.
- The ability to visualise the future success of a new business is a powerful tool. Entrepreneurs who

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CASE STUDY 1.3 continued

lack this **vision** will find it difficult to see clearly and may allow obstacles to blur their sight.

- Confidence and **self-belief** should not be underestimated in the success of a business. Entrepreneurs need to believe in the product or service they are providing as they may experience hurdles along their journey to success.
- When the business becomes difficult, the ability to keep going will help entrepreneurs to work towards making their vision a reality. The initial steps in starting a business are not particularly difficult – an idea and a registration fee – but working through the next steps may require **perseverance**.
- Finally, **passion** and a love for the product or service are imperative when getting stuck in the grind of having to turn over cash and attain a profit.



Figure 1.9 Australia is a nation of entrepreneurs.

(Source: Based on One Shift website, 'The 5 essential qualities of a successful entrepreneur', 17 February 2014.)

Analysis

1 List and summarise the five essential qualities of a successful entrepreneur as suggested by the author of the article.

2 Identify at least five other qualities you believe a successful entrepreneur requires. Justify your suggestions.

3 Select and research one of the following successful entrepreneurs:

- Janine Allis
- Lindsay Fox
- John Singleton
- Estée Lauder
- Richard Branson

a Describe how each founded and grew their business.

b Identify the qualities and skills shown by the entrepreneur in doing this.



Figure 1.10 Richard Branson, a successful entrepreneur, is the founder of Virgin Airlines.

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ACTIVITY 1.5

Watch the movie *Joy* (2015) starring Jennifer Lawrence. This is the story of Joy Mangana, a self-made millionaire who created her own business empire.

1 Identify and discuss the skills and qualities that helped Joy Mangana establish and develop such a successful business enterprise.

2 List 10 things you learnt about establishing a successful business through watching this film.

1.3 Sources of business opportunity

Innovation and entrepreneurship

Innovation, or new, improved products or methods of doing things, is often the impetus for a new business venture. An innovation can be a whole new product or a variation on an existing product that improves it, such as colour, design or features. It could also be a different way of taking a product to the market, such as home delivery or perhaps even delivery by drone!

Innovation may come from scientific research, changes in work practices and often improvements in technology. Original thinkers are often sources of innovation.

Entrepreneurship involves designing, launching and running a new business. Entrepreneurs are often innovators. Some small business operators are referred to as entrepreneurs. An entrepreneur combines an element of risk taking with their own knowledge, assets and skills in order to make a profit.

Successful entrepreneurs are usually able to think innovatively and/or identify innovations that have potential for success. They are able to exploit innovation for business success. Innovation is the tool of the entrepreneur, the means by which they can exploit change. When looking for innovative ideas an entrepreneur might examine any of the following:

- New products: these are the most common form of innovation.
- New services.
- New production techniques may offer reduced costs of production by either allowing a product

innovation generally refers to changing or creating more effective processes, products and ideas, and can increase the likelihood of a business succeeding

entrepreneurship the process of designing, launching and running a new business. It is the capacity and willingness to develop, organise and manage a business venture along with any of its risks in order to make a profit.



Figure 1.11 Innovation requires original thinking combined with vision.



Figure 1.12 Shanaka Fernando founded social enterprise Lentil as Anything.

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Figure 1.13 Successful entrepreneurs possess distinctive qualities.

to be made for a lower cost or creating a more complex product.

- New marketing techniques: allow a product to be promoted in a different manner. Consumers will therefore be more likely to notice the marketing campaign.

Recognising and taking advantage of market opportunities

A successful business entrepreneur is able to see opportunities others have failed to recognise. The source of most business opportunities is change. As society's needs and wants change and evolve, so too do the types of goods and services people want to purchase. Customer needs and wants continually change and evolve. Some examples of this are:

- If the type of people (**demographic**) moving into an area is changing, so too will the products that market seeks to buy. If young families come into an area, demand for child care services or children's clothing will increase. Similarly, if an area becomes 'gentrified', as most inner Melbourne suburbs have in recent times, demand for coffee shops, gymnasiums and pet-minding services is likely to increase.

demographic the statistical data of a population, especially those showing average age, income or education

- If government changes a law, often a business opportunity emerges. A change in laws regarding superannuation might see an increased demand for financial planning businesses.
- As lifestyles change so does consumer demand. For example, increased community interest in diet and exercise has seen demand for personal training, dieticians and weight loss services rise.
- Many entrepreneurs have converted a hobby into a money-making opportunity. Celebrity chefs and fitness experts are examples of people who have recognised and taken advantage of market opportunities.
- **Brainstorming** and **SWOT analysis** are tools for creative problem solving, identifying strengths and weaknesses, and often generating ideas for new businesses or products. Market opportunities aligning with the capabilities of the person or business are recognised.

brainstorming a method for generating new ideas and solutions through spontaneous contributions based on intensive and freewheeling group discussion

SWOT analysis an assessment of the internal strengths and weaknesses and the external opportunities and threats for a business in a given situation

- Observation and research – an entrepreneur looking for inspiration is well advised to look around and make observations regarding how things could be done better, or what things are not being done at all. Often the simplest ideas and observations can be the beginning of a business. For example, noting an occasion when someone is unable to obtain a specific product or service at the exact time required is often a first step.
- The media is often a source of ideas for a business concept. Regular observation of the media can provide inspiration and innovative ideas. TV shows specifically on entrepreneurship such as *Dragon's Den* or *The Apprentice* may be useful. Similarly, news and current affairs articles often report changes in consumer needs or fashions. For example, a study about incidence of childhood obesity may be the impetus for a healthy fast-food outlet or a gym designed for children. New business concepts such as franchises often appear in the media as well.
- Trade shows and exhibitions are sources of ideas. These provide opportunities to see new products, obtain ideas and maybe opportunities for the rebranding of existing products. They also provide opportunities to make important contacts and to network.

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Figure 1.14 Michelle Bridges uses her personal fitness experience to run her business.

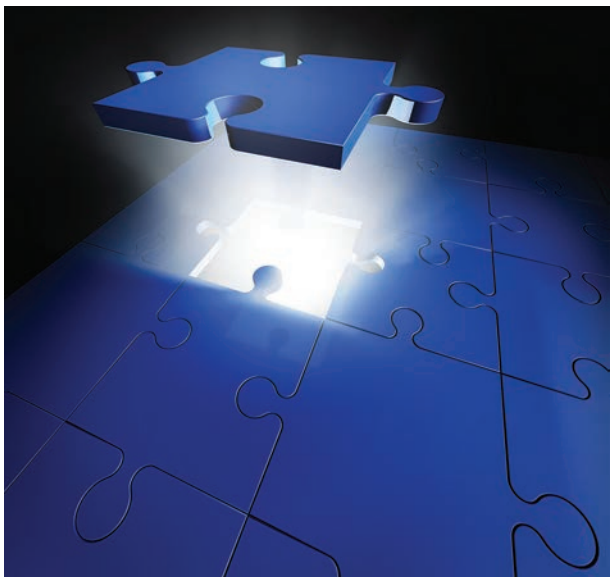


Figure 1.15 A gap in the market represents something that people wish to purchase but is not available.

Changing customer needs

An entrepreneur is able to recognise signs indicating customer needs and wants. A business may spot a change creating a favourable condition that the business can take advantage of, a changing trend or an increasing demand for a product by a demographic group that has yet to be recognised by its competitors. Often such a change creates a gap between customer demand and supply. This is a result of people changing the types of products they wish to buy. Successful businesses recognise changes in consumer demand and take advantage of these. This is known as recognising a **gap in the market**.

gap in the market an opportunity for a business to enter into an area of the market not currently being serviced

ACTIVITY 1.6

1 Identify two potential ideas for a new business that could arise from each of the following:
   - **a** A news report reveals that home burglaries are increasing.
   - **b** A government study finds a link between fast foods and increased childhood obesity.
   - **c** Melbourne is chosen as the venue for a major sporting event.
   - **d** Studies find that many people do not have sufficient time to prepare healthy meals.
   - **e** A significant increase occurs in the birth rate.
   - **f** Statistics show a significant number of retired people living in an area.







Figure 1.16 Trade shows are often a source of business ideas and inspiration.

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Figure 1.17 Research is often required in order to identify a viable business concept.

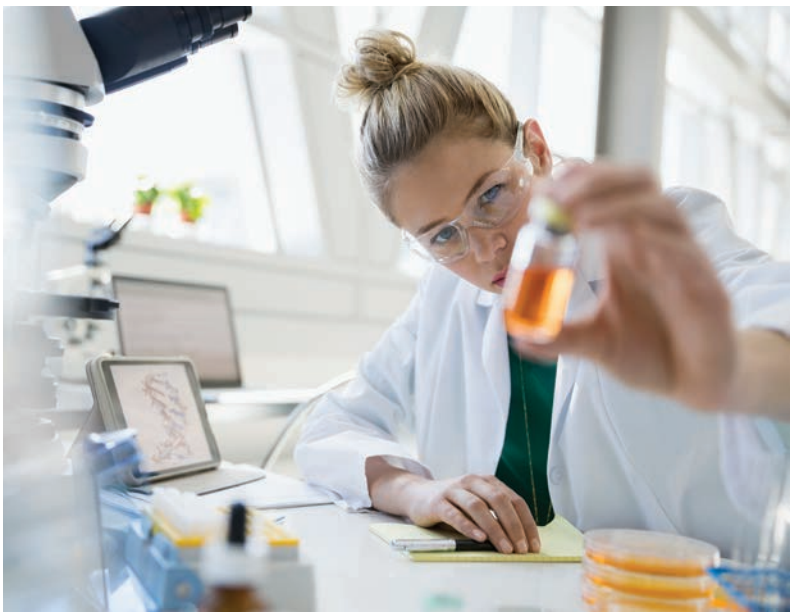


Figure 1.18 Research and development is often a source of innovation.

Global markets

Looking overseas can reveal innovation and ideas that have not yet reached Australia. The first person to import a new idea from overseas can profit very handsomely. Often franchises that have been successful overseas are successfully introduced into the Australian market.

Moving in the other direction, there have been several Australian entrepreneurs who have realised the value of Australian goods and services and taken these overseas to build successful businesses; for example, a handful of Australian entrepreneurs are making it big in New York with a surprising export. Following on from polymer bank notes and Google Maps, the next big Aussie export is our coffee culture. A dozen or so Melbourne-style cafés have opened up over the past decade in the Big Apple, attracting the recent attention of the *New York Times* with their mix of top baristas, good food and quality service. The owner of one such café has said the idea to open up an establishment came from his move to New York six years ago. It was only then, he said, that he realised how unique Australia's urban coffee culture is. A far cry from 'throw another shrimp on the barbie', New Yorkers are falling in love with flat whites, piccolo lattés and avocado smash.

It is also wise to research new technologies and research and development occurring overseas. Innovation such as new products or designs can be imported.

Research and development

Research and development is often the source of business ideas. Inventors and entrepreneurs are always looking for partners in business concept development. It is also possible to identify new products and technologies for potential development through observation of a particular target market and an analysis of products that they might be interested in. For example, increasing community concerns about personal security could translate into a market for security products and services, such as electronic position indicating radio beacons (EPIRBs).

Another option is to research and develop ways of adding value to an existing product for consumers. An example of this is providing environmentally friendly options for a cleaning product or changing packaging to use biodegradable materials.

Technological development

The development and impending availability of new technologies is often a source of ideas for a new business. For example, the growth and development of the World Wide Web, coupled with the hand-held devices capable of mobile internet access, has enabled the formation and development of many new business ideas. Airbnb and Uber are two examples. The development of drone technology is another example offering numerous possibilities for business application.

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ACTIVITY 1.7

1. Conduct an internet search for 'business ideas drones'.
2. Using the results of your search, list the business possibilities that have emerged since the development of drone technology (e.g. delivery services).
3. Select one of the possibilities that you believe has potential and describe why you think this.

Characteristics of a good business opportunity

A brilliant piece of technology or an innovative idea is not the only criteria for a potentially successful business idea. There must also exist a market, or group of consumers who are prepared to purchase the product at a price that will provide a profit to the business. For a business concept to be an attractive proposition for development, there must be a strong possibility of a return on the investments made. In other words, the potential for income to be made must exceed the costs required to develop the business idea. The following criteria must exist:

- Real demand: a new product or business concept will only be successful if it responds to unsatisfied needs or requirements of customers who are both willing and able to purchase it. In other words, there must be enough customers willing to purchase the product at a price that will generate a profit for the business. Market research is required in order to ascertain this.
- Return on investment: there must be potential for sustainable, timely and acceptable returns or rewards for the risk and effort required in developing the business concept. In other words, it must be a worthwhile investment.
- Market competitiveness: the product or business must be equal or better than available products on the market from the customer's viewpoint. It must be better than the competition and have some type of **competitive advantage**.
- Objectives of the entrepreneur taking the risk must be feasible/achievable via the business concepts.
- Resources and skills required for the business to be successful must be freely available. For example, are raw materials available? Are there sufficient qualified and trained staff available? Can spare parts be accessed?

competitive advantage point of difference or superiority held over one's competitors

It is important to look critically and impartially at a business idea when determining whether or not it is worth investing the required time and money. It may be difficult to remain impartial about an idea you are passionate about. Therefore, a thorough analysis of the potential feasibility of the business is essential. (See Chapter 2 for more on this.)

Opportunities for Australian business

There are always opportunities for potential business development. The trick is to identify and locate them. Successful entrepreneurs have an ability to do this. They are constantly looking for innovative ideas that can be translated into ideas for new business.

Changes in lifestyles, fashions, trends, laws, economic situations, demographics and world events are all indicators of potentially altered consumer demands and buying habits. A business operator should always keep an ear to the ground.



Figure 1.19 Australia's warm climate has led to the establishment of many popular ice cream business, including the Cold Rock Ice-Creamery and Trampoline.

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Chapter summary

- A potential business owner/operator must initially assess and evaluate:
  - their personal motivation and goals for entering into business and the validity of these
  - personal skills and qualities and whether these are applicable in business
  - personal and business goals and their compatibility.
- Reasons for going into business may include:
  - desire for independence
  - potential to make money
  - self-worth
  - flexible working hours and conditions
  - to overcome unemployment
  - family tradition
  - to cover a market gap
  - to fulfil a social need.
- Successful business operators often have several of the following skills:
  - communication skills
  - planning and organisation skills
  - financial skills
  - analytical skills
  - time management skills
  - IT skills
  - negotiation skills
  - leadership skills.
- The following personal qualities are often an advantage to business owners:
  - ability to think outside the square and innovatively
  - resilience
  - vision
  - ability to work independently and accept responsibility
  - flexibility
  - ability to learn from mistakes
  - willingness to work hard
  - ambition
  - ethics.
- Sources of business opportunity may include:
  - innovation and entrepreneurship
  - changing demographics
  - legal changes
  - changes in consumer tastes, lifestyle and income
  - a hobby/interest
  - brainstorming/SWOT analysis
  - observation and research
  - media
  - trade shows
  - a recognisable market gap
  - global markets
  - research and development
  - technological developments.
- A viable business opportunity involves:
  - real demand for a good/service
  - a return on investment
  - market competitiveness.

Chapter summary questions

1 Define the following concepts:
- **a** entrepreneur
- **b** innovation
- **c** gap in the market
- **d** communication skills.

2 List and explain five possible motivations for going into business.

3 Explain how the motivation for commencement of a social enterprise might be both different and similar to the motivation for entering into another type of business.

4 Outline an example of when an entrepreneur or business operator would require the following:
- **a** communication skills
- **b** negotiation skills
- **c** financial skills
- **d** marketing skills
- **e** technical skills.

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5 Explain the connection between entrepreneurship and innovation.

6 Write a paragraph describing five qualities usually found in successful entrepreneurs. Explain how each quality would be advantageous when starting a new business.

7 Explain how each of the following changes in an area could create an opening for a new type of business:

   a A large number of families with young children move into an area.

   b A new hospital is built in an area.

   c A large number of retirees move into an area.

Extension questions

1 Research a successful Australian business. Identify:

   a when the business was founded and by whom

   b the probable motivation for commencing the business

   c the reasons why this business has been successful.

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CHAPTER 2

Business concept development – 'getting off the ground'

Key terms

- B2B
- B2C
- business concept
- business goals
- business objectives
- feasibility study
- intellectual property (IP)
- market research
- mission statement
- values statement
- viability
- vision statement

Overview

The process of establishing a business can be lengthy. Much time and effort is usually devoted to the development of the business concept. Once an idea with potential for further development as a business is identified, the next stage is to progress to business concept development. This begins with market research, followed by a feasibility study. Following this, business goals need to be set and a formal business plan written.

Key knowledge

In this chapter students will learn the following about planning a business:

- The importance of goal setting in business
- The importance of business concept development
- The relationship between business opportunities and business concept development
- Market research and initial feasibility studies.



Figure 2.1 Developing a business concept – brainstorming

What's ahead

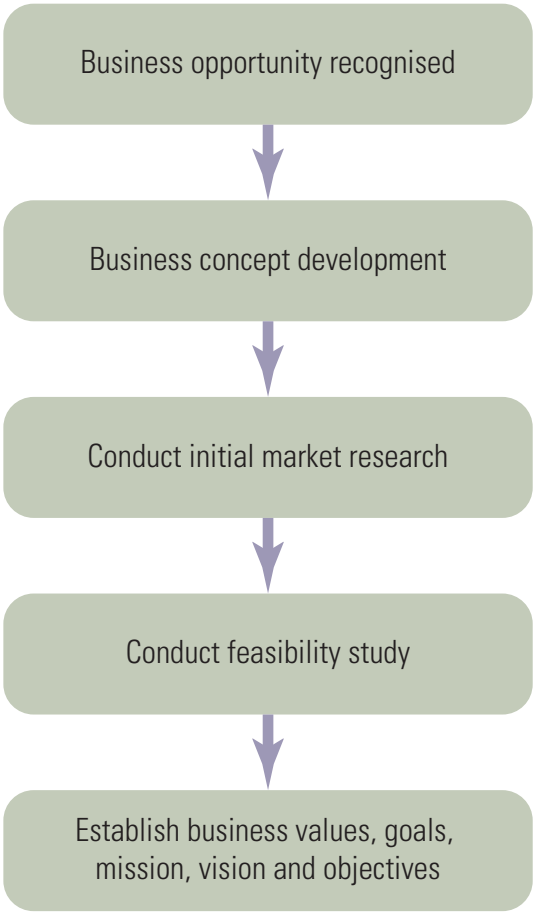


Figure 2.2 Business concept development

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2.1 The importance of business concept development

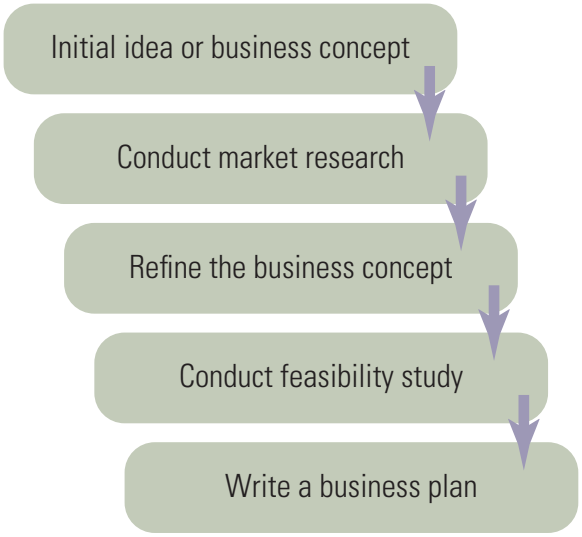


Figure 2.3 The business concept development process

Business concept development is a multi-stage process. The initial idea or business concept may have come from a variety of sources, such as recognising changing customer needs, a development in technology, or expanding globally. Sources of business opportunities were covered in Chapter 1.

business concept an idea for a business including basic information such as the product, the target market, plus proposed competitive advantage. A business concept may involve a new product or simply a new approach to marketing or delivering an existing product.

Market research needs to be undertaken to gain a general understanding of the industry that the business will be part of. For instance, a potential business owner believes that opening a coffee shop would be a good idea because they are responding to the increasing needs of customers for good-quality coffee, either to enjoy at the shop or to take away. That business owner would need to initially undertake research into the general hospitality and fast-food industry. This research could be undertaken online, by reading books and magazines, or interviewing business owners already engaged in the industry. Following this general research, specific research should be undertaken looking into coffee shops to understand market trends, competitors and the supply and pricing of coffee. The potential business owner should also be looking for opportunities that would allow them to differentiate their business from others (e.g. sourcing and selling organic coffee).

The relationship between business opportunities and business concept development

Once an idea for a business has been determined, the products or services identified, and market research completed, the next stage should be to conduct an evaluation of the feasibility and viability of the business idea. What is considered feasible will vary depending on the desired return on investment and the degree of risk an entrepreneur is prepared to take.

Initial market research is conducted in order to assess whether there is a potential market for the business. Likely risks and rewards in establishing the business and the **viability** of the business need to be assessed through a feasibility study. A viable business has the potential to survive and be profitable. Even the best business ideas are useless if there are not enough customers or clients willing and able to pay for the goods and services being offered, if sufficient finance cannot be found, or the experience and skill levels of personnel involved are not adequate.

viability whether the business is capable of developing and growing



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2.2 Market research – refining the business concept



Figure 2.4 Market research is an important aspect of conducting a feasibility study for a business proposal.

Market research should be undertaken by anyone intending to go into business. It will assist to identify and evaluate the industry in which they will be operating. It will also indicate whether there are sufficient customers or clients willing and able to pay for the goods and services being offered.

market research a systematic approach which assists a business to make decisions about consumers and the marketplace

The initial market research undertaken when the business concept is being developed should look at obtaining answers to the following questions:

- Will the product or service being developed be attractive to customers or clients?
- Who will be the potential customers or clients? Will it be other businesses (**B2B**) or individual consumers (**B2C**)?
- Is the product or service going to provide value to the customer or client?
- Who will be the competition?
- In what potential areas or ways would the business be able to gain a competitive advantage?

B2B business to business
B2C business to consumer

Obtaining answers to these questions may require talking to potential customers or clients, creating surveys and analysing the results, interviewing other business owners, running focus groups and conducting online research into business trends. Further information on market trends or industry movements can be gained through reading previous research undertaken by business professionals, market reports and industry analysis.



Figure 2.5 A feasibility study determines if a business idea is viable.

Initial feasibility study

The market research already conducted will show whether the market can sustain the business. Using the information gathered about the industry and the potential customer base, the entrepreneur will now need to determine whether the business idea is feasible. In other words, they need to determine if the business they wish to establish can survive and be

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feasibility study initial research that is required to determine whether the business concept is potentially viable

profitable. This is known as a **feasibility study**. It provides information on whether or not the idea on which they wish to create their business is viable.

The report from a feasibility study should contain:

- a description of the business idea, products to be sold, services to be offered, the personnel required to operate the business and an overview of whether the business will succeed
- profiles of the key people involved, including background, skills, personal qualities and qualifications
- a description of the market – who and where the customers are, the size of the market and expected sales based on costs of production. This market analysis sets out the level and types of demand there is for the products to be sold and its capacity for growth.
- supply analysis – looking at the life cycle of the industry and whether it is a good time to be entering into it. For example, if the products of competitors have been selling well for a long time it is likely that demand will begin to drop off in the near future. (See 'Product life cycle' in Chapter 13.)
- whether there is a threat of substitute products entering the market in the future
- identification of the competition, their strengths and weaknesses and how a competitive advantage might be gained. In order to do this the following questions must be examined:
  - How is the product different to that of competitors? Why will customers purchase from you rather than competitors?
  - Are there any barriers to entering the market such as the need to gain a licence or be registered?
  - What makes the competitors successful?
- assessment of financial feasibility. This involves preparation of a sales forecast, an estimate of start-up and working capital requirements, an estimate of profitability, an assessment of financial viability, and a simple break-even analysis.
- location and site layout – whether these are likely to affect the success of the business
- personal circumstances of the person driving the business idea, including current financial position, skills and knowledge and experience in the area/industry. Levels of commitment to the idea and venture are also included.



Figure 2.6 A feasibility study is vital for a business plan.

- a brief analysis of the proposed operation.

A detailed feasibility study shows whether it is worthwhile to proceed with further development of the business concept. The feasibility study may also identify reasons not to proceed.

Protecting intellectual property

Once a business concept and associated original ideas, known as **intellectual property (IP)**, have been created and developed, protection must be obtained against others copying or stealing them. This involves registering original ideas or a work idea as one's property. Registration of intellectual property must be made in every country where the business intends to trade.

intellectual property (IP) the property rights over the creations of mind or intellect; can be an invention, trademark or original design

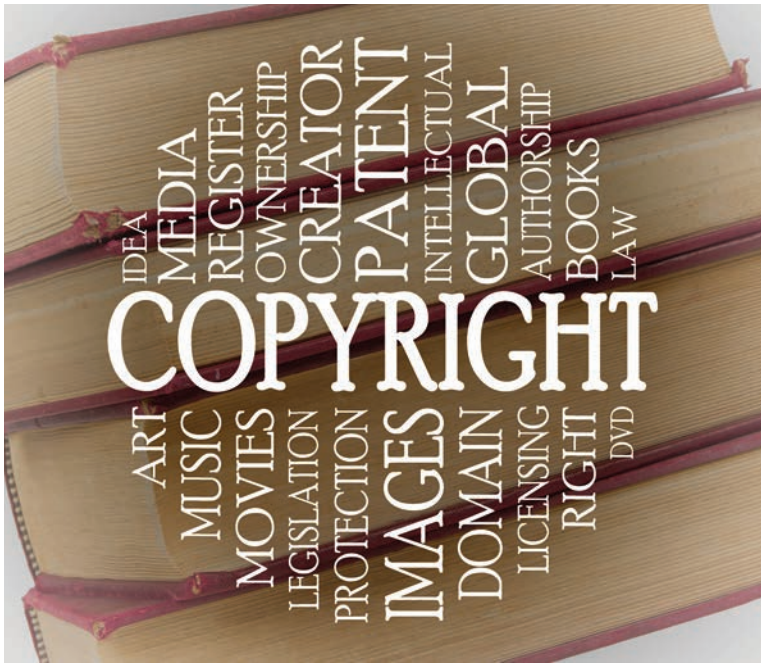


Figure 2.7 Copyright is a form of intellectual property.

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Types of intellectual property include:

- patent: granted for exclusive exploitation of any device, substance, method or process that is new, inventive or useful
- trademark: a right granted for exclusive exploitation of numbers, letters, words, phrases, sounds, smells, shape, logo, picture, an aspect of packaging or combination of these
- design: features of shape, configuration, a pattern or ornamentation that make a product unique
- copyright: original expression of ideas (not the ideas themselves); for example, in art, songs, literature, films, computer programs, articles and photos
- trade secrets/confidentiality: intended to stop employees from releasing your ideas to others; for example, a secret recipe.

For more information on intellectual property, visit the IP Australia website.



Figure 2.8 It is important to register all intellectual property.

ACTIVITY 2.1

1 Identify the type of intellectual property involved in each of the following:

- **a** a rock band composes a new song
- **b** a fashion designer produces a new collection of clothes
- **c** a company designs a new logo
- **d** an author writes a new novel
- **e** a chef devises a recipe for a new type of dessert
- **f** a business designs new packaging for its products
- **g** an architect designs a house
- **h** a photographer takes a photograph
- **i** a school devises a new slogan/motto.

2.3 The importance of goal setting in business

When planning the future of a business, a list of potential and desired achievements should be generated. These are the goals and objectives of the business. The establishment of business goals and objectives is vital because they provide direction for actions.

Business goals are statements that set out where the business sees itself in the future. They represent the aspirations of the business and its owners, but do not define how they are to be achieved. A business goal might be 'To be the largest seller of electronic gadgets in the country', but that statement does not mention how this goal is to be attained.

business goals describe what a business expects to accomplish over a specific period of time and represent the aspirations of the business

business objectives the stated, measurable targets of how to achieve business goals

Business objectives are the steps a business must take to reach its goals. They will set out what the business believes it needs to do to achieve its goals. This may require multiple objectives, and it may take several years before the business attains its goal. To achieve the example of the goal given above, one objective for the business may be 'We will open a store in every city and every major town in the country by the end of year three'.

The importance of establishing goals and objectives cannot be overstated. Without clear goals, a person or business will have no defined purpose and nothing to



Figure 2.9 All businesses must establish goals.

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strive for. Consequently, they will most likely stagnate and struggle for meaningful accomplishments. The absence of goals is akin to a person setting out on a journey with no destination in mind.

Goals and objectives are stepping stones to an end result. They must exist in every aspect of business planning. The first step of planning is the establishment of clear goals.

A business plan sets out the strategy to be implemented to achieve business goals. The ability of a business to meet its stated goals is referred to as business effectiveness.

The terms 'goals' and 'objectives' are often used interchangeably, but as explained above, they are different and are used in different stages of the business planning process.

Business goals

Business goals generally:

- are broad statements about the future of a business which define the intended direction a business will take
- are representative of aspirations the owner has for the business
- may include emotive and general language
- allow for conceptual thought and not prescriptive steps.

Goals, however:

- do not specify how they will be attained
- should align with the **mission statement** and **values statement** of the business, which are even more general and abstract statements of the business aspirations. (See below for more on this.)

mission statement a written statement that defines a business's core purpose and focus

values statement outlines what the business sees as its values and centres around integrity, honesty and ethical behaviour

When devising goals for a business, the following aspects of business performance should be considered for inclusion in its goals:

- profit/profitability: targets for levels and growth in profits and profitability over the long term
- efficiency: targets for improvements in the ratio of costs of production to the value of output
- expansion goals: for example, to increase the number of outlets and open up in new markets
- satisfaction levels of both customers and staff: to achieve a staff turnover rate of less than 5 per cent per annum
- corporate social responsibility and environmental sustainability goals, as outlined in Figure 2.10.

Figure 2.10 Example of environmental sustainability goals and objectives

Digging Deep Global Group – Environmental goals to be met by 2020

Goal 1: Improve energy efficiency by at least 20 per cent
Objectives:
- Replace all coal boilers with high-efficiency natural gas boilers
- Identify and repair malfunctioning operating equipment immediately – regardless of how small or inconsequential the error might be

Goal 2: Increase renewable energy sources by 10 per cent
Objective:
- All new plants to be fully solar powered

Goal 3: Increase recycling by 50 per cent
Objectives:
- Implement education projects to create and increase staff awareness of best recycling practices followed by annual award for top recycling suggestion
- All workstations to be within 25 metres of recycling hub relevant to that division

Goal 4: Reducing deforestation
Objectives:
- Audit supply chains to identify entities at risk of breaching the UN Declaration of Forests
- Establish projects to promote responsible practices among partners

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Business objectives

Business objectives should be derived from the goals of the business and are used to measure degree of success and progress towards goal achievement.

Business goal	Related objectives
'We seek to be the leading producer and seller of children's wear in the Southern Hemisphere'	To increase sales by 10% annually over a four-year period To achieve a 40% market share within five years
'Our goal is 100% customer satisfaction'	To reduce the number of customer complaints by 50% within 12 months To achieve 95% positive rating on customer surveys over a six-month period

Figure 2.11 Business goals and related objectives

Objectives:

- stipulate the steps the business will take in order to achieve its stated goals
- are typically measurable and quantifiable
- are written in a non-emotive, technical manner
- should be realistic and attainable
- have a timeline for completion.

Establishing business goals

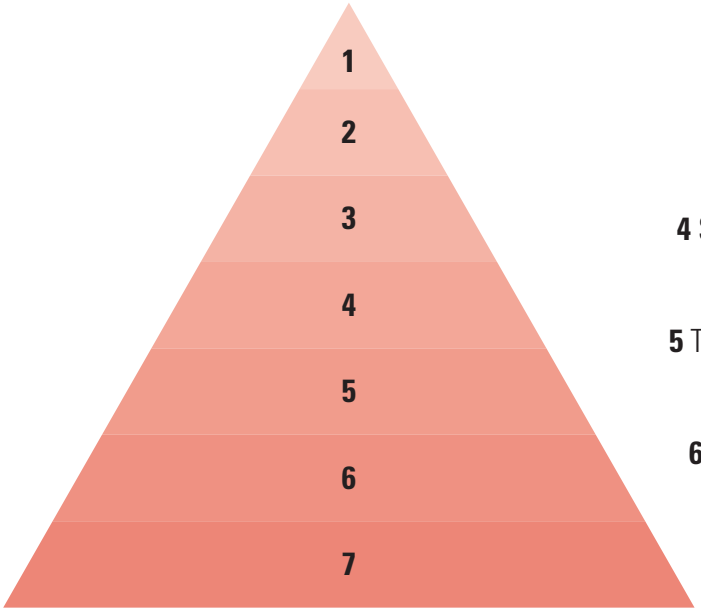
A business must initially clarify its overall purpose or reason for existence before determining goals. To do this it must develop its:

1 Core values: these must be established as they are the priorities and principles important to the business and the people within it. Values demonstrate what the business stands for, its principles and beliefs.

2 Mission statement: this is a global statement that reflects a business's reason for being or purpose, and the way it will be managed in order to reflect its business values.

3 **Vision statement**: using the values of the business, the next step is to construct a vision statement defining the long-term aspirations of the business. Goals may be specified within a vision statement.

vision statement a statement that outlines the aspirations and values of the business



1 Core values: priorities and principles important to the business as a whole.
2 Mission statement: central purpose or reason for the business.
3 Vision statement: long-term aspirations of the business.
4 Strategic goals: long-term whole goals for the entire business organisation. Set by executive management (two to five years).
5 Tactical/departmental objectives: medium-term goals set by middle management for one department/division (one to two years).
6 Operational objectives: short-term goals set by frontline management for one team/shift (daily, weekly, monthly).
7 Individual objectives: personal goals set by one employee.

Figure 2.12 The hierarchy of objectives

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CASE STUDY 2.1

The Bosch company: mission statement, vision statement and core values

Mission statement:

Our objective – what we want to achieve: In the spirit of Robert Bosch, we aim to secure our company's future by ensuring its strong and meaningful development and preserving its financial independence.

Our motivation – what drives us: Invented for life: we want our products to spark enthusiasm, improve quality of life, and help conserve natural resources.



Figure 2.13 The Bosch company logo

Vision statement:

Our strategic focal points – what will help us succeed

Focusing on customers: We understand our customers' requirements. We tailor our products to them, and we create innovative business models.

Shaping change: We shape change and seize the opportunities it brings, especially in connectivity, electrification, energy efficiency, automation, and the emerging markets.

Striving for excellence: We measure ourselves against our strongest competitors. Our work is fast, agile, and accurate. Efficient processes, lean structures, and high productivity secure and increase the value of the company.

Our strengths – what we do well

Bosch culture: Worldwide, our distinctive corporate culture is a common bond. We live by our values and strive for continuous improvement. We are proud to work for Bosch.

Innovation: Our creativity is the basis for new technological solutions that translate into best-selling products. We are innovation leaders.

Outstanding quality: We deliver products that offer the best quality and reliability. In this way, we meet our customers' wishes and expectations.

Global presence: We are an international company. While constantly extending our global presence, we strengthen local responsibility.

Core values:

Our values – what we build on

Bosch has always been a value-driven company. Many of our values can be traced back to our founder Robert Bosch, other values have changed or have arisen over the decades. Our values reflect the manner in which we run our business: Our professional ethics in dealing with our business partners, investors, employees and society.

Future and result focus: Our actions are result-focused. This allows us to secure our future. It also creates a sound basis for the social initiatives of the company and the foundation.

Responsibility and sustainability: We act responsibly in the interest of our company, also taking the social and ecological impact of our actions into consideration.

Initiative and determination: We act on our own initiative, take entrepreneurial responsibility, and pursue our goals with determination.

Openness and trust: We communicate important company matters in a timely and open fashion. This is the best foundation for a relationship built on trust.

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CASE STUDY 2.1 continued

Fairness: We deal fairly with our colleagues and business partners, and view this fairness as a cornerstone of our corporate success.

Reliability, credibility, legality: We promise only what we can deliver, accept agreements as binding, and respect and observe the law in all our business transactions.

Diversity: We appreciate and encourage diversity for the enrichment it brings, and see it as essential for our success.

(Source: The Bosch company website, 'Values: Bosch Australia & We are Bosch'.)

Analysis

1 List the three key aspects of the Bosch mission.

2 Summarise the key aspects of the Bosch vision.

3 List and describe the key values of Bosch.

ACTIVITY 2.2

1 Visit the website of two of the following businesses:
   - **a** ANZ
   - **b** McDonald's
   - **c** Nike
   - **d** BHP.

   Locate the vision/mission and values statements. Identify the following for each:
   - the purpose of the organisation
   - its basic philosophies and values
   - the goods and services offered
   - its target market.

2 Imagine you are in the process of establishing a café. Write an example of each of the following types of goals which would be relevant:
   - **a** a strategic financial goal
   - **b** an operational financial goal
   - **c** a service goal
   - **d** a social goal.



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Chapter summary

- Business concept development is the next step after the business idea is generated.
- The first step is to conduct a business feasibility study in order to determine if the concept is viable.
- A feasibility study will assess a description of the business, profiles of personnel and a market analysis. The competition must be identified and a competitive advantage specified. From this an assessment of overall feasibility is generated.
- Original ideas and designs must be protected as intellectual property.
- All businesses must establish goals to set the direction for the business.
- Businesses set both financial and non-financial goals and objectives.

Chapter summary questions

1 Define the following terms. Then, use each in a sentence to demonstrate your understanding:
   a feasibility study
   b market analysis.

2 Explain what market research is. Discuss the purpose of conducting market research as part of the process of developing a business concept.

3 Explain the purpose of and process involved in conducting a business feasibility study.

4 List and describe the different types of intellectual property that a business may need to register. Cite an example of each. Describe the purpose of registering intellectual property.

5 Identify the type of intellectual property to be registered for each of the following:
   a a soft drink producer develops a new flavour of drink
   b a collection of clothing designed by a designer
   c a logo
   d a distinctive type of packaging
   e a jingle to be used in an advertisement for a new car
   f a slogan.

6 Identify and explain the purpose and importance of the establishment of business goals and objectives.

7 Define:
   a business goals
   b business objectives.

8 Discuss the differences and similarities between business goals and business objectives.

9 Analyse the relationship/link between business goals and objectives.

10 Use the internet to locate the following:
   a three business mission/vision statements
   b three business values statements.

11 Identify and explain the relationship/link between business values, business mission and business vision statements.

12 Classify each of the following as a business goal or a business objective:
   a be the leading seller of hamburgers in the world
   b increase sales by 30 per cent over two years
   c launch three new product lines by the end of the month
   d increase profitability
   e reduce the use of paper in the office
   f distribute electronic notebooks to all staff within three months
   g produce and distribute to dealers 10 000 vehicles by year's end
   h open six stores by the end of the year.

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Extension questions

Sophie and Effie are two friends planning to open a business that manufactures and sells cosmetics to be called Grecian Goddess Pty Ltd. They have devised a values statement for the new business.

The guiding principles for Grecian Goddess are as follows:

1 Integrity: To maintain the highest ethical standards and honesty in all our dealings and relationships with employees, customers, suppliers and the community.

2 Excellence: To use only the best-quality natural ingredients.

3 Environment: To adopt sustainable business practices.

4 Social: To strive to improve the quality of life for employees and their families.

Using the values statement of Grecian Goddess, propose an appropriate:

a mission statement

b vision statement

c business goals (3)

d business objectives (6).

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CHAPTER 3

Business contributions to society – innovation and entrepreneurship

Key terms

- balance of payments (BOP)
- Better Life Index (BLI)
- business hub
- business mentorship
- council grants
- exports
- Global Innovation Index (GII)
- gross domestic product (GDP)
- imports
- infrastructure
- mixed market economy
- OECD
- research and development
- wellbeing

Overview

This chapter will examine the economic contributions that businesses can make to a society. These include the standard of living – access to goods and services, employment, gross domestic product (GDP), economic growth, innovation, the development of new technologies, infrastructure, trade and the development of export markets, and taxation revenue for the government.

Businesses also contribute to social wellbeing. This can include a wider provision of products and services and the contribution of new technologies that support wellbeing. People are able to benefit from the goods and services and new ideas and innovations that contribute to their economic and non-economic standard of living.

It is important for all businesses and society in general to have a culture of innovation and a sense of entrepreneurship so that they can continue to improve and develop new and better ways to produce goods and services. While a business should try to develop this culture itself, there are also a range of other methods and programs that may support and encourage a culture of innovation and entrepreneurship across the whole of Australia.

Key knowledge

In this chapter students will learn about:

- The contribution that businesses make to the economic and social wellbeing of a nation
- The methods by which a culture of business innovation and entrepreneurship may be fostered in a nation, such as government investment in research and development, council grants for new businesses, business mentorships, school-based educational programs in entrepreneurship, and the creation of regional business start-up hubs.

What's ahead

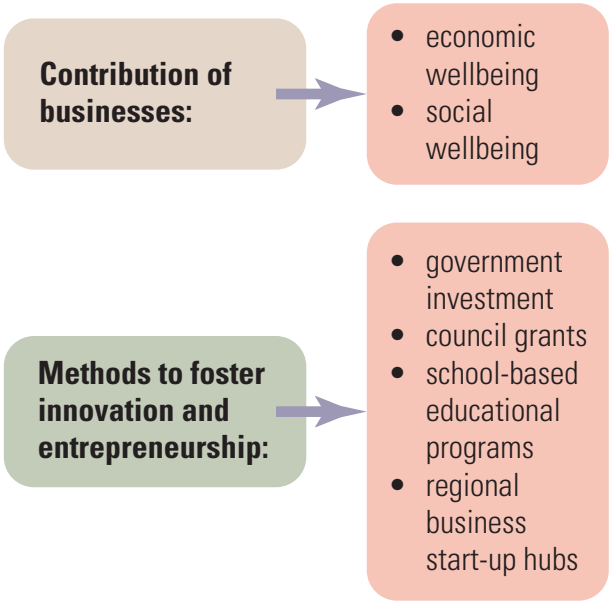


Figure 3.1 Business contributions to society

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3.1 Contribution to the economic wellbeing of a nation

Businesses, regardless of their size, contribute to the economic and social **wellbeing** of a country in many ways, including through employment, economic growth, international trade, taxation revenue, infrastructure and research and innovation. Through their activities, businesses allow people in Australia to have a high level of economic and social wellbeing.

wellbeing a good or satisfactory condition of existence. It usually centres on health, happiness and prosperity.

Economic contribution of businesses in Australia

In a **mixed market economy** (i.e. includes both the public (government) sector and privately owned businesses) such as Australia has, businesses contribute to the wellbeing of the population. Businesses add to economic and social wellbeing in a number of ways, including through:

mixed market economy an economy that is based on both privately owned and run businesses and the government (public sector), which also provides goods and services.

- employment
- economic growth/gross domestic product (GDP)
- international trade
- taxation revenue
- infrastructure
- research and development.

Employment

Businesses employ people and this provides individuals with the income to purchase goods and services. People employed by businesses also produce or deliver goods and services for others. Paid work is important for people, and employment levels are closely linked to economic growth and living standards.

Small and medium businesses employ approximately 70 per cent of the total workforce and it is important for the government to develop policies to ensure that these businesses are supported and encouraged to employ as many people as possible.



Figure 3.2 Employing people provides them with an income.

ACTIVITY 3.1

Analyse the following:

1. Identify what happened to the employment rate in the last quarter of 2015 and what is the current rate. Use the website at Cambridge weblinks: http://cambridge.edu.au/redirect/?id=6965.
2. Using the ABS website (see question 1), answer the following questions:
   - **a** What proportion of people are employed full and part time?
   - **b** Has the rate of unemployment increased or decreased in the last six months?
3. Describe how businesses can contribute to the employment opportunities of Australians.



Figure 3.3 Businesses provide valuable employment opportunities.

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Economic growth/gross domestic product (GDP)

Economic growth can be defined as the value of production of goods and services in an economy in a given period of time (usually one year). **Gross domestic product (GDP)** is the main way that economic growth is measured in Australia. Economic growth is important for any nation as it provides the chance to ensure improved living standards. If the value of production increases each year, then the standard of living of the people in Australia will also increase.

gross domestic product (GDP) total market value of production in a country over a period of time minus the costs of production

If businesses provide a wide variety of goods and services, then people are able to take advantage of this. If these were not provided, then the standard of living would not be as high, or there would be limited choice and availability of goods and services.



Figure 3.4 Gross domestic product measures economic growth.

CASE STUDY 3.1

Cheer up: after the mining boom, Australia is still doing OK

The latest official economic figures showed a 'spending spree' had helped economic growth accelerate to stronger-than-expected 3 per cent. And rather than plunging towards US50¢ our dollar has climbed back over US75¢ for the first time since the middle of 2015. The fortunes of Australia's most important export commodity, iron ore, are also looking up.

So what are we to make of the mixed economic messages so far this year?

ANZ's head of Australian economics, Felicity Emmett, says the gloomy start to the year was driven by unfounded fears about the economic outlook.

That sentiment was backed by two of Australia's top economic officials who gave thoughtful speeches about the state of the economy this week.

Philip Lowe, the deputy governor of the Reserve Bank, was upbeat about Australia's economic performance since the end of the mining boom. Dr Lowe said the economy has proved far more resilient than many expected.

'Mining investment has also declined by almost 40 per cent, which is the equivalent of nearly 3 per cent of GDP. Yet over these two years, our economy has continued to expand at a reasonable pace, with growth over 2015 having been a bit stronger than was earlier expected and not too different from the long-term average,' he said.

In a separate speech this week the Deputy Secretary of the Federal Treasury, Nigel Ray, said the economy should continue to perform well.

'Slower global growth has been accompanied by a number of trends that are observable across the global economy: slower growth in trade; weak business investment; slower productivity growth; slower population growth in advanced economies; low inflation; and lower inflation expectations,' he said.

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CASE STUDY 3.1 continued

While offshore hazards have intensified, Mr Ray said it was domestic factors that would be the key to Australia's economic performance over the next two years, especially household spending.

'We need consumption (customer spending) growth to continue to grow strongly – we need the savings ratio to come down to achieve that – and we need … Australian businesses to invest,' he said.

Dr Lowe and Mr Ray also drew attention to the lingering decline in Australia's national income. In past decades economic growth and national income have been very closely correlated but since the mining boom the two have diverged.

As a result the key measure of the economy – gross domestic product – has continued to grow.



Figure 3.5 The mining industry is important to the Australian economy.

(Source: M Wade, 'Cheer up: after the mining boom, Australia is still doing OK', *The Age*, 11 March 2016.)

Analysis

1 Interpret what the article states about the rate of economic growth in Australia.
2 Describe the domestic factors that may have contributed to economic growth in Australia.
3 Illustrate the link between economic growth and national income outlined in the article.

International trade

International trade is important to a nation as it allows businesses and individuals to gain access to goods they may not otherwise be able to purchase. Businesses can also use imported parts and materials in the production of goods in Australia. The level of trade between one country and another can be measured using the **balance of payments (BOP)**, which measures the movement of money and capital in and out of a country. It includes total **imports** and **exports**. Many businesses import and export goods and services, which allows people to access a greater variety of goods and allows businesses to earn revenue by selling products to other countries. Over the last few years, the federal government has signed free trade agreements with a number of countries,

balance of payments (BOP) a record of the total value of money and capital and imports and exports between one country and another

imports goods and materials that come into Australia from other countries

exports goods and materials that Australia sends to other countries as part of trade



Figure 3.6 Exporting provides access to a greater amount of goods and services.

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including the United States, Japan and South Korea. This will also allow businesses greater access to goods and materials and will contribute to the economic wellbeing of the country.

ACTIVITY 3.2

1 Examine the trade between different countries and list the statistics for each country in order of importance. See Cambridge weblinks: http://cambridge.edu.au/redirect/?id=6966.

2 Go to the website at Cambridge weblinks: http://cambridge.edu.au/redirect/?id=6967 and answer the following questions:

a Identify the top three goods that Australia imports and exports.

b Explain how these goods can contribute to the wellbeing of Australia.

c List the reasons why countries trade with other countries.

CASE STUDY 3.2

International trade to quadruple by 2050

According to a report from the international bank HSBC, which was summarised in Fairfax newspapers on 24 November 2015, international trade will increase fourfold in value by 2050. The report is quoted as saying this will result from another wave of globalisation driven by:

- global population growth increasing the number of consumers
- improved standards of living creating 3 billion more middle class consumers, mainly in emerging markets
- new technologies helping businesses reduce costs
- governments lowering barriers to trade.

(Source: Based on 'International trade to quadruple by 2050, says HSBC', *The Age*, 24 November 2015.)

Analysis

1 Analyse what will happen to international trade between 2015 and 2050.

2 Explain how this will benefit people and businesses in different countries.

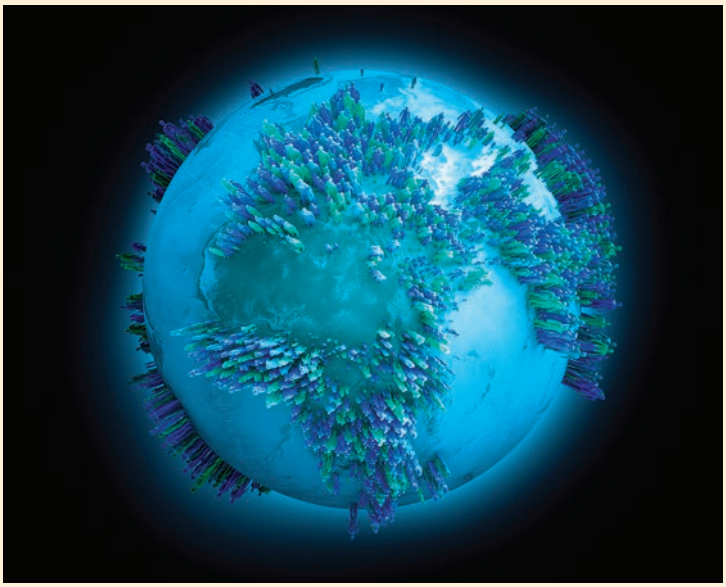


Figure 3.7 As the world population grows, so does consumption.

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Taxation revenue

Businesses are a source of taxation revenue for the federal and state governments. If businesses are successful, then they pay company and other business-related taxes. This money can then be used by governments to provide services to the population. Individuals running their own business also pay taxes. Many businesses also collect tax such as the goods and services tax (GST) and pass this on to the federal government.



Figure 3.8 Business taxation is a form of revenue for governments.

Infrastructure

Businesses all contribute to the provision of **infrastructure** in Australia. Various levels of government provide roads, transport, electricity, gas, internet and essential services. While governments fund a lot of these projects, they often need businesses to build them, and governments can sign contracts and establish partnerships with the private sector. Many of the new freeways in Victoria, for example, charge tolls that go to the businesses after the roads have been built.

infrastructure the foundations and investment needed in a country to provide the means for an economy to operate. It can include transport, communications, education, power and electricity services.



Figure 3.9 Businesses help the government to fund city infrastructure.

CASE STUDY 3.3

NAB upgrades technology infrastructure for better customer service

In an attempt to reduce the risk of outages in its customer service technology, National Australia Bank has upgraded to a new data centre. The upgrade comes as part of a broader technological infrastructure upgrade. The new data centre is like a technological nerve centre through which its daily $250 billion transactions flow.

Renee Roberts, NAB group executive, said the bank is also preparing to increase spending on customer-facing technology such as mobile banking applications.

Mobile banking and contactless payments have led to a boom in everyday transactions which are putting pressure on banks to increase their infrastructure.

Ms Roberts said that the key feature of the infrastructure upgrade was the new data centre's ability to provide 'infrastructure on demand'. Rather than running its servers to overcapacity and risking them crashing, the bank purchases the capacity it needs dynamically from a third party, paying for higher capacity during peak times.

For example, internet banking tends to peak during lunchtime hours, but experiences a low

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in the middle of the night. However, mass payments between banks are often made overnight, which leads to high server demand in the early hours of the morning.

'The infrastructure-on-demand piece means that there is just more reliability and less risk of outages due to running out of capacity,' said Ms Roberts.

As banks are increasingly competing for customers based on their digital services, reducing the risk of servers crashing is a key concern.

The benefits of overhauling its core banking system, known as NextGen, are also becoming clear. This system, which deals with customer management, was initially subject to delays and crashes. However, new improvements have benefited customers by providing, for example, shorter loan processing times.



Figure 3.10 The National Australia Bank

Ms Roberts said that NAB's infrastructure upgrade was about putting more financial resources into 'refreshing' front-end systems used by customers.

Analysis

1 Identify why is it important for businesses to contribute to infrastructure projects in Australia.
2 Outline the improvements NAB has made to the bank's services.
3 Explain why the bank made these changes.
4 Describe how the changes can improve services to customers.

Research and development

Businesses are able to support the standard of living of Australians by continually looking at new and improved ways to provide goods and services. Both governments and the private sector are involved in **research and development** in Australia. Inventions and improvements in areas such as science, technology and medicine benefit society and contribute to improved wellbeing (see later in the chapter for more information on research and development).

research and development an activity undertaken by businesses to develop new methods and innovations for products and services



Figure 3.11 Businesses invent and innovate to benefit society.

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ACTIVITY 3.3

1 Discuss how research and development can contribute to the wellbeing of people in Australia and around the world.

2 Evaluate why it is important for individuals and businesses to continually look for ways to develop new ideas.



Figure 3.12 The OECD measures economic quality of life worldwide.

Social contribution

While many of the points already discussed in this chapter have an economic or financial focus, businesses contribute to the social wellbeing of a nation as well. When businesses provide employment, goods and services for customers, infrastructure, and research and development, they contribute to both the economic and social wellbeing of the country.

Australia is considered to be 'the lucky country' and in many ways it is; this is in part due to the contribution of all businesses. While GDP can be used to measure economic growth, there are also other measures that can be used to provide a more holistic approach.

The **OECD** (Organisation for Economic Cooperation and Development) publishes a survey every year looking at a range of measures as to how people in a nation live. Australia ranks highly in this index and the contribution of businesses is part of the reason. One of the measures used is the **Better Life Index (BLI)**.

OECD the Organisation for Economic Cooperation and Development; an association of nations which promotes economic growth, prosperity and trade

Australia performs very well in many measures of wellbeing relative to most other countries in the BLI. Australia ranks at the top in civic engagement and above average in environmental quality, health status, housing, personal security, jobs and earnings, education and skills, subjective wellbeing and social connections; but it rates below average in work–life balance.

Businesses also contribute to social wellbeing through trying to reduce their impact on the environment. Some businesses will look at ways to reduce waste, recycle components and minimise their impact on the environment through reducing carbon emissions and pollution. Large businesses in particular can have a significant impact on the environment.

Better Life Index (BLI) developed by the OECD to measure standards of living across a number of different areas; for example, housing, environment and social connections

General happiness (satifaction with life)	Workforce (employment)	Income per capita (average household)
• Findings show that Australians are satisfied with their lives. • Results show that Australians are above the OECD average.	• Australians work longer hours, where 14% of employees work above the OECD average. • Australia's paid employees are above the OECD average, where 72% of employees between the ages of 15 and 62 are still part of the workforce.	• Findings show that Australians earn more than the OECD average. • However, there is a wide gap between the poor and the rich, causing a difference in wealth distribution.

Table 3.1 Results from the Better Life Index – Australia for income, employment and satisfaction with life

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ACTIVITY 3.4

Go to the OECD Better Life Index website. Look at the most recent statistics for Australia and answer the following questions:

1 Analyse how Australia rates on the indicators set out in Table One.
2 Establish whether there has been an improvement or a decline in these indicators.
3 Explain why it is important to look at this type of data.
4 Illustrate how businesses have contributed to the results.

CASE STUDY 3.4

Environmental footprint of world tourism industry

A report conducted by EarthCheck revealed that tourism is one of the top five polluters of the world. EarthCheck, a scientific group for tourism, conducted a study where electricity, water and waste production was measured across the globe – analysing 1047 global industry properties over a period of seven years. The study found industries that manage and measure their resources will benefit from financial returns on investment. For example, the Radisson Blu Hotel in Sydney reviewed its resources and made changes that have saved water equating to six Olympic-sized swimming pools, greenhouse gas emissions equating to removing approximately 600 vehicles off the road, and energy to provide for 400 average households.



Figure 3.13 Reducing environmental impacts is important for businesses.

Analysis

1 Explain the analysis carried out by EarthCheck.
2 Provide reasons why it is important for a business to try to minimise its impact on the environment.
3 Assess how businesses can impact on the economic and social wellbeing of a country.

While businesses contribute in many ways to the social and economic wellbeing of a country, there can also be negative aspects, which can adversely impact on society. This may be in the form of businesses reducing the number of staff they employ, or by decreasing their research and development budgets, cutting back on production of goods and services, paying less company and other taxes, and importing more goods than they export, which leads to issues with trade deficits (shortfall). The impact of business activity on the environment may also affect the standard of living of people.

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3.2 Building a culture of innovation and entrepreneurship

All businesses need to ensure they develop innovative practices so that their business can continue to grow. A sense of entrepreneurship will also instil a positive corporate culture (values, beliefs and attitudes of those in a business), which encourages employees to take risks and look at ways to continually improve products and processes (see Chapter 2).

There are a number of ways that innovation and entrepreneurship can be encouraged and supported. Approaches include specific programs, investment by governments in research and development, councils providing grants, businesses mentoring, educational programs in schools and regional business start-up hubs.

Innovation allows businesses to build on good practice and find ways to improve further. The types of goods and services businesses can offer will lead to improved economic and social wellbeing for people and society in general.

Innovation can be defined as an improvement or invention that enhances or extends a business and provides another product or service to the economy. Australian businesses and individuals have a tradition of coming up with new ideas and inventions. Innovation can be measured using the **Global Innovation Index (GII)**. The GII aims to capture the multi-dimensional facets of innovation and provide the tools that can assist in tailoring policies to promote long-term output growth, improved productivity and job growth. It also provides information on the factors and the environment necessary to create innovation and allows these to be evaluated.



Figure 3.15 Innovation helps businesses find ways to improve.

Many businesses are able to foster innovation in their own businesses, and have successfully implemented new processes and practices, with excellent results.

Global Innovation Index (GII) aims to capture the multi-dimensional facets of innovation and provide the tools that can assist in tailoring policies to promote long-term output growth, improved productivity and job growth



Figure 3.14 Entrepreneurship and innovation help businesses grow.



Figure 3.16 Australia has developed many useful inventions.

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Innovation/Invention	
A way to manufacture ice was developed in 1879 so meat could be exported to Great Britain	Invention
Lawrence Hargrave – first powered flight in 1894 with four box kites	Innovation
The surf lifesaving reel was designed and built in 1906	Invention
A pedal-powered radio was developed in 1929 for the Royal Flying Doctor Service	Innovation
The utility truck, or ute, was developed in 1934	Innovation
Hills hoist clothes line created in 1946	Invention
In the 1940s, Howard Florey developed a way for penicillin to be manufactured and processed	Invention
In 1952 the Victa lawn mower was invented	Invention
In the 1950s the black box flight recorder was developed	Invention
In 1976 Australian doctors started using ultrasounds to monitor unborn babies	Innovation
Baby car safety capsules arrived in 1984	Invention
Anti-counterfeiting technology developed for bank notes in 1992	Innovation
Long-wearing contact lenses introduced in 1999	Innovation
Most recently, a nano machine that can be placed inside bodies to detect drugs or viruses in the blood was developed by Australian scientists	Innovation

Table 3.2 Examples of Australian innovations and inventions

CASE STUDY 3.5

Real innovation doesn't need the IT crowd

If you really want innovation, you need to think.

Health care will be in the front line of that battle for state and federal governments, so here's a little example of real innovation not waiting for government policy: an aged care provider changing the basis of its staff structure and assignment to dramatically improve the lives of residents, families and staff. It also looks like saving a pile of money.

Last month Arcare Greenhill, in Epping, Victoria, won the Australian Aged Care Quality Agency better practice award for organisational leadership and staff development.

Basically, the Arcare team led by Daniella Greenwood undertook a lot of research into what worked well in aged care, including dementia care. Ms Greenwood listened to the clients and families and staff and subsequently changed the organisation's staff structure, training and approach.



Figure 3.17 Real innovation can happen in any industry.

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CASE STUDY 3.5 continued

It's more complicated than can be explained in this brief space, but the core of it is focusing on relationships between staff and residents. Doing that meant staff were assigned to work with the same small group of residents instead of broadly across the facility and staff committed to do at least three shifts each week.

The results have been amazing, pressure injuries down 90 per cent, respiratory tract infections down 69 per cent, 25 per cent reduction in skin tears, 13 per cent reduction in falls, 52 per cent reduction in the use of some medications, 28 per cent reduction in staff sick leave, 50 per cent reduction in staff turnover (people leaving the business), 100 per cent reduction in agency staff in the dementia care unit, zero WorkCover claims.

Job satisfaction, resident and family satisfaction all up. Compliments up, complaints down.

'We believe developing open and respectful relationships between family, staff and residents is the most important thing we do,' says Ms Greenwood, Arcare strategy and innovation manager.

(Source: M Pascoe, 'Real innovation doesn't need the IT crowd', *The Age*, 15 December 2015.)

Analysis

1 The article states that if you want innovation you have to 'think'. Define.
2 Outline the process and ideas implemented at Arcare.
3 Summarise the outcomes of the innovations.

Entrepreneurship

Entrepreneurship is the process of designing, launching and running a new business. It is the capacity and willingness to develop, organise and manage a business venture along with any of its risks in order to make a profit (see Chapter 2).



Figure 3.18 Running and launching a business involves entrepreneurship.

Individuals, businesses and countries need the right skills to keep up with the global economy. As the economy has changed, knowledge has become increasingly important – successfully acquiring, managing and applying knowledge is the key to growth. Australia is performing well in the creation of knowledge. In the WEF Global Competitiveness Index 2014–15, Australia's scientific institutions are ranked ninth, and a 2014 examination of the world's top 1 per cent of cited research papers in science, technology, engineering and mathematics (STEM) found that Australia's share stood up well against the United States, Canada and 11 Western European countries. However, we seem to be less successful in the application of knowledge. The 2015 GII included a ranking for Innovation Efficiency (innovation output compared to input), in which Australia was listed at number 72. While Australian businesses and individuals come up with many new ideas and innovations, not all of them are carried through to production so there is capacity for even greater innovative activity. One way to help Australian businesses to become more innovative and entrepreneurial would be for programs and support mechanisms to be established by governmental and other bodies.

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CASE STUDY 3.6

Australian surf fin tackles Balinese beach pollution

The beaches in Bali offer both natural beauty and amazing surf breaks. But they are also known for the amount of plastic pollution that accumulates. Especially in the rainy season, creeks and rivers carry large amounts of rubbish to the beach. It may be cleaned up in the main tourist areas, but surfers tell of having to paddle through plastic bags and garbage.

But this may change, due to the innovative thinking of two German surfing enthusiasts. Luise Grossman and Felix Wunner used recycled Balinese beach rubbish to develop a high-tech surf fin.

Felix is a qualified engineer, while Luise has a business and technology background. Surfing in Bali, they found the pollution to be 'horrible' – worse than they had ever seen – and decided to use their skills to do something about it.

The partners settled in Brisbane, and established the Five Oceans surf brand. After having their design tested at the University of New South Wales, in August 2015 they launched a Kickstarter campaign to fund full-scale manufacturing. Their $35 000 target was exceeded by more than $2000.



Figure 3.19 ecoFins are an example of innovation to solve a problem.

Rubbish from popular Balinese surfing beaches is collected and sorted by local recycling centres. Items such as small packaging and bottle tops are packaged and sent to Java, where they are converted into plastic pellets. A factory in Brisbane uses these pellets as the base material for making the high-performance ecoFins.

Luise Grossman and Felix Wunner have created a high-performance, fully recycled product, with a transparent value chain.

Analysis

1. Describe the type of innovation Ms Grossman and Mr Wunner developed.
2. Explain why they believe the recycling of waste is important.
3. Describe the steps that were involved in developing this product.

Methods to foster a culture of innovation and entrepreneurship

There are a number of different methods by which a culture of innovation and entrepreneurship can be encouraged. These include:

- government commitment to investment in research and development
- council grants for new businesses
- business mentorships
- school-based education programs focusing on entrepreneurship
- creation of regional business start-up hubs.

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Government investment in research and development

High-growth firms can be stimulated and supported via the adoption of economic policies by governments at all levels. The teaching of entrepreneurship and fashioning entrepreneurs is regarded as an important role for universities and of economic significance.

Government procedures and programs that support entrepreneurial systems result in countries with elevated levels of technology entrepreneurship. As an example, the United States, United Kingdom, Israel and South Korea have a number of shared features, which are:

- delivering entrepreneurship in schools and engaging university students in a variety of entrepreneurship offerings
- on a national scale, technology entrepreneurship is of significance
- to ensure that entrepreneurs think globally, policies include educating and introducing youth to the finest international ecosystems and cultures
- through an assortment of regulations, the progress of technology companies is sustainable.

Another country that has changed its perspective on research and development is Singapore. It has invested over $1 billion to expand creation and entrepreneurship over time and to change the country's economy from labour-driven to productivity-driven industries by supporting entrepreneurship research and innovation.

To increase business effectiveness and efficiency, in Australia the federal government offers the Entrepreneurs' Programme. To enhance Australia's strengths and business opportunities the main emphasis of the program is on a variety of economic reforms. These include:

- assisting small and medium businesses to concentrate on innovation links to gain entry to knowledge, join networks and connect with researchers. This may involve co-funded grants to commercialise new products, processes and services or advice for people.
- programs such as growth services, business growth grants, business appraisals and expedient supply chain mechanisms assisted by services and advice to develop business proficiencies and networks
- facilitating entrepreneurs, researchers and businesses to fast-track commercialisation, and tackle crucial threats to create innovative products, processes and services to the market.



Figure 3.20 Supporting entrepreneurs is an economic priority.

The National Innovation and Science Agenda created by the federal government assists innovators with access to funding. Undertakings include:

- adjusting bankruptcy regulations to encourage entrepreneurship
- providing resources, mentors, funding and access to business networks to support innovative start-ups to refine concepts
- granting businesses entry to more diverse funding options from the public such as generating funds through crowd-sourced equity funding
- for small businesses to compete in winning government contracts and tenders some changes have been made in government processes
- tax breaks to encourage investment.

In an effort to motivate and induce high-performing employees the government has enabled strategies such as allowing businesses to offer employees shares. This results in businesses being able to enter and extend global markets through multiple contacts. The government assists innovative start-ups in regional and agricultural areas by granting access to public data and scientific research.

The CSIRO (Commonwealth Scientific and Industrial Research Organisation), associated businesses and universities receive funding from the federal government to support research. The government backs research and development in science and for innovative and up-and-coming businesses. It provides funding to the workforce to assist in the development of research skills in areas such as engineering, mathematics, science and technology. The government also examines applied

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Figure 3.21 Investing in innovation and science is crucial.

research, which looks at real-world applications of learning to support the private sector.

Privately run businesses also invest and implement practices and ideas based on such research.

See the Interactive Textbook edition for a case study on Australia's top female entrepreneurs.

ACTIVITY 3.5

Go to the National Innovation and Science Agenda website and use the information on science, innovation and support to develop a pamphlet, brochure or blog post on some of the main programs on offer to support new businesses to innovate.

Council grants for new businesses

Many local councils provide support and grants for businesses in their local area. The City of Melbourne, for example, offers a range of programs including seminars, business consultation programs, business networks, business breakfasts and the Melbourne Licensees Forum. Similarly, the City of Greater Dandenong has a range of grants for businesses wishing to establish themselves in the local area. These **council grants** are available in areas such as start-ups, business growth grants and relocation and expansion grants.

council grants include money and incentives provided to businesses and individuals to pursue business ideas and development

Other opportunities include 'grants and assistance finders' – online tools that help a business locate grants. Some programs available include Grants Victoria, where a business owner can search for government grants and assistance, GrantGuru Business, Business Victoria and the Victorian Department of Transport, Planning and Local Infrastructure.

ACTIVITY 3.6

1. Go to your local council website and research the types of business grants available for small and start-up businesses.
2. Describe the support available and explain why your local council would offer these programs.

Business mentorship

Mentoring for small business is encouraged and supported by the Australian government. At a state level, there are **business mentorship** programs to help small business owners. For example, Victoria has a small business 'bus' whose purpose is to travel around and support businesses in metropolitan and regional areas. There is also a program aimed at educating business owners on how to refine business strategies and strategic objectives. Another Victorian program offers initial mentoring sessions and business clinics free of charge, with a fee paid for further mentoring. Around 90 people, all experienced and qualified in a wide range of business industries and disciplines, provide the mentoring.

business mentorship a person or program that offers knowledge, advice and experience to another person. Mentoring can be a highly effective way to provide people with the skills needed to develop a successful business.

These mentors offer assistance in a wide range of areas, including starting new businesses, writing business plans and setting objectives, developing marketing strategies, and identifying new products, services and/or opportunities to increase sales and profits.

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Figure 3.22 Mentoring programs are offered in each state.

School-based educational programs

Different levels of government and associations also run educational programs and competitions for students at secondary and, sometimes, primary school level. Many competitions are also run in universities for business and commerce students.

In the next decade it is estimated that 75 per cent of the fastest-growing jobs will rely on STEM skills. To meet the needs of these industries the federal government has announced several programs, including:

- Cracking the Code, and other ICT competitions to help improve digital literacy among students in Years 4 to 12
- the Cyber Security Growth Centre, which provides students with the opportunity to gain real-world experience with start-ups, entrepreneurs, small businesses and research
- more resources for teachers such as access to real data to support student learning through real-world examples.



Figure 3.23 A large number of future jobs will require STEM skills.



Figure 3.24 Competitions exist for planning an enterprise.

Other programs include:

- Engineers Without Borders' School Outreach program, which aims to inspire the next generation of STEM students to have a positive social impact in disadvantaged communities by engaging students with diverse backgrounds across Australia, particularly Indigenous Australians and female students, which make up only 11 per cent of the engineering workforce.
- CPA (Certified Practising Accountant) Australia has launched an annual competition which allows students from all over Australia to propose creative ideas and business plans to kick-start a small business. The competition uses key elements such as collaboration, innovation, research and community, and decision making as criteria for a successful business.
- VET in Schools – VET students can be involved in the VETiS (Vocational Education and Training in Schools) program, which is run to promote industry standard frameworks, created by industry professionals and practising teachers by creating work-simulated projects.

Initiatives such as running a small business for the local community are becoming increasingly popular for schools that offer commerce-related subjects and business management as part of their curriculum.

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Figure 3.25 Rural communities benefit from creativity and innovation.

Creation of regional and start-up hubs

A **business hub** can be described as a place where businesses and individuals go to seek support and also have a place and space to use without necessarily setting up their own office. In many cities in Australia and around the world there are hubs for people to use.

As the economy is changing, the face of agriculture and regional industries is also changing. Regional start-up hubs offer individuals the same opportunities as their city counterparts.

business hub a place where businesses and individuals go to seek support and have a place and space to use without necessarily setting up their own office

ACTIVITY 3.7

1 Investigate your local area and find out if there are any business hubs where you live.
2 Outline why governments and local councils support such places.

CASE STUDY 3.7

The missing ingredient for success: hard work

Max Schiller knows about start-up organisations. He co-founded his own start-up, GownTown, and he is a member of the co-working space Fishburners. In early 2016, he suggested that possibly start-ups in Australia have it too easy, and as a result the founders may not have the drive to achieve success.

Mr Schiller pointed out that in many countries, co-working spaces for start-ups are active around the clock, but in Australia they are almost deserted after 5pm and on weekends. Only 31 per cent of Australian entrepreneurs work over 40 hours per week, as compared to around 50 per cent in the US. While overall shorter working hours may be good for society, he questioned whether this results in successful entrepreneurs. Aside from Silicon Valley, Israel and Singapore are often pointed to as sites of successful start-ups – both countries need an ideas-driven economy, due to their lack of natural resources.

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CASE STUDY 3.7 continued

In Australia, there is a solid economy and comfortable standard of living, so the drive to create start-ups is somewhat different. A 2015 survey, Startup Muster, found that 33 per cent of start-ups came about because the founder was dissatisfied with their former job. Mr Schiller speculates that a major cause of this dissatisfaction was probably due to working long hours for corporate employers … and so these people are not likely to want to spend just as many work hours on their start-up.

Another question in the Startup Muster survey was what start-up founders want from government. For 34 per cent of respondents, the answer was 'provide funding/grants'. Schiller argues that a successful start-up hub has never been created from a government hand-out.

Analysis

1 Describe the concept of a 'business hub'.

2 Explain the arguments around working hours of entrepreneurs in Australia.

3 Explain why Schiller feels that 'having it easy' impacts on the ability of Australians to be entrepreneurial.

ACTIVITY 3.8

Research at least one person from the table below and answer the following questions:

1 What business do they run/start?

2 What experience do they have?

3 How successful is their business?

Name	Business
Gina Rinehart	Hancock Prospecting
Vicky Teoh	TPG
Naomi Milgrom	ARJ Group
Maxine Horne	Vita Group
Yenda Lee	Bing Lee
Christina Quinn	VIP Petfoods
Charlotte Vidor	Toga Group



Figure 3.26 Gina Rinehart of Hancock Prospecting

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Chapter summary

- Businesses contribute to the economic and social wellbeing of a nation or country.
- Approximately 70 per cent of the Australian workforce are employed by small and medium businesses.
- Businesses contribute to the economy through:
  - employment
  - economic growth (GDP)
  - international trade (BOP)
  - taxation and revenue
  - infrastructure
  - research and development.
- Businesses also contribute to the general wellbeing of society.
- All businesses need to develop innovative practices.
- Innovation and entrepreneurship cultures are important.
- Entrepreneurship is the process of designing, launching and running a new business.
- Innovation and entrepreneurship can be encouraged by:
  - government investment in research and development
  - council grants for new businesses
  - business mentorship
  - school-based educational programs in entrepreneurship
  - regional business start-up hubs.

Chapter summary questions

1 Describe how businesses contribute to the economic and social wellbeing of a nation.

2 Explain how economic growth is measured.

3 Explain why businesses import and export goods and how this contributes to the wellbeing of Australians.

4 Providing infrastructure is important. How do businesses support this?

5 Describe how a business can support society through research and development.

6 Complete the following table – some of it has been completed for you.

Contributions of businesses to the economy		
Contribution	**Positive**	**Negative**
Gross domestic product (GDP)	Businesses produce goods and provide services to the economy, which increases GDP.	
Employment		When businesses reduce their staff this can lead to more unemployment.
Balance of payments and trade		

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Contributions of businesses to the economy		
Contribution	**Positive**	**Negative**
Research and development (innovation)	Businesses can discover new ways of doing things, which benefits society.	
Infrastructure growth		
Pollution/waste reduction		Businesses can contribute to pollution by the scale and size of their operations.

7 Describe why it is important for businesses and governments to promote and support innovation and entrepreneurship.

8 Define the Global Innovation Index (GII).

9 Explain why local councils offer programs to support new businesses in their area.

10 Describe why STEM (science, technology, engineering and mathematics) is important for the future of the Australian economy.

Extension questions

1 You have been employed as a reporter for Open Media and have been asked to present on the contribution of businesses to Australia. You are to argue that businesses do contribute in a positive way to the economy. You may use a PowerPoint presentation, Prezi, blog or podcast to make your presentation.

2 Read the quotes below regarding innovation and entrepreneurship. Pick two quotes and explain how they relate to the idea of building a culture of innovation and entrepreneurship.

Quotes (see Cambridge weblinks: http://cambridge.edu.au/redirect/?id=6968)

a David Rohrsheim, general manager of Australia and New Zealand at Uber:

> In order to become a genius, you must first risk being seen as a fool.

b Karen Stocks, managing director at Twitter Australia:

> Figure out what it is you stand for, go and stand up for it.

c Naomi Simson, founder and CEO of RedBalloon:

> Goals without routines are wishes; routines without goals are aimless.

d Lisa Messenger, founder and CEO of The Messenger Group:

> Hire fast, fire slowly.

e Fred Schebesta, founder of Finder.com.au:

> Focus on the one thing that you can be the best in the world at and just do that over and over again.

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f Daniel Flynn, co-founder and managing director of Thankyou:

Leadership is learning, just in front of more people.

g Mitch Harper, co-founder of Bigcommerce:

Get really good at learning.

h Catherine Brenner, a non-executive director at Coca-Cola Amatil, Boral and AMP:

You have two eyes, two ears and one mouth. Use them in that proportion.

i Jodie Fox, co-founder of Shoes of Prey:

You can be whatever it is that you want to be.

j Nicolette Maury, managing director of Intuit Australia:

Be the best version of yourself.

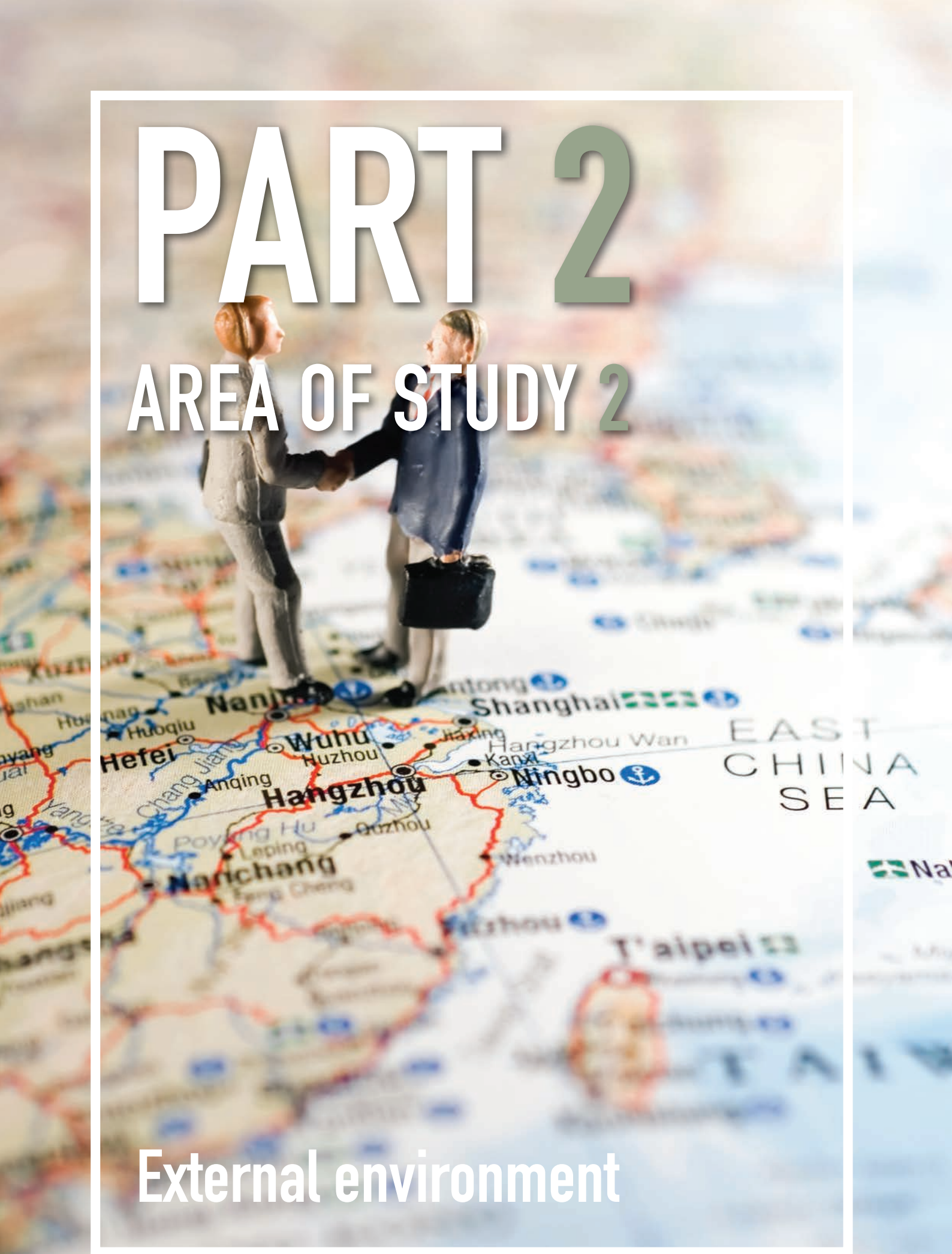
k Eugene Trautwein, vice president of worldwide customer support at Commvault:

Put yourself in the other person's shoes.

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PART 2

AREA OF STUDY 2



External environment

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CHAPTER 4

Overview of the macro, operating and internal environments – influence of the macro environment on business planning

Key terms

- Australian Business Licence and Information Service (ABLIS)
- copyright
- corporate social responsibility (CSR)
- exchange rates
- floating exchange rate
- macro factors
- offshoring labour
- online sales
- patent
- permits
- rate of interest
- social attitudes
- technology
- trademark

Overview

Businesses have to consider a range of factors from the external (macro and operating) and internal environments when planning a business. Macro factors and considerations include legal and government regulations, societal attitudes and behaviour, economic conditions, technological issues, global issues and corporate social responsibility. These factors are important and are outside the control or influence of a business, and therefore businesses need to be able to respond to them.

Key knowledge

In this chapter students will learn about:

- Macro factors that affect business planning
- Key legal and government regulations affecting businesses in the planning stage
- Societal attitudes and behaviour such as values, beliefs and trends
- Economic conditions such as how interest rates, tax rates, business and consumer confidence levels affect business planning
- Technological issues such as how the market may change in the future and developments in technology
- Global issues such as overseas competitors, overseas markets, offshoring labour, exchange rates, patenting, copyrights, trademarks and online sales that affect business planning
- Corporate social responsibility issues such as environmental considerations and planning the production of goods and services which are in society's best interests.

What's ahead

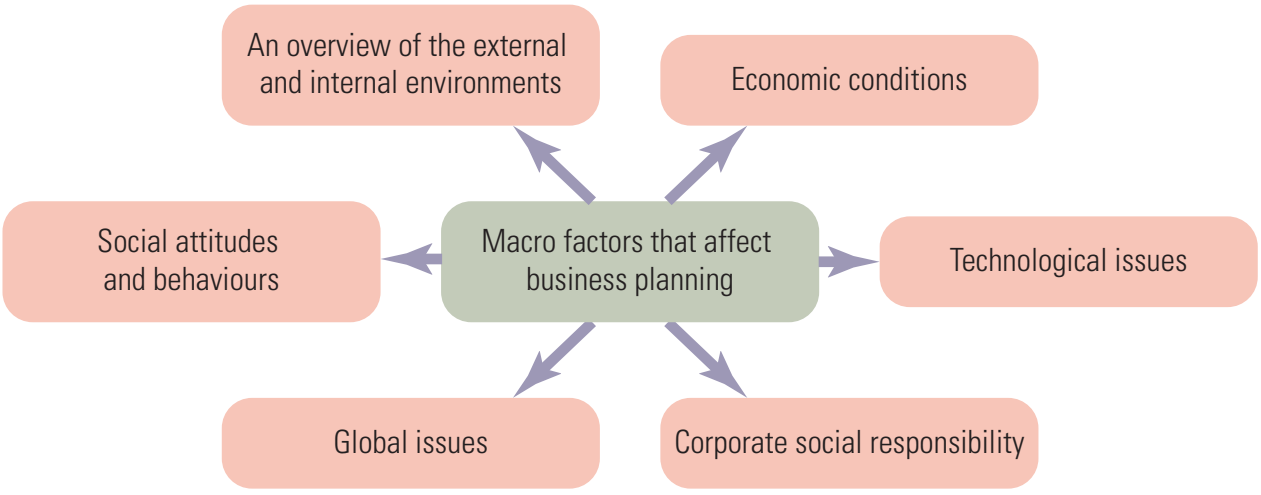


Figure 4.1 Macro factors that affect business planning

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4.1 Macro factors affecting business planning

Businesses have to take into consideration a range of issues and conditions when developing and planning their business. Planning is a complex task; if it is not done properly it may mean that the business is unsuccessful. Before a business is established a range of factors must be addressed in the planning stage. **Macro factors** are those that impact on the business and are outside the control of any one business. Businesses need to respond to macro factors when considering business planning issues.

macro factors those factors that impact on the business and are outside the control of any one business. Examples include economic factors, government policy, changes in the law and global issues.

4.2 Key legal and government regulations

When planning a business there are a range of legal and government regulations that need to be considered. Some of these are dealt with within the business (internal environment – see Chapters 6 to 9) and others are outside the control of the business. At the macro environment level, a business owner must consider a range of factors, such as taxation arrangements, any licences or **permits** required, occupational health and safety (OH&S) laws, trading laws, environment protection laws and privacy laws.

permit a law or regulation or some type of official approval to perform a task or complete an activity

Licences and permits are often required to operate a business and must be applied for and approved before a business can start. If, for example, a business is going to be a manufacturing company, there are permits, licences and courses that may need to be completed, and in the planning stage a potential business owner must investigate these.

Taxation arrangements

Before starting any trading activities, Australian business owners should register a business name and ensure they meet all other requirements and taxation obligations. These can include an Australian Business Number (ABN), the goods and services tax (GST), a tax file number (TFN) and Pay as you go (PAYG) – income tax.

Licences and permits

There are different types of licences that need to be considered by business owners in order to operate in their industry. Owners can check the licences, permits, approvals, registrations, codes of practice, standards and guidelines that are required by referring to the **Australian Business Licence and Information Service (ABLIS)**. For example, business owners selling food may require a food business licence and these differ across states and local government areas. Other issues that may need to be considered include laws relating to businesses that operate from home, planning zones and overlays, and businesses that can only be operated in particular areas.

Australian Business Licence and Information Service (ABLIS) a government service that assists people to find the government licences, permits, approvals, registrations, codes of practice, standards and guidelines needed to meet their compliance responsibilities

ACTIVITY 4.1

1. Go to the Australian Business Licence and Information Service website and imagine a type of business you would like to establish (e.g. a mobile food van), and use your suburb or postcode and work through the questions.
2. Identify the types of legal and other considerations that would need to be addressed as part of the initial business planning.

Common planning and building permit applications include:

- setting up a store, food premises or other business
- changing an existing shop front
- attaching signage to a building
- updating the internal fit-out of a premises
- putting outdoor seating or heaters on a footpath
- running a home business.

It is important that all of these matters are dealt with before a business commences.

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Figure 4.2 Businesses must have the correct licences and permits.

Occupational health and safety laws

Occupational health and safety (OH&S) in Victoria is governed by a set of laws, regulations and compliance codes that outline the responsibilities employers and workers must adhere to, in order to ensure that safety is maintained at work. Business owners need to consider the types of equipment and training, and the conditions of a workplace or building, that would be required before operating a business.



Figure 4.3 Understanding occupational health and safety is vital.

ACTIVITY 4.2

1. Go to the WorkSafe website at Cambridge weblinks (http://cambridge.edu.au/redirect/?id=6969) and look at the Compliance Codes.
2. Choose one area or code and outline three main requirements a business needs to address.
3. Explain how this code can have an impact on a business in the planning stage.

Trading laws and other requirements

Anyone considering starting a new business also needs to check the main federal law, the *Competition and Consumer Act 2010* (CCA), for the requirements they must fulfil and to make sure that the business is compliant. The CCA is administered by the Australian Competition and Consumer Commission (ACCC) to bring about a fair and efficient marketplace through the promotion of good business practices.

The CCA ensures that trading is fair for a business and its customers and covers a wide range of marketplace aspects, ranging from product labelling to the regulation of industries such as telecommunications, gas, electricity and airports. It governs dealings with suppliers, wholesalers, retailers, competitors and customers; identifies unfair market practices; sets industry codes of practice; and regulates mergers and acquisitions of companies, product safety and price monitoring.



Figure 4.4 Businesses must be compliant with the CCA.

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A person starting a new business, regardless of its size, also has to check the fair trading laws of their own state or territory. Victoria Consumer Affairs, for example, has codes and regulations covering:

- licensed businesses such as real estate agents, debt collectors, motor car traders and travel agents
- registered businesses such as builders and tradespeople, caravan and residential park operators, retirement village operators and secondhand dealers and pawn brokers.

There are also other considerations, laws and regulations that businesses have to take into account when planning a business. These include:

- privacy legislation – use of personal information by a business
- employment and related laws – if planning to recruit staff then it is important to understand laws surrounding equal opportunity, wages and employment standards, and anti-bullying laws.

CASE STUDY 4.1

Health and fitness centres – consumer contracts

Health and fitness centres generally use standard form consumer contracts – that is, contracts prepared by the business and offered on a 'take it or leave it' basis.

Under the Australian Consumer Law, a term in a standard form contract may be declared unfair if it:

- would cause a significant imbalance in the parties' rights and obligations under the contract
- is not reasonably necessary to protect the business
- would cause detriment (financial or otherwise) to a consumer.

All businesses, including health and fitness centres, should ensure their contracts comply with unfair contract terms laws.

Victorian Consumer Affairs has worked with health and fitness centres to remove or modify unfair consumer contract terms, including terms that:

- resulted in the automatic renewal of memberships without the opportunity to cancel at the conclusion of a minimum term
- allowed the health and fitness centre to vary its services without notice
- penalised consumers for terminating memberships
- penalised consumers for breach of contract.

Contracts that include such terms are not automatically considered unfair, as only a court or tribunal can determine this.



Figure 4.5 All businesses must comply with contract laws.

Consumer Affairs engages with businesses to ensure their contracts comply with the law. If a business refuses to modify its contracts, they may take further action such as applying to the Victorian Civil and Administrative Tribunal (VCAT) for orders.

Consumers may also take their own action at VCAT or in a court if they believe a term to be unfair. If the contract terms are found to be unfair and void, those terms are treated as though they never existed. If the contract can operate without the unfair term, it will still be binding.

Recreational businesses, including health and fitness centres, can limit their liability under consumer

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law for death or personal injury as long as they notify consumers of any limitation before they agree to buy the services.

(Source: Based on Consumer Affairs Victoria website, 'Health and fitness centres – unfair contract terms', updated 2 June 2016.)

Analysis

1 Joanna and Heidi are investigating and planning to set up a gym in Ballarat. They want to encourage the local community to take out gym memberships. What conditions would they need to follow to ensure members were treated fairly?

CASE STUDY 4.2

Chocolate and confectionery manufacturing in Australia: market research report

Just desserts: healthier eating habits have forced the industry to introduce new products

Report snapshot:

Market Share of Companies – the main businesses in this market are Mars, Mondelez Australia and Nestlé.

Industry Statistics & Market Size:

- Revenue – $6.5b
- Annual Growth (2011–2016) – 3.5%
- Employment – 11 733
- Businesses – 356



Figure 4.6 The chocolate and confectionary industry is resilient.

Industry Analysis & Industry Trends

The Chocolate and Confectionery Manufacturing industry has remained resilient despite challenging operating conditions. Increasing health consciousness has required manufacturers to be innovative with their product lines and adapt to shifting consumer demands. In particular, consumers have demanded more ethical and sustainable production methods, resulting in the significant growth of fair trade and organic chocolate products. Greater demand for industry products from supermarkets and grocery stores along with rising household disposable income have underpinned industry growth over the period.

Industry Report – Industry Locations

The majority of chocolate and confectionery manufacturers are located in Australia's eastern states, with just under 80% of industry enterprises located in Victoria, New South Wales and Queensland. Chocolate and confectionery manufacturers tend to operate in metropolitan areas, as population levels and economic activity are highest in these areas. Historically, the fragile and perishable nature of industry products, particularly chocolate, has made it necessary for firms to establish operations close to their major consumer markets.

(Source: IBISWorld website, www.ibisworld.com.au, 'Chocolate and Confectionery Manufacturing Market Research Report', May 2016.)

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CASE STUDY 4.2 continued

Analysis

1. Outline three trends and pieces of information in the report regarding the chocolate and confectionary industry.
2. Stefan and Oliver want to start a small chocolate manufacturer in the western suburbs of Melbourne. They have started to build up partnerships with a few local restaurants. Identify how they could use the information in the report shown to assist in their business planning.
3. Describe what other considerations they would need to take into account in their planning.

Environmental legislation

Any potential new business must investigate whether there are any environmental laws that relate to the business's activities. In Australia, environmental laws are administered and enforced by federal, state and local governments. According to the Business Victoria website these include importation considerations, heritage issues, hazardous waste disposal and the quality of fuel. Other areas covered include:

- licensing and works approvals
- land and groundwater
- landfills
- noise
- waste
- water
- National Pollutant Inventory.

ACTIVITY 4.3

1. Go to the federal Department of the Environment website and view the *Environment Protection and Biodiversity Conservation Act 1999* (EPBC Act).
2. Outline two areas covered by the Act that might need to be considered when planning a business.
3. Now go to the Department of Transport, Planning and Local Infrastructure website and outline how you can apply for a planning permit. Look at the local government area or council you live in (there are links on the website). What do you need to do to gain a permit?



Figure 4.7 Businesses must follow environmental laws.

4.3 Societal attitudes and behaviour considerations

Many changes have taken place in Australia and societies around the world over the past few decades. Factors such as shifting demographics, increased levels of education, different ideas and expectations, beliefs, trends and values have all impacted on the ways that society and the economy operate. It is important for a business to understand and take these factors into account while in the planning stage.

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CASE STUDY 4.3

15 ways that society is about to change

In today's world change is rapid, and especially so in terms of technological advancements. Some of the ways society might change in the near future include:

1. Instant language translation – Google is working on a mobile device that will act as an instant voice translator.
2. 3D printing will become more and more widespread and change the way the world works.
3. The world's population is expected to almost double its current number by the end of the 21st century.
4. According to the US Director of National Intelligence, by 2030 brain machine interface technology could provide superhuman strength, speed, night vision and superior memory recall.
5. Organ donation will cease, as scientists are growing body parts in the lab.
6. 75% of the species on earth are disappearing – further reducing our planet's natural assets.
7. As the use of cash is diminishing, bank robbers will go out of business.
8. Commercial jets will travel at amazing speeds in orbit, allowing for super-fast air travel.
9. Landfills will not be required – as a plastic-eating fungus has been discovered in the Amazon.
10. There will be as many mobile phone accounts as there are people in the world.
11. It is estimated that in 2050 the number of people living in poverty will be decreased to 1 in 40. It was 1 in 2 in 1950.
12. Car manufacturers plan to introduce 'crash proof' cars by 2020, which will use imaging and computing technology to detect and avoid dangerous objects on the road.
13. By 2035, cars will drive entirely on their own.
14. Space travel will be revolutionised by a next generation spacesuit that acts as a second skin for astronauts.
15. The first person who will live to 150 is already born.



Figure 4.8 Society will continue to change in unexpected ways.

Analysis

1 Take three of the trends and ideas mentioned in this extract and describe how they could possibly impact on future businesses.

2 Talk to your relatives, parents or grandparents or older friends. Ask them to describe some of the changes that have taken place in their work and lives over the last few decades.

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Australian society is changing; there have been many waves of immigration since World War II and this has influenced food, traditions, **social attitudes** and businesses in Australia. Many new immigrants to Australia have run their own businesses and this trend is likely to continue. When planning a business, the needs of the population may change and this can influence the types of businesses that might run in the future.

social attitudes an acquired tendency to evaluate social things in a specific way. Attitudes can be characterised by positive or negative beliefs, feelings and behaviours towards others or a particular entity.

The workforce is also changing in Australia. Fifty years ago the expectation was that a man went to work and a woman stayed home. Until 1966 married women were not employed by the Australian Public Service and single women were forced to 'retire' when they married. This has changed substantially and the number of women in the workforce has grown rapidly since the 1960s. These demographic changes have led to changes in people's attitudes and beliefs regarding the roles of men and women in society and the workforce.

In 1966 more than 25 per cent of the workforce was in manufacturing, but this is now around 8 per cent. In 1940, 6 per cent of all factory workers were under the age of 16. People are now staying in education and training a lot longer. The majority of people are now employed in service industries as the nature of work is also changing. People with a tertiary education are more likely to have a job than those who have not gone to university (see Cambridge weblinks: http://cambridge.edu.au/redirect/?id=6970).



Figure 4.9 People are staying in education and training longer.

The composition of Australia's population is also changing; the population is ageing. In 1970–71, 31 per cent of the population was aged 15 years or younger, while by 2001–02 this had dropped to 22 per cent. It is expected that over the next 40 years the proportion of the population over 65 will continue to grow. At the same time population growth will also slow. Life expectancy has also increased. These changes also provide many opportunities for businesses to go into industries and sectors of the economy that previously did not offer prospects (see Cambridge weblinks: http://cambridge.edu.au/redirect/?id=6971).

ACTIVITY 4.4

Go to the Australian Bureau of Statistics (ABS) website and conduct some research to answer the following questions.

1. Determine how many people there are in Australia.
2. Identify trends around age and population patterns.
3. How might these trends impact on business planning for the future?

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CASE STUDY 4.4

Australia's ageing population yields opportunities for business

Scoping demographic mega-trends

What is the single most important mega-trend that underpins the Australian consumer market and electoral base? I think it is the demographic contortions associated with ageing and with the combined effects of the inflow and outflow of population. In common language ageing means more people – generally baby boomers – progressing to and lingering in old age.

The Australian population increased by four million over the decade to 2015. This decade also witnessed the global financial crisis and a shift in the terms of trade such that, for a few heady years, the national income surged ahead. Business opportunity isn't so much understanding the scale of the available market; it's more about snaring and servicing an expanding market.

These demographic surges underpinned the consumer market over the last decade. The surging 18–24 segment was partly due to the tail-end of Generation Y as well as the result of escalated migration and international students. The older late-50/early-60 segment comprised baby boomers transitioning towards retirement.



Figure 4.10 An ageing population creates business opportunities.

This is quite irrelevant to the future. And the reason is that the demography that underpins the Australian consumer market and electorate is continually shifting. What business really wants is a best estimate of how the age-specific market will change over the coming decade to 2025. Which age groups will expand and therefore present servicing opportunities?

It is at the segment level where the underlying and emerging demographic mega-trends become apparent. The number of kids under the age of five will rise but this market is moderating. And so too is the 18–24-year segment. The kid and the university-student markets will be tough in the coming decade.

The opportunities lie elsewhere. The school-age 5–17 segment will increase. School-supplies, children's sport, teen fashion or teen-music/technology would be good businesses to be in. Interestingly, the chart shows that there will be a shift in the 25–39 household formation segment, with the market expanding in the later years. More Generation Ys pushing from 20s to 30s will deliver a level of sophistication to the housing market: less student accommodation/apartments and more corporate chic is perhaps how it might be best explained. More elegant and expensive apartments in the inner city and more McMansions in the outer suburbs, all tailored to a market that is settled, employed and has the capacity to discern their preferred lifestyle.

Over the coming decade the number of Australians pushing into the pre-retirement 55–64 phase in the life cycle will moderate. The downsizing market will subside later this decade. Financial planners might struggle to secure work. Instead the coming decade will surge into the late 70s. This segment expanded by 329 000 over the decade to 2015 but this will rise to 731 000 over the decade to 2025.

With the likely addition of four million residents over the coming decade, all segments and all markets will expand.

That is always expected in a young country like Australia. Business builds an expected rate of growth into expansion and management plans. Supermarket chains and fast food stores expect to expand their

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CASE STUDY 4.4 continued

network year after year. The opportunity in business is being able to snare or control a market segment that is rising faster than its historic trajectory. Such segments deliver a better than expected yield.

By carefully measuring year-by-year net growth over the last decade and comparing that with net growth over the coming decade it is possible to determine segments that will grow. What business is really looking for is segments that are moving in an upward trajectory. And in this regard look no further than the 5–17 segment, the mid- to late-30s segment, and the 75-plus segment.

(Source: B Salt, 'Australia's ageing population yields opportunities for business', *The Australian*, 14 May 2015.)

Analysis

1. Identify and explain three trends outlined in the market.
2. List the areas or possible industries that potential businesses could move into.
3. Marco and Pammy are looking at setting up a caravan park in a tourist area. They plan to offer discounts to families and 'grey nomads' (people who have retired and are travelling). Evaluate the business idea and provide some advice (based on the article) for its business prospects.
4. Explain how the current situation offers opportunities for people planning to start a business.



Figure 4.11 Australia has an ageing population.

4.4 Economic conditions

There are many economic factors that can influence and impact on a business. If an individual or large business is looking at expanding or starting up a new venture, it is important to take into account the economic conditions at the national, state and local levels. There are a number of economic factors that can impact on a proposed business. These include:

- interest rates
- tax rates
- business and consumer confidence levels.

rate of interest the amount charged, expressed as a percentage of principal, by a lender to a borrower for the use of assets. Interest rates are typically noted on an annual basis.

Interest rates

If the **rate of interest** (the cost of borrowing for a business) is low then it is more likely that business owners might borrow to set up a business,



Figure 4.12 Businesses must take economic conditions into account.

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because the repayments will also be less and easier to manage and maintain.

Interest rates in Australia have been relatively low when compared to a few years ago. While low interest rates are attractive when borrowing money, they make it more difficult for investors, individuals and businesses when they want to invest money because the returns are not high.

CASE STUDY 4.5

Commonwealth Bank joins rivals in raising business interest rates

The Commonwealth Bank has joined rivals in raising interest rates for business customers, hiking rates on a range of business loans by up to 0.21 of a percentage point.

Some mortgage customers will also feel the sting of higher borrowing costs, as CBA is also increasing interest rates on lines of credit. CBA, the country's biggest bank, became the last major lender to increase its business lending rates independently of the Reserve Bank and blames the increase on higher funding costs and tougher regulation.

'We have increased our rates across a number of business lending products in response to higher funding costs and increased regulatory requirements impacting all banks,' a spokesman said.

In contrast to the banks' justification for raising rates, Reserve Bank governor Glenn Stevens last month said the recent rise in wholesale funding costs had not been sufficient to warrant banks increasing their lending rates independently of the central bank.

'I do not see much of a case for independent increases in lending rates based on funding costs as they have evolved just lately,' Mr Stevens said.

The moves also come as bank profit margins are being reduced by fierce competition and borrowers paying back debt quickly.



Figure 4.13 The Commonwealth Bank of Australia

(Source: C Yeates, 'Commonwealth joins rivals in raising business interest rates', *Sydney Morning Herald*, 3 March 2016.)

Analysis

1 Explain why the banks increased the rate of interest for businesses.

2 How could an increase in the rate of interest and the cost of borrowing impact on someone planning to start a business?

ACTIVITY 4.5

1 Go to the website of one of the banks or financial institutions and outline the types of loans available to businesses.

2 Outline why a new business would need to have access to a loan or extra finance.

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Figure 4.14 Banks have lenders dedicated to assisting businesses.

ACTIVITY 4.6

Franca and Ali want to set up a small business – a painting and decorating business that they will run from home. They are not sure about how much tax they might need to pay. Both have agreed to set up a company. They anticipate that the revenue or sales will be around $180 000 in the first year.

1. Go to the Australian Taxation Office (ATO) website and explain the taxation rate and types of taxation Franca and Ali are likely to have to pay based on their predicted revenue.
2. Assess why taxation would be a consideration in planning the type of business structure they choose.

Tax rates

All individuals and businesses pay income and other taxes. As part of the planning process, taxation consequences should be taken into account. Although taxation is not the only important factor, it may have an impact on the financial performance of the business. If an individual runs a business as a sole trader or partnership, then the individual will pay income tax. Australia has a progressive income taxation system, which means that the more a person earns the higher the rate of tax they pay. Individuals usually pay tax as they earn; this is known as Pay as you go (PAYG).

If a business is set up as a company then the tax rate is different – 30 per cent for most companies. In an effort to support and encourage small businesses there are some taxation concessions, and a small business which earns less than $2 million is subject to a 28.5 per cent tax rate. Businesses also pay other taxes to state governments, such as payroll tax.

Taxation considerations are important as a business needs to ensure it has the cash to meet its taxation obligations. Taxation may also have some bearing on the type of business structure chosen (see Chapter 7 for further information).

Business and consumer confidence

The general level of business and consumer confidence is related to economic growth and the level of economic activity, and therefore is important to all businesses. If business and consumer confidence is high then businesses are more likely to look at expanding or increasing production and consumers are more likely to spend because they feel comfortable about their financial situation. If the level of economic growth and economic activity is low then consumer and business confidence is likely to suffer. For much of the time it is the perception of how the economy is performing or will perform that drives the economic and spending decisions of people (see Chapter 3).

Consumer demand is an important factor that can influence and provide new business opportunities. If demand for particular types of goods and services is high then this might mean that businesses will be more likely to move into this area. Large businesses might take advantage of any trends and expand into new areas or sectors.

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CASE STUDY 4.6

Consumer and business confidence – part one

Consumer confidence hit by global turmoil



Figure 4.15 Consumer behaviour is affected by economic conditions.

Global market turmoil has hit Australian consumer confidence, with a fall in Westpac's monthly index confirming a marked drop in sentiment.

'The index is at its lowest level since September 2015, but remains 4.3 per cent above its level of a year ago,' said Westpac chief economist Bill Evans.

Consumers were impacted by 'the spate of negative news on the international front and the spillover effect on financial markets,' he said.

All subcategories except one dropped in January.

The largest drop was how family finances compared to one year ago (down 9.4 per cent), the lowest level since last July.

This was followed by the assessment of current economic conditions (down 5.1 per cent) and how the economy would be performing one year from now (down 5.0 per cent).

Mr Evans said the spate of negative news from international markets had been flowing through to consumers.

China's volatile sharemarket has been down by about 15 per cent since the beginning of 2016, which had sent the Australian dollar falling to 69 US cents, from 73 US cents, Mr Evans said.

One good piece of news was the sharp 13.9 per cent increase in the 'time to buy a dwelling' index to 113.0 in January from 99.2 the month before.

It is the highest reading for this index since May last year, and now only 1.4 per cent below its level for January 2015.

'The sharp increase will reflect some seasonality but the move is so large that we can only conclude that this print may be signalling some improving optimism in the housing market,' Mr Evans said.

'For this reason it is best to be cautious but nevertheless encouraged by this result,' Mr Evans said.

Retail Council chief executive Anna McPhee said concerns over China and the sharemarket had weighed on the reading. 'The consumer sentiment reading shows the momentum of rising consumer sentiment experienced in the final months of 2015 have not continued into January with the likely impact of this fall attributed to slowing of the Chinese economy and recent share market volatility.'

The Westpac figure confirms the sentiment reported in the ANZ-Roy Morgan weekly consumer confidence index, released Tuesday. That index declined by 0.8 per cent in the week ending 17 January, following a 1.9 per cent fall in the previous week.

Further losses on the share market amid ongoing concerns around China's economic growth prospects are likely to have weighed on confidence, said the bank.

'Consumer confidence fell a modest 0.8 per cent last week, leaving levels just a tick (0.4 per cent) above their long run average,' said ANZ co-head of Australian Economics, Felicity Emmett. 'This follows a dip in the previous week which was likely driven by news flow on global financial market volatility and concerns over China's economic growth.'

(Source: S Cauchi, 'Consumer confidence bit by global turmoil', *The Age,* 20 January 2016.)

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CASE STUDY 4.6 continued



Figure 4.16 Consumer confidence is an indicator of economic conditions.

Analysis

1 Define consumer confidence. How can it be influenced by economic conditions in Australia and the rest of the world?

2 Examine how consumer confidence can influence decisions about business planning.

Consumer and business confidence – part two

Business confidence unaffected by global turmoil

The National Australia Bank's business survey, released monthly, showed that the global market upheaval in January 2016 had very little impact on Australian business confidence. Despite the pressure on mining and resource-related businesses from drops in commodity prices, other sectors of the economy remained relatively healthy.

The NAB survey compiles data from more than 400 companies in different sectors and across Australia. While deterioration in the mining industry had some flow-on effects in Western and South Australia, the ongoing strength of other industries suggested that their fundamental conditions remained resilient.

The survey showed that the service based economies of Victoria and New South Wales enjoyed positive business confidence over the month of January, while the transport industry likely benefited from low fuel prices.

'Given all the volatility in equity and financial markets, this is yet another relatively good result from the Business Survey,' said NAB's group economist Alan Oster. 'It suggests things remain broadly on track for the non-mining economy.'

(Source: M Mulligan, 'Business confidence steady despite market turmoil', *The Age*, 9 February 2016.)

Analysis

1 Explain why surveys about business confidence are conducted.

2 Describe the impact that business conditions can have on any individuals or groups that might want to start a business.

3 Provide reasons why a business in the planning stage would need to be aware of current economic conditions, in particular within the business sector in which the business will operate.

See the Interactive Textbook edition for a further case study on business and consumer confidence.

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4.5 Technological issues

Technology is continually changing and the rate of change is rapid. In this environment it is important for a business to ensure it is up-to-date with technology to run the business and also to take advantage of any business opportunities that result from new innovations. While technology has changed the way businesses operate, technology also offers new opportunities for businesses, particularly small businesses, to compete against larger and established businesses. Whether it is delivering a product or a service, it is important in the planning stage for a business to consider the use of technology in areas such as record keeping and financial management, marketing and sales, and operations.

technology practical application of science to achieve commercial or industrial objectives



Figure 4.17 Businesses must stay up-to-date with changes in technology.

CASE STUDY 4.7

Eight tech trends to watch in 2016

More than once you've probably looked at some new digital or technological development and asked yourself, 'How did we miss that?'

In order to chart the best way forward, you must understand emerging trends: what they are, what they aren't, and how they operate. Such trends are more than shiny objects; they're manifestations of sustained changes within an industry sector, society, or human behaviour. Trends are a way of seeing and interpreting our current reality, providing a useful framework to organise thinking, especially when dealing with the unknown. Fads pass. Trends help forecast the future.

Trends for 2016 include:

Algorithmic personality detection. Some life insurance underwriters are attempting to assess a person's personality – via magazine and website subscriptions, the photos a person posts to social media, and more – in order to determine risk. Algorithms will harness personal data in order to assess an employee's predicted success at work: for example, how likely s/he is to move between jobs.

Bots. Software applications that run automated tasks are called 'bots'. 2016 will bring a host of creative bots that will supercharge productivity, keep people company, and help track what others are doing. Microsoft's experimental Mandarin-language bot, Xiaolce, can have conversations via a smartphone.

News organisations will soon use bots to sort and tag articles in real time. The intelligence community might deploy bots for surveillance and for digital diplomacy. HR managers can use bots to train employees.

Glitches. Expect to hear more about 'glitches' in 2016. While there have always been software bugs, what we're seeing now is so much new technology coming online so quickly that we don't know what the interactions will be in advance.

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CASE STUDY 4.7 continued

Glitches are a newer phenomenon, which are difficult to predict in advance. This is not an argument against technology – it's a recommendation for increased systems monitoring and regular conversations with IT managers.

Backdoors. Backdoors are lines of code developers intentionally install in firmware so that manufacturers can safely upgrade our devices and operating systems.

Some government officials will be advocating for a set of 'golden keys', which would allow law enforcement to use backdoors as they wish. In 2016, any company that stores customer data could be asked to create a backdoor. This might include banks, advocacy groups, travel agencies, hotel companies and more. Opponents argue that the simple act of creating a backdoor would leave ordinary people vulnerable to everyday attacks by even unskilled hackers.

Blockchain. The blockchain is a sort of distributed consensus system, where no one person controls all the data. The blockchain enables people to participate in 'trustless' transactions, eliminating the need for an intermediary between buyers and sellers. And it potentially eliminates the need for all intermediaries in most transactions, even those outside finance. The cryptography team at Blockstream recently launched its first prototype 'sidechain', which functions as a separate ledger with its own code. Sidechains allow for easier authentication.



Figure 4.18 Drones will soon need their own sky lane.

Drone lanes. In 2015, two drones inadvertently prevented firefighters from putting out a rapidly spreading California wildfire, which crossed over onto a freeway and destroyed a dozen vehicles. It is anticipated that the sky will be divided soon: hobbyist pilots will have access to operate drones in the 200 feet and below space, while businesses and commercial pilots will gain exclusive access to 200–400 feet zone overhead.

Quantum computing. In short, quantum computers can solve problems that are computationally too difficult for a classical computer, which can only process information in 1s and 0s. In the quantum universe, those 1 and 0 bytes can exist in two states (qubits) at once, allowing computations to be performed in parallel. The National Security Agency is already predicting that the cryptography in use will be rendered completely obsolete once quantum computers go into widespread use.

Researchers at IBM's experimental quantum computing group have begun to unlock difficult problems in quantum computing, such as detecting errors. Recently, D-Wave Systems announced that it broke the 1,000 qubit barrier, which (if true) would make it the most powerful computer on the planet. Now, IBM, Microsoft, Hewlett-Packard and Google, as well as D-Wave, are trying to figure out how to advance and commercialise the technology.

Augmented knowledge. Scientists at the University of Southern California have been working on a cognitive neural prosthesis that can restore and enhance memory function. This research has a practical and altruistic purpose: to help victims of stroke or traumatic brain injury regain their cognitive abilities and motor function. Rather than having to relearn, they need only reload those memories. But this implies that someday you might be able to augment your mental ability – much like robotic suits allow us to enhance our physical strength – with a computer device.

(Source: A Webb, '8 tech trends to watch in 2016', *Harvard Business Review*, 8 December 2015.)

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Analysis

1 Identify and explain the implications that the technology innovations such as those mentioned in the article have for existing and potential businesses.

See the Interactive Textbook edition for a further case study on technological issues.

4.6 Global issues

Australia's future prosperity is inextricably linked to productivity growth and to the performance of its businesses. The increasingly competitive nature of global markets makes strong demands on the operation of Australian businesses, which need to continually adapt and improve. In this environment sustained productivity growth and trading success are critical for raising living standards in the long term. Much progress has been made in improving the international competitiveness of Australian industry following a series of economic reforms since the 1980s.

All businesses are now operating in a global economy and must contend with regulations, practices and laws in many different countries. Improvements in technology, reduced barriers to international trade, and the integration of developing economies into the global business world have led to fundamental changes in how businesses operate.

Because businesses now have the ability to globally streamline supply, manufacturing and retail chains, companies are placing increasing emphasis on:

- centralising and transferring business activities, particularly service functions using digital platforms
- capitalising, sharing and transferring intangible (non-physical) assets to where their development and protection is most efficient.

A number of factors need to be taken into account when moving into a global economy, including:

- overseas competitors
- overseas markets
- offshoring labour
- **exchange rates**
- patenting
- copyrights
- trademarks
- online sales.

exchange rates the price of a country's currency in terms of another currency



Figure 4.19 Australian businesses compete in a global economy.

Overseas competitors

Australian businesses have to be able to compete with businesses within Australia and overseas, whether this is importing or exporting goods. Trying to compete with businesses from different countries can be daunting. Many countries have different laws, practices and regulations that may give other businesses a competitive advantage over Australian businesses. Labour costs, for example, are often cheaper in some neighbouring countries and this can provide an advantage.

Overseas markets

Australian businesses need to be able to move into overseas markets in order to expand markets and customer bases. A business wishing to establish itself needs to ensure it has an understanding of the different requirements and regulations that cover that particular business. Understanding social and other aspects of different societies is also important.

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Figure 4.20 Australian businesses must understand overseas markets.

As part of its planning to move into overseas markets, a business must ensure it is clear about regulations and laws.

The Australian International Business Survey in 2015 found that Australia's internationally active businesses use a range of strategies to respond to different global opportunities and challenges. Some of the survey findings highlighted that Australian businesses earning revenue from overseas markets must engage in a portfolio of complementary activities that go beyond traditional exporting. The survey also confirmed that local culture, business practices and language remain the most significant barriers to breaking into some overseas markets. Payment issues, business practices, product standards and tariffs were also cited as important considerations for businesses to plan for.

In the survey India, Indonesia and China were identified as challenging business environments. These three markets, along with the United States and United Kingdom, were also identified as key target markets (see Cambridge weblinks: http://cambridge.edu.au/redirect/?id=6972).

ACTIVITY 4.7

1. Go to the Department of Foreign Affairs and Trade website and find the 'Trade and Economic Fact sheets'.
2. Choose one country and look at the types and amount of trade Australian businesses have with that country.
3. Explain how this information could be useful for a business setting up to export products.

Offshoring labour

Offshoring labour is a growing trend among businesses operating in the global economy. Offshoring refers to work that is done in another country; for example, aircraft maintenance conducted in Hong Kong or app development carried out in India. This is not the same as outsourcing (work conducted by a third party) and the two are not mutually exclusive. A business can outsource labour to a local company, or offshore labour to another arm of the same business.

offshoring labour refers to work that is done in another country

Having work completed offshore allows businesses a certain amount of flexibility, particularly in the legal, information technology (IT) and accounting industries. As trade barriers are removed, free trade agreements are signed and more businesses enter the global economy, offshoring work will become increasingly popular for businesses searching for ways to remain competitive.

The recent growth in offshoring labour can be linked to four key factors:

- Changes in technology, particularly the development of cloud computing, the growth of bring your own device (BYOD) work policies, rapid advances in mobility and the influences of big data have made it easier for businesses to go offshore.



Figure 4.21 Using offshore labour is a business trend in the global economy.

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- The relaxation of legislation and regulations has removed many of the legal barriers to companies taking work offshore. New trade agreements and the removal of tariffs have also reduced the cost of offshore work.
- The growth of particular locations as offshore hubs, including India, Poland, the Philippines, China, Romania, Mexico and parts of South America.
- The pressures of globalisation, which have forced businesses to reduce costs and become more competitive. Globalisation has also created access to skilled workers from developing markets, such as those in Asia.

Exchange rates

Australia has a **floating exchange rate** (its value is determined by demand and supply for the currency). The value of the Australian dollar is an important determinant of business revenue and might vary depending on whether a business is importing or exporting goods or products.

floating exchange rate the value of the currency is determined by the demand and supply for the currency; it can change on a daily basis

In an economic climate where the Australian dollar fluctuates, businesses have to be able to anticipate possible changes and adapt their business plans accordingly. If a business wishes to be involved in the global economy, then as part of its business planning it must be able to foresee and develop strategies to manage changing currency value.

CASE STUDY 4.8

The resilient Australian dollar

The Australian dollar has a reputation for being resilient to fluctuations in the global economy. In late February 2016, a huge amount of economic data from China and Australia was released, allowing the Aussie dollar to strengthen slightly after a drop against the US dollar around the same time.

The Australian dollar generally sits around US72¢, however senior economists suggest that this could strengthen on the back of a drop in the US dollar and an increase in the global appetite for risk. In addition, the Australian Bureau of Statistics (ABS) will soon release information on 2016's fourth-quarter GDP performance, which many economists believe will show growth.

Changes to policy in China are also expected to further stimulate the Australian economy. The People's Bank of China has reduced the reserve requirement ratio for banks by 0.5 per cent to 17 per cent. The reserve requirement ratio refers to the amount of physical capital that needs to be held by banks: reducing the ratio allows banks to lend more money without needing to increase their capital reserves.

Analysis

1 Explain why it is important for a business to understand the movement in currency and exchange rates if it is trading overseas.

2 What is the value of the Australian dollar currently? Has the value increased or decreased over the past month? What impact might this have on a business or someone considering starting a business?



Figure 4.22 The resilient Australian dollar is living up to its reputation.

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Patenting

A **patent** is a right that is granted for any device, substance, method or process that is new, inventive and useful. A patent is legally enforceable and gives the owner exclusive rights to commercially exploit the invention for the life of the patent.

patent a right that is granted for any device, substance, method or process that is new, inventive and useful

There are two types of patents granted in Australia – standard and innovation. When planning to apply for a patent, a business owner needs to research both types before deciding which one suits the needs of the business. There are differences in the cost of the patents, the length of protection they offer, the time taken to process them and the type of invention covered.

In order to have a patent granted a person needs to file what is known as a complete application. Prior to filing this, a person can also file a provisional application to gain priority.

Such a thing as an 'international patent' does not exist, but businesses can apply for a specific patent in different countries in order to protect their inventions in various export markets. A helpful way to simultaneously apply for patents across the globe is a Patent Cooperation Treaty (PCT) application. An Australian patent provides protection only within Australia. To obtain similar protection in other countries a business generally has two choices:

- It can file separate patent applications in each country. This can be cost-effective when a patent is only filed in a few countries.
- It can file a single international application under the PCT, which is administered by the World Intellectual Property Organization (WIPO). This gives an application automatic effect in 148 countries and allows further time to decide whether a person wants to pursue patent protection and in which countries. While this still necessitates separate patent applications in each country it is a way to do all of them simultaneously.

Example of intellectual property – Sand Wedge

The Sand Wedge is a beach chair with a difference. It's a back pack, beach bag, beach seat and sun lounge all in one.

Katherine Drayton says: 'When I made my first Sand Wedge it was really just for me, as I have a spinal condition that made the whole beach experience pretty bad. I showed my idea to family members and they thought it was great.'



Figure 4.23 The Sand Wedge is an example of intellectual property, and is a versatile product for beachgoers.

As Katherine developed the concept further, she began to wonder whether it was patentable.

She researched to see if anyone had invented something that was similar to her concept.

Finding there was nothing like the Sand Wedge protected in Australia or the US, Katherine decided to go ahead with getting intellectual property (IP) protection.

She saw a patent lawyer to learn more about patents and what they actually protect. Through the solicitor she then filed a provisional patent application, which gave her 12 months to research the product's viability on the market.

Within the 12 months Katherine also decided to have her design registered, as a patent protects the way something functions but a registered design protects the way it looks.

Trade marking the Sand Wedge logo was the final step in gaining comprehensive IP protection.

(Source: IP Australia website, 'Patents'.)

Copyright

Another factor a business must consider in the planning stage is **copyright** restrictions and requirements. Copyright exists to protect the original expression of ideas (not the ideas themselves). Copyright in Australia is free and automatic and tends to cover works such as books, films, music, newspapers, magazines and artworks. Copyright also protects

copyright exists to protect the original expression of ideas (not the ideas themselves). Copyright in Australia is free and automatic and tends to cover works such as books, films, music and newspapers.

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originally created data bases, computer programs and media broadcasts. Copyrights are overseen by the federal Attorney-General's Department. Because copyright is automatic there is no official registry or application process. Copyright protection is provided under the *Copyright Act 1968* in Australia, although copyright laws vary between countries. It does not protect a business from the independent creation of similar work. Copyright usually lasts for 70 years from the year of the author's death or from the year of first publication after the author's death. Copyright for films and music is generally 70 years. Copyright does not protect names, titles or slogans, although there may be issues around trademarks (see below).



Figure 4.24 The copyright symbol

CASE STUDY 4.9

Happy birthday to you and everyone else: US judge rules song belongs to the world

In 2015, a US judge ruled that Warner/Chappell's (a subsidiary of Warner Music) copyright claims to 'Happy Birthday to You' – the famous tune sung at almost every birthday celebration – were invalid. Licensing fees for the public use of the song have been paid since 1949, and Warner/Chappell has agreed to pay nearly $20 million of these royalties back.

The song can be traced back to 'Good Morning to All', a tune written by Mildred and Patty Hill in 1893. The Hill sisters' song had the same melody but different lyrics; however, variations emerged in the early 20th century that eventually evolved to the song we know today. Warner/Chappell has controlled the rights since 1988 after acquiring the song's previous publisher.

Since the 2015 ruling Warner/Chappell has been in negotiations with other parties in the case. A settlement was reached in February 2016 that will see Warner/Chappell pay $US14 million ($19.8 million AUD). The case was followed closely by copyright specialists and the music industry, in part due to the song's popularity, but also because of the amounts involved – it is estimated that the song earned around $US2 million per year from licensing fees.



Figure 4.25 'Happy Birthday to You' is now copyright free

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CASE STUDY 4.9 continued

Analysis

1. Discuss why it is important for a business to try to ensure it takes action against copyright infringements.
2. Why was the 'Happy Birthday to You' case such an important one?
3. Greta and Harley McCarthy are investigating establishing a new hamburger and takeaway business and really like the idea of using the McDonald's 'M' letter and colour as part of their business name. Advise Greta and Harley about the possibility of using this and what the possible consequences might be.

Trademarks

A **trademark** is a protection that can be granted for any aspect of marketing, including letters, numbers, words, phrases, sounds, smells, shapes, logos and pictures, as well as a combination of these things. Trademarks give businesses exclusive rights to use them for commercial purposes, as well as to license or sell them to others. Registered trademarks are protected legally, and misuse of trademarks can be pursued under law.

trademark a right that is granted for a letter, number, word, phrase, sound, smell, shape, logo, picture and/or aspect of marketing

A trademark is a way of identifying a unique product or service and it can be a valuable marketing tool. Sometimes called a brand, a trademark is often the business identity – the way a business shows who they are. Trademarks are different from business, company and domain names. One well-known example of a trade mark is Qantas and the flying kangaroo.

A trademark is used to distinguish a business's goods and services from another and is enforceable under IP law. For example, the Lonely Planet® logo is a registered trademark for travel guides. This protects the owner from other businesses using the Lonely Planet trademark.

Most businesses should register a trademark, although it can be used even if it is not registered. A trademark can have an infinite life representing significant business value. It is initially registered for 10 years and can be continually renewed (there is a cost and the trademark must be actively used). A business can also take out an international trademark in a number of different countries at the same time. There are two ways to register a trademark overseas – an application can be filed directly in each country or through a single international application filed through IP Australia and nominating the Madrid Protocol countries in which the protection is required.



Figure 4.26 Businesses can have their trademarks registered.



Figure 4.27 Lonely Planet® logo is the registered trademark for its travel guides.

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The Madrid Protocol is a treaty that provides international registration of a trademark. It is administered by the International Bureau of WIPO. It facilitates the filing of trademark applications in a number of countries at the same time. All requests for protection in Madrid member countries are examined according to the trademark legislation and laws existing in the designated countries.

A business also needs to ensure that it has registered any designs as well as trademarks. A design refers to the features of shape, configuration, pattern or ornamentation that give a product a unique appearance, and must be new and distinctive. Design registration is intended to protect designs that have an industrial or commercial use.

CASE STUDY 4.10

EU court rules plastic toys are a protected trademark

A European Union (EU) court ruled in mid-2015 that Lego's famous figurines are a protected trademark. The ruling blocked moves by a competitor that wanted to copy the shape of the Danish company's figurines.

Lego has grown to be the world's second-largest toymaker, thanks in part to blockbuster movies, video games and successful crossovers with superhero and Star Wars franchises. The shape of the Lego figurines, including their iconic smiley faces, was registered in 2000 and has become synonymous with Lego's building-block system.



Figure 4.28 Lego's famous figurines are protected by trademarks.

Best Block, the company being challenged in the suit, developed similar characters for its system and challenged the trademark on the grounds that the shape of the figurines was determined by how they connected to other interlocking blocks. The judgment found that the key elements of the figurines did not involve their connecting parts, and were therefore protected from being copied under Lego's trademark.

Analysis

1 Describe what is a trademark is.
2 Explain why a business would wish to register a logo, symbol, letter or number when establishing and running a business.
3 Explain why Lego would have taken the other toy company, Best Block, to court. What was the outcome of the case?

Online sales

Online sales provide an opportunity for businesses to expand and take advantage of many potential customers. Businesses of any size can sell products and services to anywhere in the world. It is important that any potential business examines ways it can sell via the World Wide Web. Being able to sell online also means that a business can save on the physical space required; an office can be set up at home and goods can be stored in a garage. Larger businesses can also take advantage of online sales because they also would not need as much space and staff to sell products. Operations can be focused on goods and storage rather than on a 'bricks and mortar' store.

online sales when a person purchases a product or service via the internet. Online shopping has become popular because it is convenient and can be done from anywhere.

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Figure 4.29 Amazon is an example of a successful online business.



Figure 4.30 Amazon has invested heavily in infrastructure and logistics.

Example of an online business – Amazon

Amazon is an online cloud computing and retail giant. Based in Seattle, it is the largest electronic online retailer in the United States with inventory that includes books, CDs, DVDs, digital video, software, video games and electronics. To facilitate sales, Amazon has built more than 100 warehouses across the US, with plans to build even more.

Analysts have estimated that in 2015, for every US$1 Americans spent on online retail, around 51 cents went to Amazon. This dominance is also reflected in Amazon's market share, with the company accounting for 26 per cent of all online e-commerce sales in the US in 2015, up from 22 per cent the previous year.

Amazon's growth has been reflected positively in its share price, with the company's market capitalisation – the value of the shares held by shareholders – around US$325 billion. Another American retail giant, Wal-Mart, has a market capitalisation of just US$200 billion, which is falling.

Known for its bricks-and-mortar stores, Wal-Mart has tried to capitalise on the growing online market. Since 2011, its e-commerce team has grown from 500 to 2500 staff, and it has opened four new distribution centres just for online orders. Even so, Wal-Mart's online sales amounted to less than one-sixth of Amazon's in 2015, and the gap is getting wider every year.

Despite its size, Amazon generates very little profit. Heavy ongoing discounting, as well as a sales holiday called Prime Day, means that the company moves a lot of goods at a very low profit margin. To counter this, Amazon relies on its cloud computing business, Amazon Web Services (AWS), for most of its profits. AWS is also growing in size, with major services such as Netflix using the company for its hosting.

While Amazon is best known as a book retailer with a hand in other digital and electronic products, the company aims to expand into other market segments. An online craft market aims to challenge Etsy, while there are plans to expand into groceries. Amazon may not be able to compete on luxury items and branded goods, like those sold through the Disney store, but it seems that no segment is safe from Amazon's growth.

While Australia lacks a local giant like Amazon, online spending is still on the rise. The National Australia Bank (NAB) estimates that Australians spent $19.2 billion online in 2015, although this is only around 6.6 per cent of the amount spent in bricks-and-mortar stores.

Online businesses have the potential to become huge. Removing the issue of distance between the customer and the store means that a business's market can be anywhere, but it also means that its competitors are everywhere too. When planning to set up an online business there are some important things to remember:

- Know your product or service, and understand what staff and physical space will be required. If rent and wages are expensive, the business might not be viable.
- Understand your customers – who they are, what they'll buy, and when and how often they'll buy it.
- Have a business and marketing plan that can be changed as the business grows.
- Determine what IT will be required – both software and hardware.

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- Build a website that users will understand, and figure out the best way to target your customers. It is recommended that graphic and web design be done professionally, as this might save you money down the track.

Grow your online business

E-commerce is becoming an increasingly important part of the Australian retailing landscape, and presents a great opportunity for small and medium businesses (SMBs) to build and grow online presence.

However, the latest findings of the Summary of IT Use and Innovation in Australian Business survey from the ABS show that SMBs are still slow in their take up of online retailing – less than half of SMBs are engaging online, despite the fact that 91.9 per cent of Australian businesses have internet access.

The complexity of website creation, the amount of time and administrative work involved, and a lack of computer literacy have been some of the reasons put forward by various business owners for not taking up online retailing. However, small businesses must start considering how they can use online sales to enhance and complement their existing sales models, or face being overtaken, or taken over, by more efficient competitors.

Small and medium businesses tend to start their online retailer journey on marketplaces, with eBay being the primary platform. Low barriers to entry, and low set-up costs (all you really need are products to sell and the ability to fulfil them), make it a logical choice.

If selling on eBay proves successful, businesses should look to push their products out in more places, to reach as many potential customers as possible.

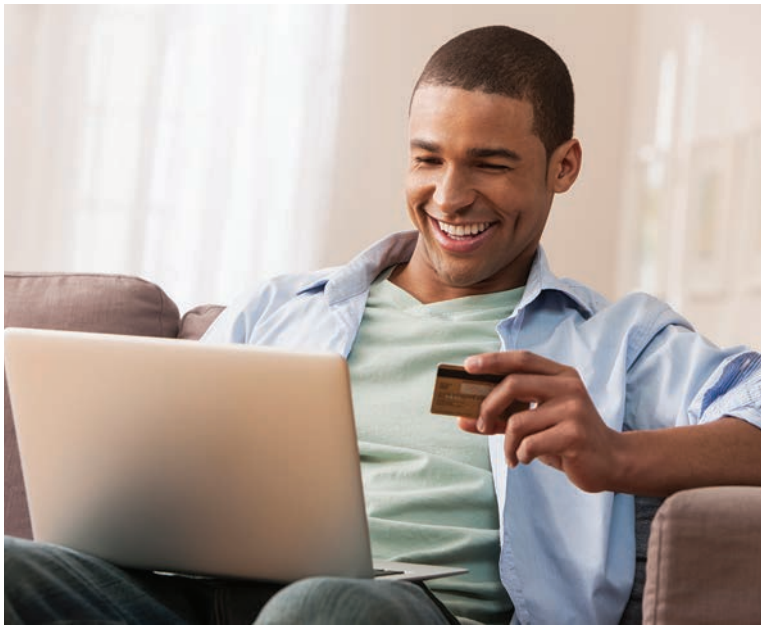


Figure 4.31 E-commerce is becoming increasingly important to businesses.

CASE STUDY 4.11

RetailSplash

One example of the multichannel approach is RetailSplash. In only a few years, co-owners Neville Samuels and Dov Herdan have transformed their business from selling video games on eBay (via their brand Dungeon Crawl) to now running three online multichannel retail brands under the RetailSplash umbrella.

Each RetailSplash brand sells across multiple channels – revenue is generated through each brand's own dedicated website, as well as third-party platforms like eBay. RetailSplash is an example of how smaller businesses can 'look bigger' by using digital technology to do a whole lot more for less.



Figure 4.32 RetailSplash brings together several online shops.

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CASE STUDY 4.11 continued

To learn from RetailSplash, small and medium businesses should consider the following:

- Information is the key – a business should spend the time and effort to publish as much information about products or services as possible. The more information put forward, the easier it is for shoppers to find the product on Google, comparison shopping sites and eBay.
- Manage inventory – a business needs to maintain careful management of orders and inventory levels so that products are distributed via each channel effectively.
- Invest in a website – for experienced eBay sellers, it's worth considering investing in a business webstore, which lets the business 'take back control' of the customer experience and control branding.
- Seek out advice – there are several options that retailers can take up to kick-start or grow their online business. For example, web agencies or independent developers can help retailers get up and running online; some also specialise in particular industries.

Analysis

1 Why do some small and medium businesses not take up online retailing?

2 Explain two of the pieces of advice given in the article and how a business could use these when implementing a new business.

3 Recommend why a potential business should try to access customers online.

Another method a business can use to develop an online presence is Google Shopping. Google Shopping ads have reportedly been growing in popularity in recent years for consumers and retailers alike. Google Shopping allows businesses to promote specific products online, helping users to compare price and stock availability instantly. The increased use of mobile devices has been attributed to the rise of such online tools.

CASE STUDY 4.12

Five tips for starting an online business

Setting up an online business is an exciting time. But it's important to pay attention to detail, watch your pennies and start small before building up the business. Here are some ideas to help your fledgling enterprise survive and thrive.

1 Get started and 'fail fast'

When it comes to starting a business, it can be easy to get caught up in spending thousands of dollars on things such as perfecting a website and developing detailed marketing plans.

If you are waiting for everything to be perfect before you start, you will be waiting forever. We launched using an extremely lean mindset and spent very little on web development and detailed plans with the aim to test the waters to see what customers wanted, measure certain aspects of the business to see what works and what doesn't and then adapt quickly.

2 Learn from others

In all industries, chances are there are other successful companies out there doing exactly what you want to do. For example, pet supplies delivered to your door isn't new. These companies have done all the hard work gathering data and understanding what customers want. As a start-up with limited

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capital, implementing aspects from successful companies into your own will save you endless time and money that you would have had to spend doing your own research.

3 Network

The more people you bring into your network, the higher the chance one of these people will have the ability or know someone with the ability to help you. A strong social media presence will increase the likelihood of being linked with someone who can add value to your company or with whom you can form a strategic partnership.

4 Never stop looking for ways to improve

All industries are rapidly changing, so the need to stay with trends is important if you want to be successful. The best way to continually grow and improve is to never stop reading. The internet provides information on almost anything you can think of, so searching out articles, books and trends from other industries is the best way we can learn and implement new ideas.



Figure 4.33 Businesses need to learn from each other.

5 Be prepared to hustle

Nothing good comes easy, so be prepared to put in the hard work and go the extra mile to launch and grow your new start-up. Although BarkingOrders.com.au is an online service, our team still gets up at 5am to get in three hours of letter box drops each morning before the work day starts. Getting out in public and chatting to potential customers and being visible is extremely important for our business as developing strong relationships with the early adopters is crucial for the growth of the business in the early days. Without the drive to put in the hours and do what others won't, your business will struggle to get the kick start it needs to compete in the competitive online business world.

(Source: Based on R Boyd, 'Five tips for starting an online business', *The Age*, 13 March 2016.)

Analysis

1 Outline the type of advice that is given in the article.

2 Why is it important for a business to have thought about using the internet to access extra sales?

4.7 Corporate social responsibility

It is important for businesses to have a sense of **corporate social responsibility (CSR)** towards the community and environment in which they operate. This can take the form of educational and social programs, as well as practices that reduce the business's impact on the environment. Businesses that are seen to meet these responsibilities are known as 'good corporate citizens', and most communities expect businesses to recognise their social responsibilities.

Businesses of all sizes should strive to become good corporate citizens, and it's important that this is considered when the business is being planned. Volunteering in the community, establishing grant programs, collaborating with other businesses, developing sustainable business practices, and supporting local and global causes are examples of ways in which businesses can

corporate social responsibility the commitment by organisations to conduct their business in an ethical manner, to take responsibility for the economic, social and environmental consequences of their activities, and to being accountable to a wide range of stakeholders, including employees, customers and suppliers – now and in the future

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Figure 4.34 Businesses can model social responsibility.



Figure 4.35 A small contribution to charity goes a long way.

contribute socially. As a business grows, the scope of its social involvement should grow with it.

Environmental concerns and planning the production of goods and services

Corporate social responsibility can affect business planning in areas such as environmental impact. All businesses, regardless of size, have an impact on the environment in the course of their operations. Awareness of the environmental impact of a business can benefit both the company itself and society as a whole. For example, being environmentally friendly can save a business money and can attract customers who are more willing to support businesses they believe are contributing to society in a positive way. Some ways businesses can improve in this area is in the planning stage to look at investing in products, such as rainwater tanks and solar energy, that reduce reliance on natural resources; to use products that are made of recyclable materials; and to reuse paper and recycle and minimise waste. (See Chapter 9 for more details regarding CSR and business planning.)

It is important for businesses in the planning stage to ensure that their environmental impact is minimised. Planning should include taking steps to reduce the impact of environmental risks, putting in place practices to control the risks, and then developing an action plan for use if environmental issues arise.

Businesses also need to consider how their potential goods and services can impact on society at large. For instance, when setting up a manufacturing business it would be important to take into account all of the laws and regulations that cover the particular industry, and also to ensure that staff are safe and products will not injure customers.

Often in the planning stage there is a focus on ideas that can contribute to the business and also to society in general. Many new businesses are now looking at ways to both earn a profit and be socially responsible. In the hospitality sector, for example, cafés have become a driving force in the social enterprise sector in recent years. Charities and businesses are increasingly using cafés as a way to train and employ disadvantaged people who would otherwise struggle to find work. Some of these cafés are not-for-profit businesses, which donate money to charities each year, while others are for-profit businesses that support people who might otherwise not access employment and training.

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CASE STUDY 4.13

Opportunity renewal for unemployed youth

In March 2016 unemployment rates were at around 13 per cent for youth in the age bracket of 15–24. In Sydney five hotels began a training program for unemployed youth to enable them to have access to new opportunities.

The Industry Employment Initiative was developed by MAX Employment, Social Ventures Australia and the Jesuit Social Services group. This innovative hospitality training program will enable graduates to work and learn skills that they can utilise to benefit themselves and the hotels that are offering the course. An intensive two-week training course enables a fresh start for many of these young people. It includes training on how to perform in an interview, workplace behaviour, barista training and responsible service of alcohol.



Figure 4.36 The Industry Employment Initiative helps young people to find work.

The five hotels involved in this initiative are: Swissotel Sydney, Holiday Inn Darling Harbour, Radisson Blu Plaza Hotel Sydney, Amora Hotel Jamison Sydney and Courtyard Sydney-North Ryde by Marriott. The program had been trialled in Melbourne and then replicated in Sydney.

This program also assuages the corporate social responsibility (CSR) program that many businesses must meet. According to the Australian Human Rights Commission, CSR is generally understood to mean that corporations have a degree of responsibility not only for the economic consequences of their activities, but also for the social and environmental implications. This is sometimes referred to as a 'triple bottom line' approach that considers the economic, social and environmental aspects of corporate activity.

Analysis

1. Explain why corporate social responsibility is an important consideration for a business.
2. Outline the benefits associated with the program described in the article.
3. Evaluate how this type of project can benefit society beyond the hotels involved in it.



Figure 4.37 The Industry Employment Initiative has helped many unemployed youth.

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Chapter summary

- Businesses have to consider a range of factors from the internal and external environments.
- The macro environment is outside the control of the business.
- There is a range of taxation and legal factors to take into consideration such as employment laws, building and other permits, and zoning.
- Societal attitudes, changing values and trends all have to be taken into account when planning a business.
- Economic conditions can have a substantial impact on business planning.
- Economic factors include interest rates, taxation rates, and business and consumer confidence.
- Technological issues and continual changes in technology can have an influence on business activity.
- Australia is part of a global economy and businesses need to be able to compete with businesses from a range of countries.
- Global considerations include:
  - overseas markets
  - overseas competition
  - offshoring labour
  - exchange rates
  - patenting
  - copyright
  - trademarks
  - online sales.
- Corporate social responsibility (CSR) is an important issue when planning a business.
- A new business needs to look at CSR considerations such as managing the impact on the environment and contributing to the wider community either directly or indirectly.

Chapter summary questions

1 Distinguish between the macro, operating and internal environments.

2 Describe why it is important for a business to investigate taxation and other legal obligations that may be required when planning a business.

3 Explain how some of the recent changes in Australian trends and attitudes could impact on planning.

4 Describe how the ageing population might influence the types of businesses created.

5 Illustrate how the interest rate in Australia can impact on business planning.

6 Discuss how the level of business and consumer confidence in Australia can influence business planning.

7 Technology is an important and continually developing concern. How can a business try to plan for the constantly changing technology available?

8 Why do businesses need to investigate patents, trademarks and copyrights for their products?

9 Explain why businesses are increasingly moving into selling products online.

10 Ask six people you know about their online shopping experiences. Compare the results with your class. Identify the use of online sales and how common it is.

11 Explain why CSR is an important consideration for all businesses when planning.

Extension question

Sally and Shana are investigating starting a business. They would like to set up a bed and breakfast in Daylesford and have looked at a property they believe would be ideal. In addition to the bed and breakfast they would like to operate a café and sell gourmet picnic hampers for tourists.

Using the following points, complete a report to advise Sally and Shana about the factors they would need to consider when planning for their business:

- economic conditions such as consumer confidence and the number of tourists in Daylesford
- technology – online bookings and a website
- legal requirements such as zoning laws, permits and licences
- social factors such as trends and tastes.

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CHAPTER 5

Influence of the operating environment on business planning

Key terms

- business association
- competitor
- consumer
- customer
- customer expectations
- customer needs
- fair trade
- food miles
- industry association
- lobby group
- operating environment
- special interest group
- supplier
- supply chain
- union

Overview

The operating environment of a business has a range of factors, including customers, competitors, suppliers, and special interest groups such as environmental lobby groups, business associations and unions, that may affect the planning it undertakes. Understanding these factors will provide the business with improved information on which to base its planning decisions.

Key knowledge

In this chapter students will learn about how operating factors affect business planning in the areas of:

- Customer needs
- Customer expectations
- Competitors' behaviour
- Suppliers and the supply chain such as the resources required for the business and the considerations about where these resources are sourced and how they reach the business
- Special interest groups such as environmental lobby groups, business associations and unions.

What's ahead

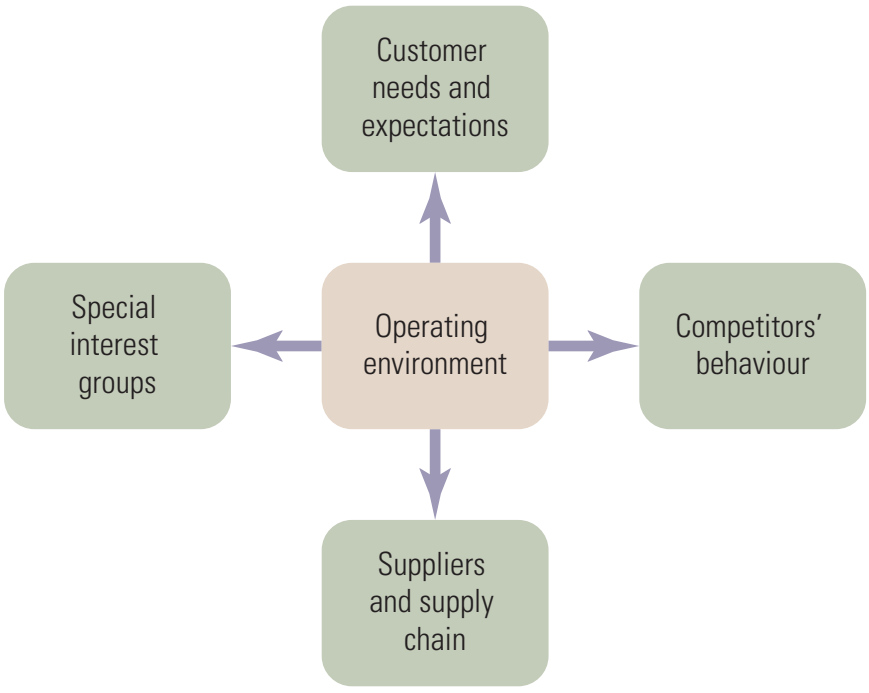


Figure 5.1 The operating environment of a business

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5.1 Customer needs and expectations

Customers form an important part of the **operating environment** of a business. Most businesses would like to think they focus on **customer** and **consumer** needs and **customer expectations**, devoting production and marketing resources to satisfy them. This requires market research and market analysis to establish the current **customer needs** and consumer needs. While unmet customer needs can provide opportunities for a business, they can also pose potential uncertainty for the profitability and ongoing success of the business. It is important that businesses adopt the following philosophies: 'the customer comes first' and 'the customer is always right'. Both these philosophies are widely accepted in retailing. In marketing, they are referred to as 'developing the customer relationship' or 'customer relationship marketing'.

operating environment the environment immediately external to a business with which it has close interaction when conducting its business activities

consumer a person or group who uses a product. Note: a customer may be a consumer, but not all consumers are customers; that is, the person consuming a product is not necessarily the one who purchased it.

customer someone who buys goods or services

customer expectations the value that customers believe they will gain from purchasing a particular good or service

customer needs something customers require because it is essential or very important rather than just desirable

Businesses must ensure in their planning that they are taking into account important needs and expectations of customers, such as:

- providing high-quality goods and services at an attractive price
- delivering high levels of customer service (pre- and post-sale)
- being ethical and socially responsible in the way they operate
- being able to establish long-term positive relationships with the customers
- ensuring that the products are Australian made or grown
- providing an opportunity for customers to support an Australian-owned business.

Customers are now more discerning and educated in their consumer choices. They have become more health conscious, and in food are looking for products that are low in fat and salt, and that contain no additives or preservatives. Customers often make a product selection based on whether it has the Heart Foundation's 'tick of approval'. Many consumers demonstrate their need for locally grown food products. For example, by purchasing products from SPC, a company that uses 100 per cent Australian-grown products, customers are also supporting local businesses, farmers and the resultant supply chain.

Whether a product is Australian made or Australian grown is now a common need or expectation of consumers. Displaying the government-approved registered certification trademarks shown in Figure 5.4 provides consumers with the confidence that a product is genuinely Australian.



Figure 5.2 Understanding the needs of customers is vital.



Figure 5.3 Logo of SPC Ardmona on products



Figure 5.4 Registered certification trademarks of Australian products

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CASE STUDY 5.1

Australian Weaving Pty Ltd

Established in 1927 in Yarraville, Victoria, Australian Weaving Pty Ltd is one of Australia's oldest and largest textile groups and brand managers.

Australian Weaving's brands include Dri Glo (established in 1930), Dickies Clothing and the homewares for kids brand Freckles. Australian Weaving also manufactures products under licence agreements for other well-known brands, including RM Williams, Christy and Esprit Home. It recently teamed up with M&C Saatchi to create the 2 Litre Towel, a product that demonstrates an emphasis on competing on quality rather than lowest prices (the 2 Litre Towel is able to soak up two litres of liquid).



Figure 5.5 Dri Glo is a trusted Australian brand.

Although some of the cotton used in Australian Weaving products is sourced from overseas, most of the cotton used in its towels comes from New South Wales and Queensland.

Analysis

1. Describe the level of importance you place on being able to purchase Australian made products.
2. Identify and describe what you consider would be the consumer needs of customers buying towels (e.g. quality, colour, etc.).
3. Would the fact that Australian Weaving has been in existence nearly 90 years make it more appealing to customers? Justify your opinion.

Another customer expectation is that businesses operate in an ethical and socially responsible manner. This expectation then flows on to the customer's purchasing decisions. Customers of the major banks, incensed by branch closures in many suburban shopping centres and country towns, have shown their anger by closing their accounts. This positive action by customers caused some banks to rethink their strategy, while providing an opportunity for community banks to establish and prosper. The Bendigo Bank anticipated this customer need and



Figure 5.6 Bendigo Bank – a community bank

ACTIVITY 5.1

Visit the Bendigo Bank website and answer the following questions.

1. Identify two examples of activities being undertaken by the bank that link to the needs of the community.
2. Discuss whether you believe this commitment to the community would make customers change who they bank with.

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based its approach to banking on putting time and effort into innovation in the communities within which it operates.

5.2 Competitors' behaviour

Businesses should constantly monitor products or services of their **competitors**. It is important to notice whether a competitor has introduced a new product, extended a current product line or changed its pricing strategies. All such changes will impact on competing businesses and they must be prepared to respond. A possible opportunity could be created or a counter action taken to overcome a potential threat.

competitor a business rival in the same market for products or services offered by the business

Successful competitors watch what their business rivals are doing on a daily basis. For instance, in your local shopping centre the large supermarket will be keeping a watchful eye on the products offered and prices being charged by the fruit shop, butcher and bakery. While many customers are happy to purchase all their needs at a supermarket, many people still want to purchase their meat, bread, fruit and vegetables from specialist stores.

Offering inducements, incentives, memberships and loyalty schemes is another strategy used by businesses in their quest to gain a competitive advantage. A visit to the Bakers Delight website will result in you being asked if you would like to become a Delightful Rewards member. This will entitle you to the latest product offers, advance notice of competitions, new product previews and delicious recipes. It also has a loyalty card where, with every $6 spent in the store, the card is stamped. After five stamps you are entitled to redeem one free product.



Figure 5.8 If you love fresh bread, you'll love Delightful Rewards.

In 2016, the Wesfarmers-owned Bunnings chain, which is currently ranked as No. 1 in the home improvement, home timber and hardware industries, has proven to be too strong a competitor for the Masters Hardware chain. So what went wrong for Masters? Canstar Blue, a customer satisfaction research and ratings business, gained the following comments from customers about what they didn't like about Masters: the staff, the product range and store layout (too hard to find what you were looking



Figure 5.7 Fresh fruit and vegetables – a highly competitive marketplace

ACTIVITY 5.2

1. Identify an example of an inducement or incentive program being offered by a local business in your area.
2. Identify an example of an inducement or incentive program being offered by a business that operates throughout Victoria.
3. Explain why these businesses see the need to offer these inducements or incentives.

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Figure 5.9 Bunnings is No. 1 in the home improvement, home timber and hardware industries.



Figure 5.11 Coca-Cola Life competes with still water and mineral water.

for). The bottom line, however, was: 'Not as good as Bunnings'. Does this mean that in future it would have to be a very brave business to try and challenge the popularity of Bunnings or are consumers just feeling too comfortable with having Bunnings as a presence in their suburbs and towns?

In the area of banking, Australia's four major banks – National Australia Bank, ANZ Limited, Commonwealth Bank and Westpac – are fiercely competitive. These financial institutions earn a large percentage of their revenue from the interest they charge other businesses and individuals for the use of their money. The Reserve Bank, as part of its role in implementing the federal government's monetary policy, is responsible for monitoring and setting the official target interest rate in Australia. It is interesting to watch how these banks react if the official interest rate goes up or down. Which one will be the first to change and how quickly will the others follow? Will one of these banks break rank and either increase or decrease an interest rate independent of the Reserve Bank's announcements?



Figure 5.10 The four major banks

It is not only competition from another business that can cause a business to change its product. The necessity to change can come from factors that are affecting the industry in which that business operates. Coca-Cola Amatil launched the mid-calorie Coca-Cola Life in 2015 in an effort to boost consumption after a 5 per cent drop in industry-wide cola sales during that year. The new product was aimed at enticing lapsed Coke drinkers back to the carbonated soft drinks category and away from increasingly popular still water and mineral water drinks.

5.3 Suppliers and the supply chain

A **supplier** is any provider of inputs into a business's operations. Inputs can take the form of raw materials, services, energy, equipment, labour and capital. Businesses must ensure a steady and reliable flow of needed inputs at the lowest possible cost. It is therefore essential to establish a guaranteed stable, long-term relationship with selected suppliers.

supplier supplies the inputs (resources) required for the production process

It is important for a business to plan, establish and then manage its **supply chain**. This is a system that incorporates planning and organising the resources, people, information and activities (such as sourcing and procurement, manufacturing and/or conversion and logistics) which are required to transform natural

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supply chain a system of organisations, people, activities, information and resources involved in moving a product or service from suppliers to manufacturers and then on to consumers

resources, raw materials and components into a finished product that is delivered to the end customer. In addition, the supply chain links the major business functions and processes, such as marketing, sales, product design, finance and information technology, within one business with those of another business. Essentially, a supply chain seeks to match demand and supply for a product or service with the minimal level of inventory (stock).

Businesses can plan to optimise their supply chain using a variety of different strategies, including:

- liaising directly with suppliers to eliminate bottlenecks
- entering into long-term contracts with suppliers to tie them into specific prices and quantities
- sourcing resources and products locally
- outsourcing their transportation and distribution to a third-party logistics provider
- implementing just-in-time techniques to optimise manufacturing flow
- creating a mix of locations of factories and warehouses to best serve customer markets
- using technology, such as global positioning systems (GPS), to analyse transportation routes
- optimising their logistics to maximise distribution efficiency.

Businesses, particularly those that are involved in sourcing their products from overseas manufacturers, are being put under increased scrutiny from consumers to provide information about the supply chain of the goods they are purchasing. While it is often difficult for a business to know precisely all the steps involved in the supply chain of a particular product, many businesses that source their products from overseas are now integrating codes of conduct and guidelines into the management of their supply chain. They are also demanding their suppliers undertake social audits to ensure they are complying with the required standards outlined in the business's codes of conduct. This demonstrates that ethical and socially responsible practices are becoming increasingly important to both consumers and businesses.



Figure 5.12 Businesses rely on long-term suppliers for their supply chain.

Following horrific incidents like the Savar building collapse in 2013 (Bangladesh), which killed more than 1100 people, businesses have been subjected to increased pressure to review their global supply chains. The suggestion is that businesses should not only audit their first-tier (direct) suppliers for compliance, but also request that those suppliers provide evidence of compliance in their own supply chains.

CASE STUDY 5.2

Coles – ethics in practice and responsible sourcing

Ethics in practice: At Coles, we live our values and ways of working. This includes treating everyone with care, respect and fairness.

We also require our suppliers and business partners to share our ways of working and seek their commitment to our Ethical Sourcing Policy. Ethical sourcing is a commitment to the purchase of goods and services that are manufactured and provided in a way that does not involve exploitation, or represent a danger to health, safety or the environment. Our policy provides clear guidance to our team members and our suppliers about the employment practices and social standards we expect to be upheld in the process of supplying Coles branded products.

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Ethical sourcing in Coles supply chain

We regularly audit suppliers operating outside Australia to ensure compliance with our policy and where a supplier does not meet our standards, we work with them on a corrective action plan. Should a supplier be unable to demonstrate a commitment to our ethical sourcing policy, Coles reserves the right to terminate its trading agreement. Our policy is based primarily on the Ethical Trade Initiative (ETI) and International Labour Organisation (ILO) Conventions, and requires that:

- Local laws are respected
- Employment is freely chosen
- Child labour shall not be used
- Illegal labour shall not be used
- Appropriate wages are paid
- Working hours are not excessive
- Freedom of association and the right to collective bargaining are respected
- Working conditions are safe and hygienic
- No discrimination is practised
- Regular employment is provided
- No harsh or inhumane treatment is allowed
- Businesses operate ethically
- No unauthorised sub-contracting is allowed
- Due regard is given to environmental impacts

Responsible sourcing: As one of Australia's leading food retailers, we have a huge responsibility to our customers, the community and the environment.

Our focus is simple – to continue to work towards a sustainable future while supporting Aussie farmers, food producers and the local community.

Pork: Sow stall free – Following extensive work with our pork suppliers, Coles is proud to say that all our Coles Brand fresh pork is sow stall free. This major animal welfare initiative is a response to demand from our customers for more responsibly-sourced products and will see approximately 34,000 mother pigs no longer kept in small, single-pig stalls for long periods of their lives. All pigs raised by suppliers of Coles Brand pork are now free to move about in pens and socialise with other mother pigs. In addition our local and imported Coles Brand ham and bacon is now sow stall free.

Beef: No added hormones – All the fresh beef in our meat departments is 100% Australian, with no added hormones. Since 2011, all the fresh beef in our meat departments at every Coles store across Australia, is 100% Australian and has no added hormones. At Coles, our farmers don't use added hormones, allowing the cattle to grow more naturally.

RSPCA Approved – Coles is committed to providing Aussie families with a range of RSPCA Approved fresh meat options to make delicious meals. The RSPCA Approved Farming Scheme provides higher animal welfare standards for the care of pigs, chickens and turkeys. Animals in these farming systems are housed in an environment that meets their physical and behavioural needs. RSPCA Approved products are marked with an RSPCA Approved Farming Scheme logo.

Cage free eggs – We're proud that all Coles brand eggs are cage free; they are now either barn laid or free range. Barn laid and free range hens are free to do the things nature intended hens to do, like roam around, perch, dust bathe and lay their eggs in a nest. As a result of this initiative, about 350,000 hens will never be caged.

Responsibly-sourced seafood – Coles has made the commitment to only sell responsibly sourced Coles Brand seafood, so you can be confident you're making a better choice. This is really important as well-managed and responsible fishing is essential for the future sustainability of our marine ecosystems.

What it means – Responsibly sourced means Coles Brand seafood comes from well-managed fisheries and aquaculture farms that have been independently assessed. This means Coles has looked

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CASE STUDY 5.2 continued

at the impact on the environment, along with how and where the seafood is caught, to help maintain healthy fish populations and habitats.

Sea change – Since 2011, Coles has been working with organisations such as the Marine Stewardship Council (MSC), Aquaculture Stewardship Council (ASC) and WWF Australia to strive for a more sustainable seafood offering.

Across the aisles – The responsibly sourced Coles Brand seafood ranges from the fresh salmon you buy at the deli to the canned tuna in the grocery aisle. It even includes the frozen fish fingers you serve your kids.

Simpler for you – All the work Coles has done behind the scenes has made it simple for you to feel comfortable with your seafood choices. All you have to do is look for one of the MSC or ASC ecolabels or the Coles Responsibly Sourced Seafood logo in store.

(Source: Coles website, 'Ethics in practice' and 'Responsible sourcing' © Copyright Coles Supermarkets Pty Ltd, reproduced with the permission of Coles.)

Analysis

Read the article above and answer the following questions.

1. Define what Coles means by the term 'ethical sourcing'.
2. Discuss whether you believe Coles is upholding its values statement: 'we live our values and ways of working. This includes treating everyone with care, respect and fairness.'
3. Explain some of the ways that Coles ensures that suppliers in its supply chain act ethically.
4. Outline the standards Coles expects of its suppliers of animal products.
5. Explain why it is important that Australia's seafood industry is sustainable.



Figure 5.13 Farmers' markets offer locally grown and produced products.

food miles used to measure the transport distance travelled by food products between production and consumption

The sourcing of products locally has also become a factor that businesses need to consider. Particularly with food products, consumers often ask about '**food miles**'; that is, how far has the food travelled from the paddock to the plate? It is generally thought that if two products, such as fruit and vegetables, are compared, the lower the food miles means the less distance that product has travelled and the better the choice is for the environment and the health of the consumer. This question is particularly relevant when a consumer is making a choice between something locally grown and produce that has travelled many miles in a refrigerated truck or plane.

Farmers' markets are increasing in popularity as an ideal way for small producers to sell their locally produced and value-added products directly to the public. If a producer decides to sell their products at a farmers' market, as in any other marketplace, it needs to undertake research prior to entering that market. The areas of research need to cover the potential customer (i.e. target market), the type of product they will sell and how it will be marketed, the market guidelines for stallholders, and the legal requirements

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(e.g. labelling of food and food safety) specific to the product they wish to sell.

5.4 Special interest groups

Special interest groups and **lobby groups** can attempt to influence the actions of businesses. While many of these groups focus on environmental issues, others may lobby for safer working conditions for employees. For instance, the Cancer Council has been instrumental in ensuring that workplaces implement non-smoking and SunSmart policies to protect the health of employees.

special interest group a group of people or an organisation seeking or receiving special advantages or privileges

lobby group a group that aims to influence organisations or governments in their decision-making processes

Community groups can also have an effect on a business's 'licence to operate'. If the community does not like the way a business is operating, it can cause it to lose brand value overnight. For example, Nike sales were adversely affected when it was accused of using child labour in its factories in Pakistan. Nike does not, however, operate its own factories as its production is contracted out under licence to other manufacturers. As a consequence of this adverse reaction by consumers, Nike has established stringent operating conditions for the contracting factories that produce its goods. The instant brand recognition of the Nike 'Swoosh', while very successful in marketing terms, has also made it an easy target for any adverse publicity relating to the use of child labour and poor working conditions.

Another powerful lobby group is the Australian Consumers Association (ACA), which represents consumers' rights. *Choice*, the association's monthly magazine (published both in print and online), is a common reference point for consumers wishing to purchase products. A favourable or damning report in this magazine certainly has an impact on consumers' purchasing patterns. Another group growing in prominence to protect and improve the livelihoods and wellbeing of disadvantaged producers is the Fairtrade International. It promotes members who trade in a wide variety of **fair trade** goods, such as giftware, household goods, furniture, garments, jewellery, food and beverages.

fair trade trade between companies in developed countries and producers in developing countries in which fair prices are paid to the producers



Figure 5.14 The Nike 'Swoosh' was incorporated into campaigns to boycott its goods.

Environmental lobby groups

Environmental lobby groups actively promote environmental issues to business, the community and all levels of government (local, state and federal). Environmental sustainability is an important issue for these groups. They want businesses to use renewable resources, reduce the levels of waste or pollution generated in manufacturing their products and, in the event that non-renewable resources are needed for production purposes, for businesses to develop renewable substitutes for the resource used.

The Wilderness Society is a national, community-based, environmental advocacy organisation whose purpose is protecting, promoting and restoring wilderness and natural processes across Australia for the survival and ongoing evolution of life on Earth. The society in recent times has actively sought to protect the iconic River Red Gum national parks along the Murray River and old-growth forests in east Gippsland. It has lobbied individuals and businesses

Australian Koala Foundation

Figure 5.15 The Australian Koala Foundation (AKF) is an example of an environmental lobby group. The AKF is committed to the protection of the wild koala and its habitat; visit its website for more information.

Business Recycling
Making recycling at work easy
BusinessRecycling.com.au
PLANET ARK

Figure 5.16 Planet Ark lobbies for recycling.

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Figure 5.17 Some lobby groups are focused on environmental issues



Figure 5.18 The Ethical Paper campaign

to think twice about their choice of paper through its Ethical Paper campaign.

The use of energy resources is another area where environmental lobby groups can affect the plans businesses are formulating. A fact worth considering by businesses is: Australia has the highest average solar radiation per square metre, yet solar energy accounts for less than 2 per cent of renewable energy production (see Figure 5.19). Is there a business opportunity here relating to solar energy, or even a way for businesses to cut costs by generating solar energy and selling it back to the electricity grid?

Many businesses wishing to participate in renewable energy projects cite that cost, especially upfront capital costs, is a major barrier to adopting these technologies.

Business associations

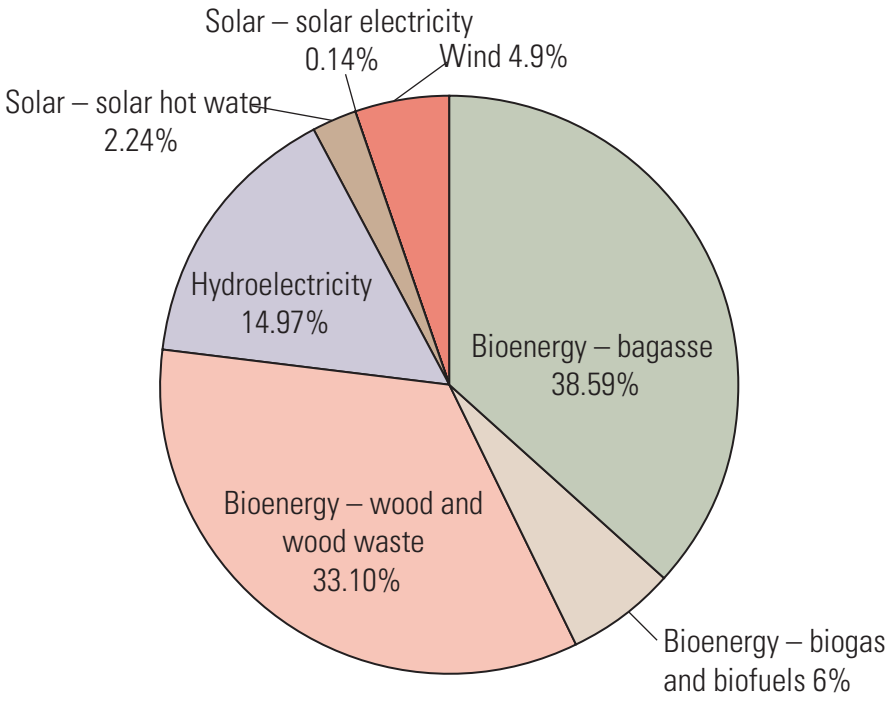
There are a number of **business associations** operating in Australia which aim to meet the varied needs of businesses. As businesses vary in size, legal structure and nature of operations, it can be said that there really is no 'one size fits all' business association. Businesses need to research which association will best suit their needs. Membership of the right business association will help a business to plan and meet its training needs, provide support and advisory services, as well as general industry news and information. In addition, membership also allows the business to be part of a network.

business association membership organisation engaged in promoting the business interests of its members

The federal government recognises the importance of business associations and has created a directory of government and business associations that may be able to provide guidance and assistance both in the planning and ongoing running of a business. For ease of consultation, the list has been divided into types of industries.

There are general **industry associations** (or bodies) whose membership base is

industry association representative body for a particular industry group



(Source: Parliament of Australia, Parliamentary Library Briefing Book, 'Powering Australia'; see Cambridge weblinks: http://cambridge.edu.au/redirect/?id=6973.)

Figure 5.19 Australian production of renewable energy (petajoules)

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broad, being drawn from different industries. These groups provide general information and assistance. An example of this is the Australian Industry Group (Ai Group), a top industry association that represents more than 60 000 Australian businesses. These businesses come from a range of sectors that is growing every day – from manufacturing and construction to food and telecommunications – and cumulatively employ over 1 million workers.

Each state of Australia has a Chamber of Commerce; for example, the Victorian Chamber of Commerce and Industry. There are also business associations to cover specific types of industries, trades or professions. For example, Master Builders Australia is the nation's main building and construction industry association, representing and assisting workers who are part of the Master Builder Associations, with a combined membership of over 33 000. Similarly, solicitors can join the Law Institute of Victoria.

When commencing in business many sole traders, partnerships and private companies are formed as a family business. Family Business Australia (FBA) has conducted research into what consumers think about family-owned businesses. The results show that consumers prefer products or services purchased from family-owned businesses and also believe they can trust these products. When registered as the owner of a family-owned Australian business, the business is allowed to display the FBA emblem – this is a visual sign to customers, employees, the community and government of its status. FBA also assists businesses by providing accredited advisers to assist in planning and growing the business.

The Council of Small Business Australia (COSBOA) has become the country's peak body representing small businesses. The organisation was founded in 1979 and was incorporated in 1985. COSBOA has three main goals:

1 To promote and support the development of small business in Australia.
2 To advocate to advance the interests of small business in Australia through policy change and regulatory reform.
3 To foster an increased awareness and understanding of the role of small business in Australia among public servants and elected government officials, larger businesses, the media and the general community.

As small business owners generally are time poor, and often lack expertise in legislative, regulatory and taxation matters, COSBOA see its role as providing accurate and timely information to assist small businesses with planning and decision making in these and other areas.

(Source: Based on Council of Small Business Australia website, 'About COSBOA'.)



Figure 5.20 General industry bodies



Figure 5.21 Master Builders Australia is an industry association that represents builders.

Unions

Unions represent workers who are their members, and act on their behalf to negotiate with business owners and/or management on issues such as wages, working conditions, working hours and other aspects of work. Unions also provide a range of welfare and social benefits for members. In recent times, unions have adopted a more cooperative role with employers and management. This role is based on partnership building and working towards mutual business objectives. This new approach has provided employers (business owners) with a forum for discussing issues of common interest, such as business competitiveness and productivity, and making new workplace agreements. This cooperative approach is intended to result in increased productivity and profits for businesses and job security for employees.

union an organisation of workers or employees who have joined together to achieve common goals such as higher pay, better working conditions and job security

According to the Australian Bureau of Statistics (ABS), the industries with the most union members include health, education, public safety, retail, construction, manufacturing, transport and

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Figure 5.22 Unions focus on improving conditions for workers.

warehousing. In the private sector, union membership is low, with only one in nine employees choosing to belong to a union. Data from the ABS in 2015 also revealed that union membership has plummeted in the past two decades from 40 per cent of the workforce to about 15 per cent of the workforce. Current union membership sits at 1.6 million people.

Unions have played an important role in improving the working conditions of workers. Some of their achievements have been: working hours, leave entitlements (annual, sick, long service, maternity), allowances (shift, uniform), breaks (meals and rest periods), wages (awards, penalty rates, collective bargaining, redundancy pay), superannuation, health and safety and workers' compensation, and unfair dismissal protection.

When planning a business, it is important to look into the prominence of the union movement in that particular industry. If the industry has a high level of union membership it is wise to consult with the relevant union to ensure that planning decisions being made by the business align with the union's expectations. In the building industry many work sites have imposed a restriction on non-union members working on that site. However, the 'no-ticket, no-start' culture on Melbourne's building sites is starting to weaken. Non-union labour is increasingly being employed by building companies constructing either mid-size commercial properties or larger residential properties. Unions such as the Construction, Forestry, Mining and Energy Union (CFMEU) are now more concerned with ensuring that building companies have adequate public liability, WorkCover and superannuation than whether the workers on sites are contributing union members.

Business owners must also understand that workers have the right to belong or not belong to a union and also to take part or not take part in industrial activity. This legal right is covered by the *Fair Work Act 2009*. This Act also allows workers to legally undertake industrial action when bargaining for a new registered agreement (related to collective pay and working conditions) at the workplace is unsuccessful. This is known as protected industrial action.

ACTIVITY 5.3

UNION MEMBERSHIP STATISTICS

The ABS provides the following statistics on union membership in 2014:

- 94 per cent of 15 to 19 year olds have never been a union member
- 23 per cent of workers aged 55 to 59 years are current union members and 85 per cent of this group has been a member for over five years
- an estimated 1.5 million workers who were members in the past are no longer members
- approximately 8.4 million employed persons have never belonged to a union.

(Source: see Cambridge weblinks: http://cambridge.edu.au/redirect/?id=6974.)

1. Union membership among young workers is very low. Outline why you think union membership is so low in this age group.
2. Membership of workers aged between 55 and 59 is 23 per cent. In which industries do you think these members belong?
3. Describe what you believe are the reasons 8.4 million workers have never belonged to a union.

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Chapter summary

- Business planning is directly impacted on by factors from the operating environment of the business.
- The operating environment is the business environment immediately external to the business with which it has a close interaction when conducting its activities.
- There are a range of operating factors that need to be considered and responded to when undertaking business planning, including:
  - customer needs and associated expectations
  - competitors' behaviour
  - suppliers and the supply chain, together with how resources are sourced and how they reach the business
  - special interest groups such as environmental lobby groups, business associations and unions.

Chapter summary questions

1 Define the following terms and use them in a sentence to demonstrate your understanding:
   a food miles
   b environmental sustainability
   c supply chain
   d union
   e customer.

2 Identify and describe three expectations customers have when purchasing food.

3 Describe the impact on a business of a competitor introducing a new product.

4 Outline four strategies that a business can adopt in its quest to gain a competitive advantage.

5 Identify two product types for which environmental impact would be a factor in your choice of product; for example, when buying laundry detergent would you look for products that are 'clean, green and safe for the environment'?

6 Identify and describe which major functions of one business are linked through the supply chain of another business.

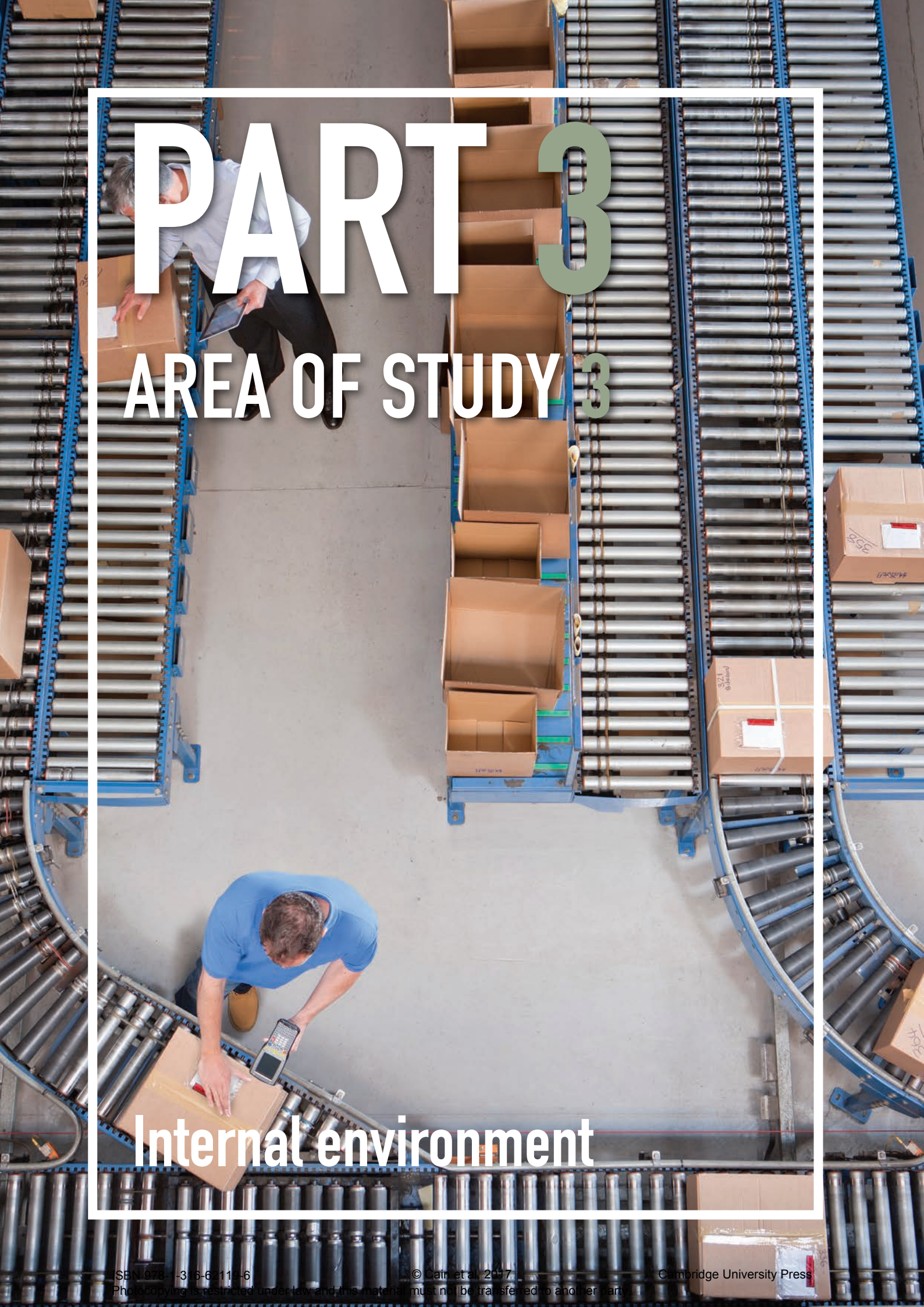
7 Describe two strategies that a business can implement to optimise its supply chain.

Extension questions

1 Discuss whether you believe unions are a 'thing of the past and not relevant in our current workplace'.

2 'The customer is always right' is a common idea used by businesses. Identify and describe ways that a business needs to plan and operate if it wants to respond to this idea.

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PART 3

AREA OF STUDY 3

Internal environment

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CHAPTER 6

Resourcing, locating and financing a business

Key terms

- bootstrapping
- business angel
- business layout
- business location
- capital resources
- complementary business
- crowdfunding
- ergonomics
- foot traffic
- initial public offering (IPO)
- labour
- merchandise
- natural resources
- overdraft facility
- venture capital
- wholesalers
- work environment
- workforce planning

Overview

When developing a business concept, the business operator needs to make crucial decisions regarding the business's resource requirements in terms of natural resources, labour and capital resources, and how these requirements can be met in the most efficient and effective manner. Choices must also be made about the best location for the business. When making these decisions, the type and potential scope of the business must be considered.

Different sources of business finance and capital must also be assessed and a decision made as to which is best for the particular business.

Key knowledge

In this chapter students will learn about:

- Business resource needs and factors affecting their choice: natural, labour and capital resources
- Business locations and factors affecting their choice
- Sources of finance available to establish a business and factors affecting their choice.

What's ahead

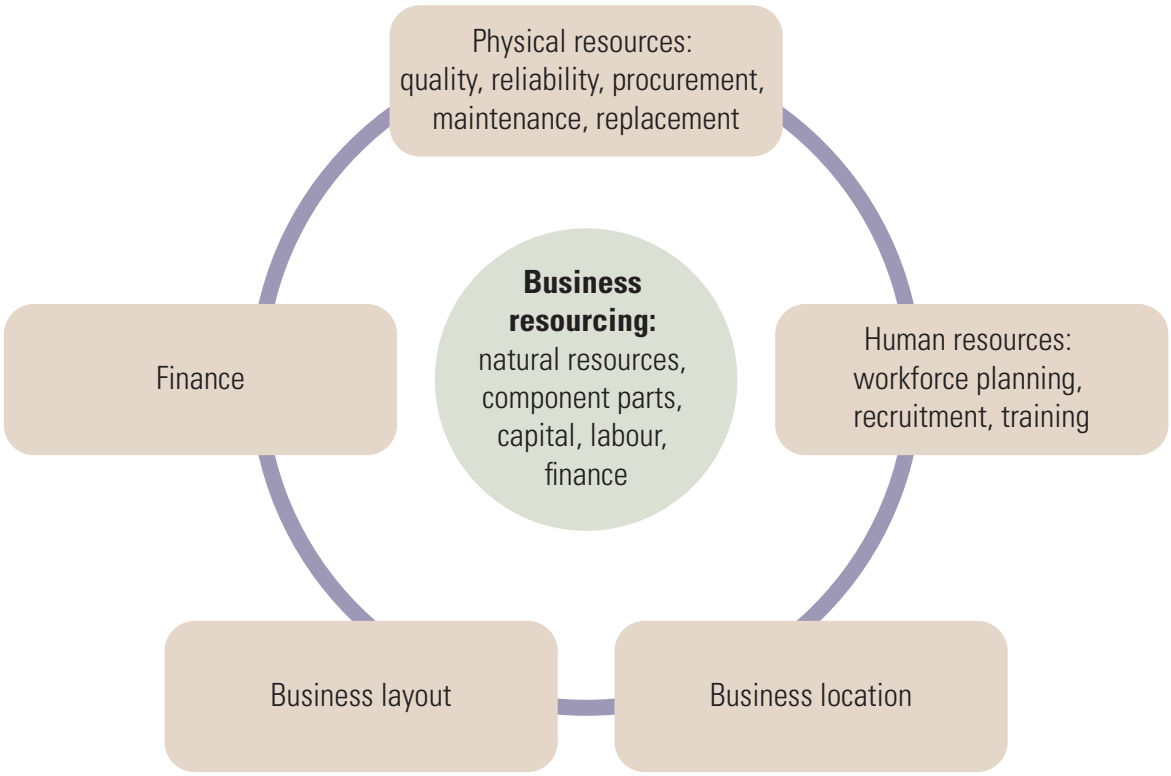


Figure 6.1 Business resourcing

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6.1 Business resource needs and the factors affecting their choice

A business must plan on an ongoing basis to ensure future human and physical resource requirements are met. Correct provision of physical input resources is essential if the business is to create and sell quality products in the quantities demanded by the market.

Businesses have differing resource requirements according to the nature of their operations. These will also change throughout the life of the business as it expands into new markets or diversifies the product range.

As shown in the previous chapter, the establishment and maintenance of a reliable and cost-efficient supply chain is vital to business competitiveness.

Types of resources

Resources required by businesses can be divided into three main categories:

- **Natural resources**: these are unprocessed items used in the operations process when finished goods and services are created. A restaurant, for example, will need a supplier of fruit and vegetables.
- Component parts: these are input products that have been already processed. For example, a restaurant might purchase cakes and bread from a bakery supplier.
- **Labour**: these are workers or human labour. For example, a restaurant might use an employment agency to employ waiting or kitchen staff.
- **Capital resources**: these are human-made items used in the process of production. Machinery and equipment are examples. The restaurant would require capital items such as kitchen equipment, point of sale technology, a coffee machine, tables and chairs.

natural resources a material source of wealth, such as timber, fresh water or a mineral deposit, that occurs in a natural state and has economic value

labour human physical and mental effort used in creation of goods and services. Labour is a primary factor of production.

capital resources human-made items used in the process of production. Machinery and equipment are examples.

Meeting the physical and human resource requirements of a business is an ongoing cycle requiring constant attention. The following actions will be required:

- Development of a procurement policy with guidelines regarding selection of suppliers. These guidelines should reflect the values, vision and mission of the business. For example, if a business espouses values such as wishing to be environmentally friendly, the procurement policy should stipulate that suppliers must meet designated standards regarding sustainability.
- Negotiation of leasing and/or purchasing arrangements for buildings, equipment and other inputs.
- Maintaining a positive relationship with suppliers.
- Making arrangements for servicing and maintenance of equipment and other capital items. This may involve contracts with service providers and the establishment of maintenance procedures.
- Replacement of capital resources when they reach the end of their life cycle; for example, vehicles, information technology (IT) equipment and software.



Figure 6.2 Business plans include allocation of a range of resources.

Factors affecting choice of resources

Planning to meet human and physical requirements is an ongoing process. The ongoing costs of maintaining existing resources and sourcing new ones when required must be taken into account when budgeting. A delivery van, for example, will involve more than the initial purchase costs. Ongoing operating costs such as servicing, petrol and replacement parts must

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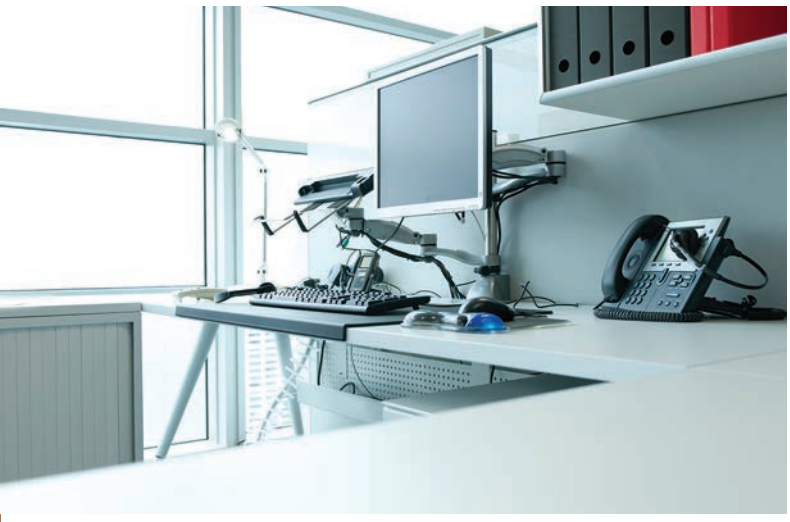


Figure 6.3 All businesses must plan to purchase equipment and maintain it on an ongoing basis.



Figure 6.4 Businesses must anticipate changes to workforce requirements.

also be budgeted for. At some stage in the future, the van will also need to be replaced.

Generally, a business needs to consider the following when resourcing:

1 Quality: selecting suppliers who provide quality resources will ensure that high-quality production standards are maintained. This will, in turn, make for a more competitive business.
2 Reliability: suppliers who are reliable and deliver what is required on time enable a business to maintain production and remain competitive.
3 Social responsibility: in order to gain and maintain a reputation for being ethically and socially responsible a business must select suppliers who have similarly high standards.

As a business expands, resource requirements also grow. This in turn increases the operating costs of the business.

Workforce planning is carried out in order to attract and maintain a constant supply of workers/employees/labour with the skills and capacity required to keep the business operating at the required level.

workforce planning a continual planning process used to align the needs and priorities of the business with those of its employees to ensure it can meet its production and service requirements and business objectives

Workforce planning involves forecasting the likely future demand for employees and taking steps to ensure that this demand is met. This may involve establishment and maintenance of relationships with an employment agency or a labour hire firm that supplies temporary workers. Agreements with contractors may also need to be negotiated.

Policies and procedures must also be developed regarding:

- employing staff with appropriate skills and qualifications while meeting legal requirements in regard to equal opportunity laws
- training staff
- motivating staff
- dealing with seasonal variations in employment requirements; for example, employing more staff as casual workers during busy periods such as Christmas
- monitoring staff turnover and assessing reasons for staff departures.

6.2 Business location and factors affecting choice of location

Selecting the best location

One of the most critical initial decisions the business owner must make is location. It is both difficult and costly to physically move a business once it has been positioned. Poor location choices are therefore usually difficult to repair.

A **business location** provides a link between the business and its customers/clients, as well as suppliers who provide the essential raw materials, products and labour. A good location will establish a balance between these factors.

business location geographical site of a business

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Figure 6.5 Choosing the right location is crucial to business success.

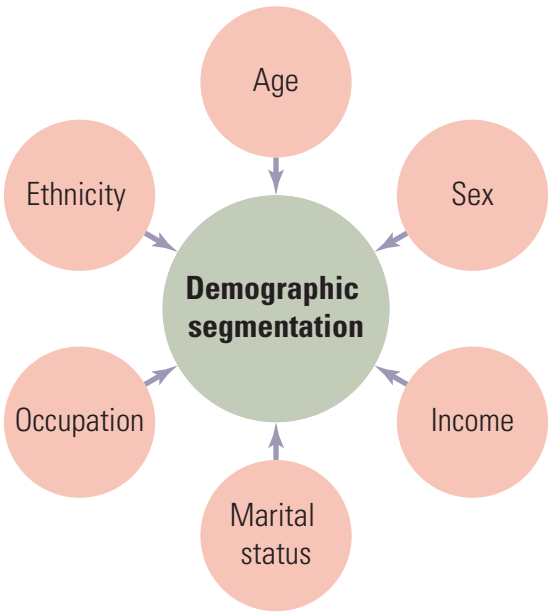


Figure 6.6 The demographics of an area are a major consideration when selecting a business location.

Different business types have different location requirements.

Factors to consider when selecting a location

Selecting a business location will generally depend on two types of factors: quantitative and qualitative. Quantitative factors are those that can be numerically calculated, such as the cost of purchasing or renting premises. Qualitative factors are those that deal with the psychological and emotional aspects of location, such as proximity to public transport or consideration for the welfare of workers. Some points to consider are:

- personal factors – the business operator's personal situation is important. For instance, a desire to live and work in a certain locality or to stay close to family nearby often determines location. Other factors may include the distance people are prepared to commute.
- style of operation – a business owner needs to ascertain the style or image the business is to have, and then determine if a specific location is in keeping with that image. For example, is the business formal, casual, urban chic, traditional? A hipster-style coffee shop would fit best in an inner suburban area, for example, whereas a high-end designer clothing store is best suited to an exclusive shopping centre rather than an outer suburban shopping strip.
- area profile – the area under consideration must be analysed for its ability to provide access to a sufficient number of paying customers (proximity to customer base). The business owner must evaluate the site with their target market in mind. Points to consider include:
  - area demographics – assessment of the population in regard to its age patterns, incomes, interests, ethnicity, education levels and so on. This will give an indication if there are sufficient potential customers in the area. It must be ascertained whether a sufficient percentage of the population in an area matches the customer profile of the business in order to ascertain whether the market will be viable. The products being offered for sale must also match the demographics of the location. For example, a store selling high-end designer handbags would not be suited to a less-affluent area.
  - economic and social trends – assessment of changes occurring such as demographic shifts in the area; for example, younger people moving into the area, changes in the birth rate. How will the business fit with these trends?
  - proximity to other businesses
  - **complementary businesses** – are there businesses that complement the new business, and have potential to enhance sales in the area? For example, a pharmacy would be well positioned next to a doctor's surgery, or a newsagent next to a large office complex.

complementary business offers for sale products that are related to one's business and may be of use to that business's customers; for example, a bridal wear store and a florist

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Figure 6.7 Locating near complementary businesses is wise.



Figure 6.8 The level of foot traffic is important for businesses that rely on unplanned or impulsive purchases.

- suppliers – are suppliers nearby? Can they easily deliver and access the business? Often manufacturing businesses set up near relevant primary producers. For example, fruit canneries are usually near orchards, and Rip Curl manufactures its wet suits in South America as this is the source of many of the world's rubber trees.
- are there cafés for staff to lunch at? Is the level of services and amenities in the area, such as banking and child care, adequate?
- will neighbouring businesses work for or against you? Issues include:
  - † the amount of competition. Sometimes when comparative shopping is involved it is good to have competitors nearby as people come to an area in order to make planned purchases. This applies to large planned purchases such as furniture, car and appliance sales. It is for this reason that specific locations gain reputations such as restaurant precincts or for car sales. On the other hand, when a business depends on impulse buying it is best to be away from competitors.
  - † the reputation of the area – is it an area well known for a type of business? Will it attract people?
  - † history of the site. It is wise to look up which businesses were located in a particular location and assess the reasons they either relocated or failed.
  - † levels of support offered in the area by traders' associations
  - † the amount of **foot traffic** passing the location should be measured, especially if a business relies heavily on unplanned purchases.

foot traffic pedestrian visitors to a business or commercial site

- Local government by-laws, especially zoning regulations, must be examined. What developments, if any, are allowed in the area? Will permits be required to build, extend, put up signage, etc.?
- Pending planning proposals must be checked at the local council. Any future development could have significant effects (positive or negative).
- Site accessibility and visibility – are the required number of customers, staff and suppliers able to locate and access the business? Will the parking be sufficient? Is there access for people with disabilities?
- Suitability of the buildings – the actual buildings must meet the physical requirements of the business. Consider required storage space, building design and floor space.
- Costs – the budget of a start-up business is usually limited. Therefore, the operator may need to compromise on site location to accommodate this. Generally, the cost of premises will increase in relation to the size and quality of the premises, level of accessibility to services, visibility and amount of passing trade. Costs such as rent, deposits, utilities and service costs such as cleaning and marketing fees in shopping centres must be factored in.
- Accessibility to transport – consideration must be given to how suppliers and customers will be travelling to the business. If they drive, parking

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facilities will be required. Public transport users will be attracted by proximity to a train station or bus stop.

- Proximity to other large businesses with 'pulling power' – certain businesses will attract customers into an area. For example, people will travel to a certain shopping centre in order to visit a supermarket or a variety store such as Target or Big W. Having one or more 'customer magnets' nearby is a huge asset to a business.
- Accessibility to labour and attracting enough of the best type of employees is another major consideration. Can potential employees afford to live in the area? Will they want to move to the area if necessary?

Key factors to consider in a location are:

- nature and type of business (including desired business image)
- available budget
- amount of space required
- special facilities required
- access for employees, suppliers and customers.

Different businesses have different location needs

The best location for a business is dependent on the type of business. Possible choices are:

- retail shopping strips, both suburban and CBD (sometimes referred to as 'High Street' locations)
- shopping centres/malls (large and small)
- industrial parks of varying types
- isolated sites
- online presence
- home-based.

Generally:

- *retailers* require a position that maximises visibility and therefore sales. They usually look for areas with high traffic. Different types of retailers have different needs. Some businesses rely on impulse buying; others rely on customers planning their visits. Usually, the higher the pedestrian and vehicular traffic flow, the higher the costs associated with a location.
- **wholesalers** require large amounts of floor space for storage. Easy vehicular

wholesalers businesses that purchase in bulk from producers and sell smaller quantities to retailers

Figure 6.9 Wholesalers require warehouse space.



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access will also be required for deliveries and dispatch of large quantities. Wholesalers require less visibility but more space, with easy access to transport routes.

- *service businesses* require mainly office space. Many can be run from home. If clients call in, easy access and client parking are required.
- *manufacturers* require large amounts of floor space. Customers usually do not come directly to them. They do not rely on impulse buying, therefore visibility and traffic flow are not usually considerations. Easy access to transport routes is important.
- *online businesses*, while not restricted in their location, must ensure they have access to fast and reliable electronic communication; that is, internet access. If it is selling goods, an online business will usually require warehouse space, as well as an area for packing and dispatch.

Factors to consider when selecting a building

- Is the space sufficient?
- Is there potential for growth or expansion if required?
- Are the entrances inviting?
- Does it meet legal requirements (e.g. disabled access)?
- Is the interior appropriate? If not, how much will it cost to redecorate it?
- Is the lighting appropriate/sufficient?

ACTIVITY 6.1

Match each of the following businesses with the location that best suits it. Justify your choices by considering the needs of each business.

Business	Location options
Supermarket	Among several office towers
Bread shop	Large space with major road frontage
Florist	Shopping strip in affluent area
Fast-food outlet	Next to hotel
Bookstore	Farm near airport
Used car yard	Country town in dairying area
Pharmacy	Industrial area
Animal boarding kennel	Airport
Wholesale fish seller	Home based
Retail jewellery store	Area with high percentage of Muslim residents
E-commerce	Suburban shopping centre
Factory	Large shopping centre with high foot traffic
Bottle shop	Victoria Market
Coffee shop	Mobile van
Juice bar	Main road close to a secondary school
High-end boutique	Lygon Street, Carlton
Halal butcher	Outside supermarket
Dog groomers	Next to doctor's surgery
Italian restaurant	Beachside town
Milk processing plant	Foyer of maternity hospital
Surf shop	Food court in large shopping centre

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A checklist for choosing a business location	Yes	No
1. Have you outlined your specific requirements (size, street frontage, services) before looking?		
2. Have you researched whether to lease or purchase premises?		
3. Have you researched previous tenants or owners regarding the history of the site? Why did they leave the site?		
4. Is the site suitably zoned? Research local government planning requirements.		
5. Have you assessed the sales potential of the area? Have you taken into account economic and demographic factors as well as competition?		
Customers		
1. Who is your target market? Is the site suitably located for them?		
2. How visible and accessible is your location to both foot and vehicle traffic and car parking facilities?		
3. How many people and vehicles pass the location daily? How important is foot traffic to your business anyway?		
4. Are the proposed premises on the best side of the street?		
5. Does the site project the right image for your business? Do neighbouring businesses project the desired image?		
Transport		
1. Have you ascertained how customers will travel to the business? Is public transport available?		
2. Is the cost of shipping goods to and from the site a major factor?		
Neighbourhood		
1. Are neighbouring businesses appropriate and do they appear healthy?		
2. Are complementary businesses close by?		
3. Are there any vacant premises nearby? Why? For how long? Have similar businesses failed/succeeded in this location?		
4. Are there any major changes contemplated in the area? Investigate planning proposals.		
5. Are there any restrictions on signage in the area?		
Financial		
1. Are the premises affordable? What are the alternatives?		
2. Are the terms of the lease suitable?		
3. Have you identified and costed all outgoings?		
4. Is a security deposit or bank guarantee required? How much is it?		
5. Have you determined what insurance you require?		
Long term		
1. Does the site have scope/room to expand?		
2. Will zoning restrictions conflict with future needs or plans?		

Figure 6.10 Checklist for choosing a business location

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Layout of premises

business layout the physical set-up or arrangement of a business. Includes placement and type of plant and equipment, fixtures and fittings.

The **business layout** of the business, or its physical set-up, is another important planning decision. The best layout is dependent on business type. The first step is to prepare a floor plan.

Factors to consider in layout design

- Fixtures and fittings – taking into account the image of the business and the environment required to make the right impression.
- Placement of fixtures and fittings should attempt to maximise traffic flow and optimise their use.
- Placement of stock/merchandise should ensure that clients/customers see what the business wants them to see.
- Efficient traffic flow.
- Knowledge of your customers' buying habits should assist in planning layout accordingly.
- Opportunity to display merchandise attractively.
- Ability to display complementary items together (e.g. supermarkets always place pet care items near the pet food).

Retail layout

A well-planned layout will optimise sales and customer satisfaction. The goal is to influence customer buying behaviour, to minimise costs and to provide flexibility so changes can be made when required. An effective layout provides maximum customer exposure to the merchandise and creates an attractive image for customers.

Hints for layout of retail operations

- Allowing plenty of space for circulation is the key to an effective retail operation. It is important customers feel they can move through a store both freely and fluidly.
- Customers will either come into the store with a definite purchase in mind (destination traffic), or they will intend to browse (shopping traffic).
- Shopping traffic tends to move to the right after entering a store and circulate anticlockwise. Therefore, specials, items with low profit margins and impulse items should be placed to the right.
- Destination traffic tends to move to the left of a store, and circulate clockwise, so goods with a high profit margin should be placed to the left.
- Customer exposure to stock (**merchandise**) should be the aim.
- Sale items should be placed at the storefront on what is known as an 'obstacle rack'.

merchandise the stock of goods in a store or business

- A good place for potential impulse purchase items is next to the cash register.
- Impulse and convenience items should be placed in the highest traffic areas.
- Basics are best placed at the back of the store so people have to walk past other merchandise to get to them. Supermarkets generally put milk in the back right-hand corner for this reason.
- Items likely to appeal to children should be placed at lower shelf levels.
- Music appropriate to customer demographics will make them feel at ease, more inclined to linger and therefore to spend.

Types of retail layout

Grid layout

The grid layout places all fixtures and fittings at right angles and creates parallel aisles.

A variation on the grid is a diagonal layout where aisles are set at an angle to the front entrance. This maximises store space, and is good for self-service outlets as it offers good visibility and traffic flow.

Grid layout advantages	Grid layout disadvantages
• Makes efficient use of floor and wall space (less wasted space) • Cost-effective (can use cheaper standard fittings) • Good for stores carrying large volumes of stock • Easy for customers to locate items	• Customers may easily miss items • Not visually exciting for customers (boring) • Limited browsing occurs

Table 6.1 Advantages and disadvantages of the grid layout

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Figure 6.11 A grid layout is commonly used in supermarkets.

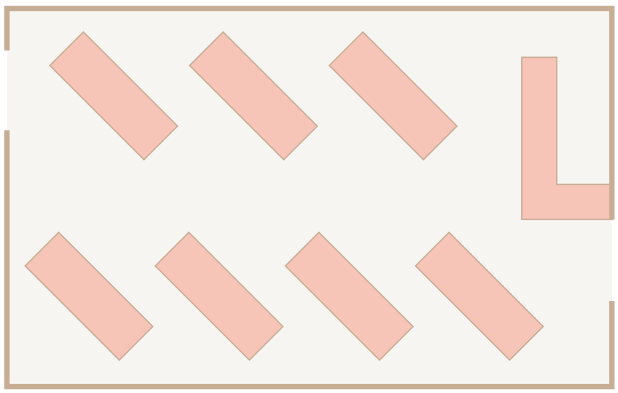


Figure 6.13 Diagonal grid layout

Loop/racetrack/mousetrap layout

In this layout, one main aisle loops around the store like a racetrack. It gives customers only one direction to go in, as they must walk around the perimeter of the store until returning to the entry point. Furniture stores often use this layout.

Spine layout

In a spine layout, a central customer aisle runs from the front to the back of a store with merchandise departments branching off to the back walls.

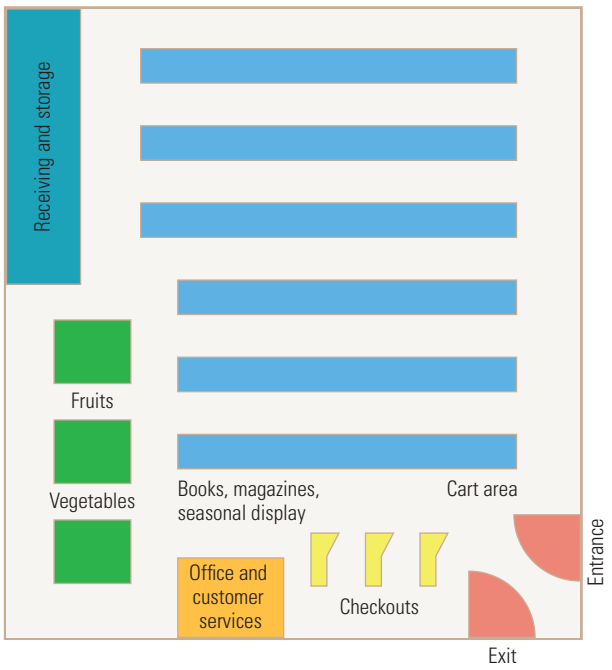


Figure 6.12 Example of a grid layout.

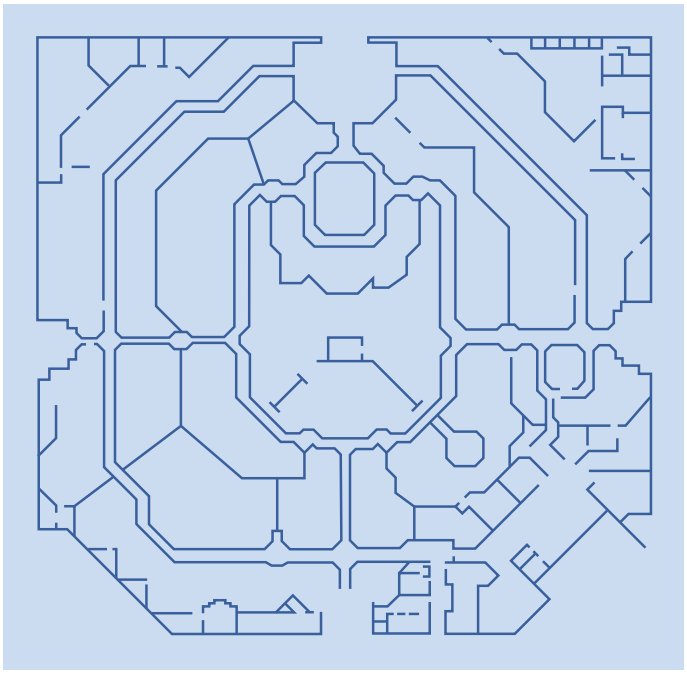


Figure 6.14 A racetrack/loop layout loops through a store and returns customers to the entrance.

(Source: SlideShare.)

Loop layout advantages	Loop layout disadvantages
• Exposes customers to multiple departments and encourages cross shopping • Encourages browsing and impulse buying	• Difficult to locate specific items • Wastes customer's time

Table 6.2 Advantages and disadvantages of the loop layout

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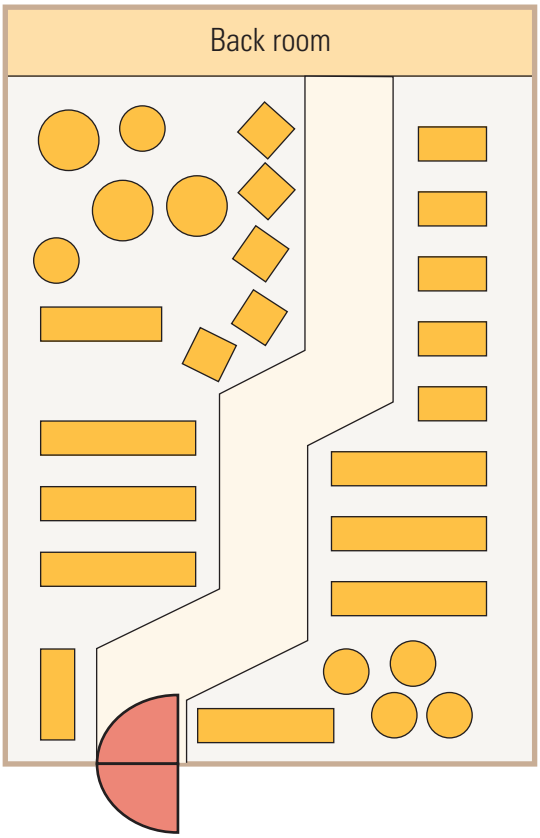


Figure 6.15 A spine layout is often used in fashion stores.



Figure 6.16 Example of a free form layout

Free form layout

Free form layout uses curves and creates visual diversity through asymmetric patterns. Fixtures and merchandise are grouped in free-flowing patterns, resulting in no defined traffic pattern. It is often used in high-end stores that carry minimal stock.

Mixed layout

Large retail stores often use a combination of layouts. Setting up departments within the same store with different layouts is more interesting and creates a different vibe in different sections. A department store may use a grid layout in its homewares section, a racetrack layout in the clothing sections, and a free form layout in giftware, for example.

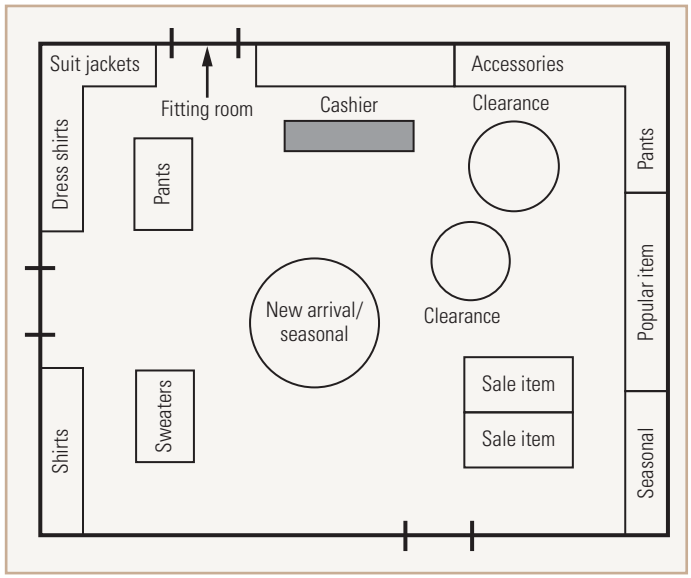


Figure 6.17 Plan for a free form layout

Free form layout advantages	Free form layout disadvantages
• Soft angles encourage traffic flow • Visual diversity (interesting to look at) • Good for use in speciality stores or for departments of large department stores • Creates relaxing environment that encourages shopping • Products displayed get extra emphasis • Encourages impulse buying	• Less actual room for products to be displayed • Sacrifices storage space • Lack of defined traffic pattern • Possible confusion

Table 6.3 Advantages and disadvantages of free form layout

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ACTIVITY 6.2

1 Classify the layout used by each of the following retail stores:

- Bunnings Warehouse
- a local supermarket
- a local fruit and vegetable store
- Target
- Big W
- a milk bar
- 7 Eleven
- Sussan
- a jeans store.

2 Draw up a table showing the advantages and disadvantages of each layout.

Office layouts

The layout of an office has considerable impact on levels of productivity and quality. The modern office requires staff to work together in departments/teams. There are also legal requirements regarding minimum space allocations, ventilation, temperature control and lighting that must be adhered to. The aim is to create efficient workflow, allow for effective communication patterns and encourage collaboration where required.

Cellular office design

A cellular office has people located in separate offices, meaning they are apart from each other.

Cellular office layout advantages	Cellular office disadvantages
• Promotes autonomous work • Employees feel secure in their own space • Employees can personalise the space • Maintains confidentiality when required • Less distractions • Rooms can be locked for greater security • Less spread of infectious diseases	• Difficult for teamwork • Necessitates more formal meetings • Staff may feel isolated and less involved • May have negative effect on morale and workplace culture as socialising is not encouraged

Table 6.4 Advantages and disadvantages of cellular office layout

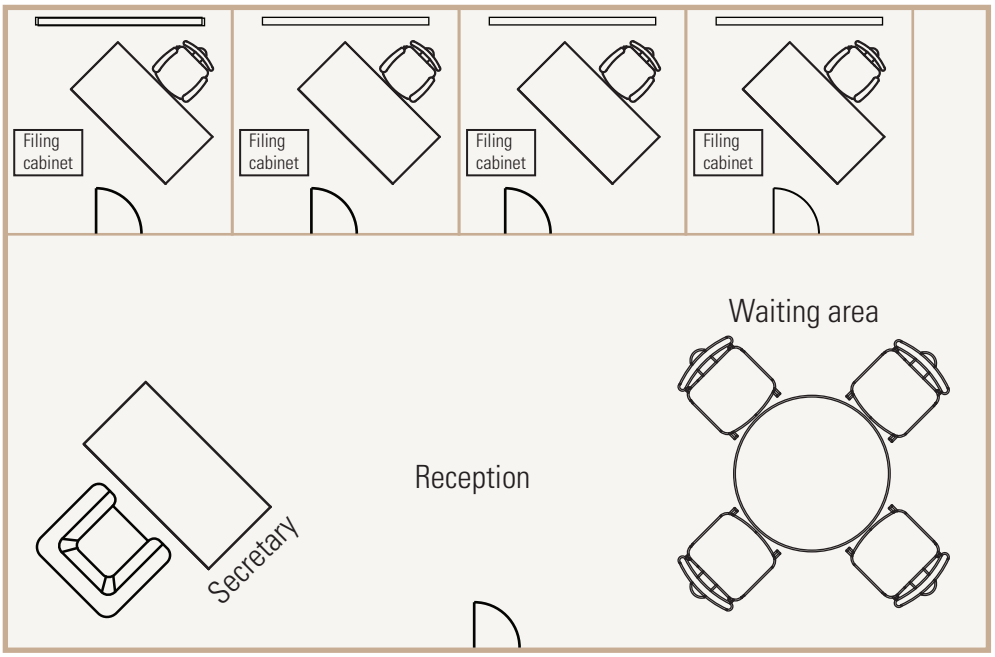


Figure 6.18 Plan for a cellular office layout

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Figure 6.19 Cellular office layouts offer confidentiality and a quiet environment.

Open plan office layout

Involves multiple employees being placed in a large room with multiple work stations. Workspace is shared and non-territorial.

Hot desking

Personal technology such as portable laptops and tablet devices have allowed some workplaces to move to hot desking. Hot desking involves multiple workers using a single workspace during different time periods. Upon arrival at the office, employees store personal items in a locker and, not being bound to any one workspace, take work areas on a first come, first served basis. They set up wherever there is free space.

Hot desking is usually found in workplaces with flexible schedules for employees, when not all employees are actually working in an office at the same time. Employees in such workplaces use

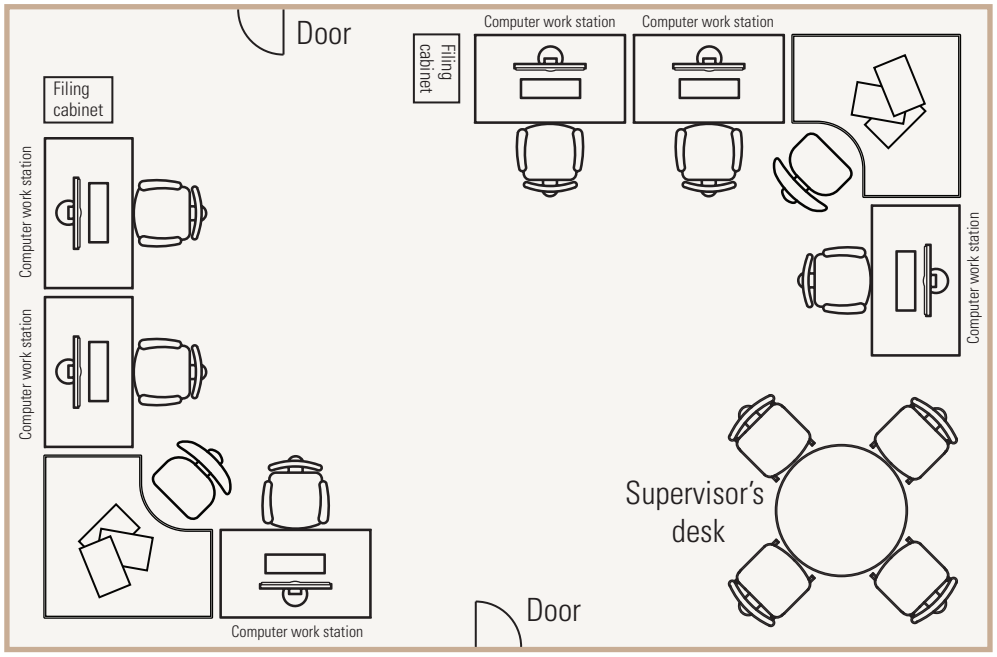


Figure 6.20 Plan for an open plan office

Open plan layout advantages	Open plan disadvantages
• Promotes teamwork and interaction (project teams) • Good for exchange and flow of ideas • Less requirement for formal meetings as informal communication is encouraged • Efficient use of workspace. Can accommodate more workspaces in a smaller area. • Cost-effective	• May have negative effect on staff morale because employees no longer have personal space • Studies show employees susceptible to high blood pressure and stress. Spread of air-borne diseases such as influenza. • Noise may impact on productivity and concentration levels • Lack of confidentiality

Table 6.5 Advantages and disadvantages of an open plan layout

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Figure 6.21 Open plan offices are common.



Figure 6.22 An ergonomically designed workplace can increase productivity.

existing offices only occasionally or for short periods of time, which leaves offices vacant. By sharing such offices, employees make more efficient use of company space and resources.

Combination office layout

Many workplaces combine elements of both cellular and open plan layouts. Often several individual enclosed offices exist surrounding common workspaces. A combination office layout allows for privacy through access to areas conducive to solo work when required but also enables easy access to group/team collaboration. This layout is good for employees who move between individual and teamwork.

work environment the surrounding conditions in which an employee operates. Can be composed of physical conditions, such as office temperature, or equipment, such as personal computers. It can also be related to factors such as work processes or procedures.

ergonomics the study of the relationship between people and their working environment

Other layout considerations

Layout must take into account employees' **work environment**. Workplace **ergonomics** directly affect employee productivity levels. Factors such as appropriate furniture and equipment, height of workbenches, provision of appropriate protective clothing and even sufficient lighting and temperature should all be considered. The ergonomics professional specialises in creating workplace designs that optimise the work environment.

ACTIVITY 6.3

Explain the critical factors that must be considered when deciding on layout for the following businesses:

1. childcare centre
2. private hospital
3. computer store
4. fast-food outlet
5. designer jewellery store
6. motor mechanic workshop
7. café
8. swim school
9. tattoo parlour
10. ice-cream parlour.



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ACTIVITY 6.4

Read the scenario, view the shop layout and answer the questions that follow.

Imelda's Shoe Emporium is a shoe shop located in a strip shopping centre in the suburb of Snorbins. Lately the business has noted the following trends and events:

- The specials are not selling.
- The sales of men's shoes are down.
- Several handbags and accessories on display have been damaged.
- Customers complain about the smell when trying on shoes.
- The registers are regularly crowded and there have been numerous complaints about poor customer service.
- Several accidents have occurred with people colliding into each other.
- Shop stealing has increased.

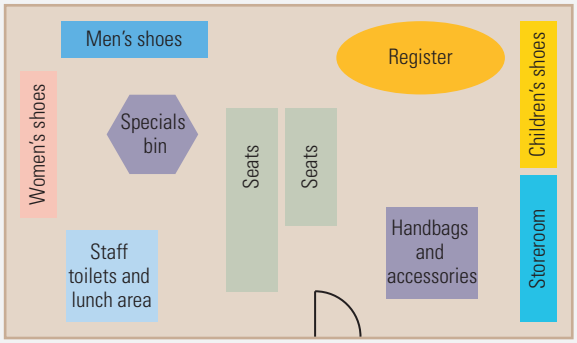


Figure 6.23 Layout of Imelda's Shoe Emporium

1. Identify two potential occupational health and safety risks that are created by the use of this layout.
2. Identify and explain three problems with the positioning of the register.
3. Give possible reasons for each of the above trends and events.
4. Using the 'Hints for layout of retail operations' above as a guide, suggest and justify more appropriate positions for:
   - **a** the register
   - **b** the specials bin
   - **c** the storeroom
   - **d** children's shoes.
5. Design a more appropriate layout for Imelda's Shoe Emporium.

6.3 Sources of business finance

Finance is crucial, especially when setting up a business, and may be a major factor in the business's success. Finance can be sought for such things as purchasing a building or factory, motor vehicles, machinery, equipment and tools, and inventory.

There are a range of finance options available to businesses. The business owner/manager should seek financial advice about the best option. Some options are outlined below.

Financial institutions

Financial institutions such as banks, building societies and credit unions offer a range of finance products for both short- and long-term finance solutions. Some products include business loans, lines of credit, overdraft facilities, invoice financing, equipment leases and asset financing.

Retailers

Many stores offer finance to purchase goods such as furniture, technology or equipment, and many also offer store credit through a finance company. Generally, this is a higher interest option and is suited to businesses that can pay the loan off quickly within the interest-free period.

Suppliers

Most suppliers offer trade credit that allow businesses to delay payment for goods. The terms often vary and trade credit may only be offered to businesses that have an established relationship with the supplier.

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Figure 6.24 There are a range of financial options available for businesses.



Figure 6.25 There are many types of business finance available.

Finance companies

Most finance companies offer finance products via a retailer. Examples include GO, Capital Finance and Motor Finance Wizard.

Family or friends

Sometimes friends and family may offer money for a business, particularly if it is a small business starting up. This is called a debt finance arrangement. It may impact on a relationship with family members if not done formally.

Private investors/business angels

Investors can contribute funds to a business in return for a share of profits and equity. A **business angel** invests in a new or expanding business. Business angels are usually involved in the business, either directly or as a mentor. They can provide development capital, and they can also contribute their business skills and contacts to benefit a new business.

business angel an affluent individual who provides capital for a business start-up, usually in exchange for convertible debt or ownership equity

Business angels can be individuals or businesses keen to operate in the area of risk capital (so called because when they invest, they take on part of the risk of growing a new business). The advantage of securing the help of a business angel is that they can make investment decisions fairly quickly.

Venture capitalists

Venture capitalists are generally large corporations that invest large sums in start-up businesses with the potential for high growth and large profits.

Stock market

Also known as an **initial public offering (IPO)**, floating on the stock market involves publicly offering shares to raise capital. This can be a more expensive and complex option and carries the risk of not raising the funds needed due to poor market conditions.

initial public offering (IPO) floating on the stock market involves publicly offering shares to raise capital

Crowdfunding

Some social media websites offer entrepreneurs a **crowdfunding** platform for product prototypes or innovative projects. This involves setting a funding goal, providing project and budget details and inviting people to contribute to a start-up capital pool. Crowdfunding is a way of financing a business through donations of money from the public. This is commonly done through crowdfunding websites.

crowdfunding a way of financing a business through donations of money from the public

Generally, a business idea as a 'campaign idea' is posted onto the website, with a description of the project. If people want to support the campaign, they can donate money to help the business achieve its

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Figure 6.26 Crowdfunding involves sourcing public donations for a business start-up through the internet.

goal. These supporters are often called backers. On some websites, a business owner might need to set a monetary goal, and a timeframe.

To encourage people to support a campaign, some businesses can offer incentives and rewards based on the amount donated. These incentives and rewards can be anything, such as merchandise, acknowledgement or discounts on a future purchase.

There are a number of advantages with crowdfunding as a source of finance. These include gaining a customer base committed to the product, an opportunity to interact directly with customers and gain feedback, plus free word-of-mouth marketing. There are also a number of disadvantages, including that there is no guarantee the funding goal will be reached, a need to campaign and present a product, the need to provide incentives and rewards, and having to compete with other businesses also seeking crowdfunding for their ideas.

See the Interactive Textbook edition for a case study on crowdfunding.

Loans

There are a variety of loans available to businesses that suit various situations. They vary in the amount, loan term (the period in which the loan needs to be repaid), interest rate, interest rate type (i.e. fixed or variable), fees and security.

ACTIVITY 6.5

Go to the website of two or more of the main banks or finance companies (e.g. National Australia Bank) and compare the interest rates and types of loans available to businesses.

Overdraft facility

An **overdraft facility** is a bank's authorisation that a customer may withdraw cash over the amount that is in their account, so that they have a negative balance, to a certain overdraft limit. The customer has to provide security (such as stock or buildings) and a favourable credit assessment showing that the business is viable. An overdraft facility therefore works like a loan but it should only be used to help cash flow; that is, to provide working capital before the business receives payment from its customers. Because the business has to pay a higher rate of interest on an overdraft compared to other forms of finance, it should not be used for major purchases or in the long term.

overdraft facility an extension of credit from a lending institution when an account reaches zero which allows the ability to continue withdrawing money even if the account has no funds in it or not enough to cover the withdrawal

Commercial hire purchase

Under a hire-purchase contract a business pays an initial deposit for goods such as machinery or vehicles, which it can then use while it pays off the remainder of the purchase price in instalments plus interest, like a lease. If an instalment is not paid the goods may be repossessed by the vendor or its agents. The regular instalments may be reduced if the last instalment is agreed to be much larger; this is called a 'balloon payment'. Using hire purchase, the business may receive revenue from using the goods before having to fully pay for them, which can help cash flow. After the last instalment, the purchaser owns the goods.

Bootstrapping

For a small business, raising the cash needed to start up, operate and then grow is always a problem. Lenders require security (assets as loan guarantees)

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and interest, and investors take their share of profits out.

Bootstrapping, from the metaphor of pulling yourself up by your own bootstraps, covers a range of ways of financing operations without having to borrow a lot of cash or take on investors.

bootstrapping a way in which a small business can finance its operations without having to borrow substantial amounts of cash

venture capital money provided by investors to start-up firms and small businesses with perceived long-term growth potential. An important source of funding for start-ups that do not have access to capital markets.

Bootstrapping helps businesses to start up quickly (to take advantage of new markets and opportunities, for instance) and to avoid the need to find **venture capital** (start-up loans and investments from banks and financial institutions).

Bootstrapping methods fall into these main categories:

- Keeping costs down:
  - keeping overheads low; for example, operating from a garage or spare room where permissible, rather than renting more space
  - taking on multiple roles (multiskilling) – the owner is also the cleaner, answers the phones and does their own paperwork.
- Having a good cash flow – avoiding the need to make large payments before revenue comes in.
- Growing by using revenue – cash already paid by customers:
  - taking advantage of the interest-free period on a credit card used to buy supplies
  - restricting credit given to customers and selling direct to cash-on-delivery customers rather than to distributors that require credit
  - requiring cash advances/deposits from customers against their orders
  - leasing equipment, or obtaining it through hire purchase, rather than buying it with cash.
- Networking with other businesses (these measures may overlap categories of reducing overheads and promoting good cash flow):
  - negotiating credit from suppliers
  - bartering goods and services with other businesses to avoid using cash
  - setting up beneficial deals with other business owners who often support the business
  - becoming acquainted with new business owners who aren't in direct competition.

A web search for 'bootstrapping business' will find other examples and opportunities.

Figure 6.27 Bootstrapping methods reduce dependence on loans and investors.



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CASE STUDY 6.1

Thankyou takes on nappy giants

Thankyou won its way into the hearts of Australian consumers with its bottled water and now it is taking on Australia's nappy and baby product market.

The social enterprise has made its name by donating 100% of its profits from retail sales to fund charitable projects in developing countries.

It all started with water and now Thankyou produces baby and body care and food products such as muesli using the same model and has expanded its range to include 50 products, which are sold in Woolworths and Coles.

Thankyou's profits to date are $4.6 million, including a profit of $1.5 million last year, all of which is distributed to the social enterprise's impact partners.

Thankyou's latest product is 'Thankyou baby' tackling child and maternal health and [co-founder Daniel] Flynn says taking on the competitive nappy market will be the biggest challenge yet for the social enterprise.

Nappies grew by 1 per cent in value terms to reach sales of $525 million in 2014 according to Euromonitor, with one corporate giant dominating the market.

Kimberly-Clark Australia is the leading player in the category with a 69 per cent value share, largely thanks to its main brand Huggies.

'This is a massive market,' Flynn says. 'Our body care products have worked really well and there's a natural progression into baby body care but nappies are a really new thing for us. There's one major player, Huggies, and a bunch of people trying to catch up.'

Flynn says '100 per cent' of the profits will go to funding child and maternal health projects, which will help address a crisis where every 10.3 seconds a mother dies in childbirth and 2.7 million babies die within a month of being born.

Child and maternal health is personal for the Flynns after having their first child last year.

'I feel as a young parent there is such a deep connection,' Flynn says. 'Every time you change a nappy you could be helping save another baby's life, it's a pretty powerful thought.'

On a practical level Flynn says his nappy-changing experiences have made him realise there's room for improvement.

'We've developed something that is more absorbent and better functioning than what is on the market and then we've innovated and lined it with vitamin E and aloe vera,' he says. 'We will produce both disposable and modern cloth nappies.'

The Thankyou team is under no illusions about the competition it faces.

'Huggies is owned by a billion-dollar company and listed on Wall Street,' Flynn says. 'It invests $10 million a year in marketing.'

Flynn says he has been advised rival nappy companies will set up teams to challenge the launch of Thankyou baby.



Figure 6.28 Taking on the nappy market is a challenge for the Thankyou brand.

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CASE STUDY 6.1 continued

'They will do bigger promotions than they have ever done before so mums and dads will stock up their cupboards with nappies so when we launch we won't be able to get the sales data to even stay on the shelf,' he says.

Flynn has calculated Thankyou needs $600 000 to launch Thankyou baby and will crowdfund the product launch.

'Hopefully tens of thousands of us will have been funding the launch so will buy the nappies and baby body care,' he says.

Flynn says the last seven years of Thankyou have been about proving the concept.

'It works,' he says. 'Thankyou works in multiple categories and against multiple competitors and now it's time to scale the idea.'

Most crowdfunding operates by supporters buying the product they are helping fund but Thankyou's campaign centres around the launch of a book written by Flynn about Thankyou's journey called *Chapter One*.

The book will launch in Australia with a 'pay what you want price' and no recommended retail price. It will be sold at airports and online.

Chapter One is formatted to be read vertically rather than horizontally.

Funding Thankyou baby is the first crowdfunding target and the second is to launch Thankyou in New Zealand, which the social enterprise wants to raise $600 000 for.

(Source: C Waters, 'Thankyou takes on nappy giants', *The Age*, 27 February 2016.)

Analysis

1 Explain why Thankyou baby is turning to crowdfunding to access more capital.

2 Explain how the launch of the new book and chapters might assist the business.

Figure 6.29 The Thankyou brand uses crowdfunding as part of its strategy.



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Chapter summary

- A business must plan to meet its resourcing requirements in terms of natural resources, labour and capital items.
- A procurement policy is required to provide guidelines regarding the selection of suppliers.
- Arrangements must be made for the servicing of capital equipment.
- Workforce planning is required to ensure a supply of skilled labour.
- Business location is a crucial decision that is not easily changed.
- Factors to consider when deciding on a business location include:
  - business type
  - area demographics, profile, reputation and economic and social trends
  - level of competition in an area
  - proximity to complementary businesses and suppliers
  - site history
  - amount of foot traffic
  - suitability of buildings and facilities.
- Once a location has been selected, the optimal layout must be identified and implemented.
- Finance is a crucial aspect of business planning and the success of the business.
- There are a range of different sources of finance, including: financial institutions, suppliers, retailers, finance companies, family or friends, business angels/private investors, venture capitalists, stock market, crowdfunding, loans, overdraft facility, commercial hire purchase and bootstrapping.

Chapter summary questions

1 Identify and outline examples of each of the following categories of resources that might be required by a large hotel:
   a natural resources
   b labour
   c component parts
   d capital resources.

2 Discuss the factors that a business needs to consider when selecting suppliers and resources.

3 Explain what workforce planning is. What is the purpose of workforce planning?

4 Suggest and explain four factors a business must take into consideration when selecting a location.

5 Suggest and justify an appropriate location for each of the following businesses:
   a a florist
   b a childcare centre
   c an online store
   d an advertising agency.

6 Identify suitable complementary businesses for each of the following businesses. Justify each:
   a a swim school
   b a jeweller
   c a gymnasium
   d an ice-cream shop.

7 Define 'ergonomics'. Discuss the importance of ergonomics to workplace productivity.

8 Visit your local shopping centre and identify stores using each of the following types of layout:
   a grid
   b loop
   c spine
   d free form.

9 Explain why it is important for a business to investigate different sources of finance.

10 Crowdfunding has become more popular. Outline how it can assist a business in expanding.

Extension question

Investigate three different sources of finance a business might access. Present this information to potential business owners, outlining the advantages and disadvantages of each source.

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CHAPTER 7

Business structures and models

Overview

The prospective business owner is required to make numerous crucial decisions before a business actually opens its doors. The method of entering into business is one of these decisions. A choice must be made about whether to start a new business from scratch or purchase an established business. Another option is to enter into a franchise arrangement with a franchisor. All three options have advantages as well as disadvantages.

The next decision to be made is which type of legal ownership structure to adopt. The business owner must decide if they will trade under their own name as a sole trader, form a legal business partnership, or incorporate the business and form a company.

Finally, an appropriate business model must be developed. This involves setting out a plan showing how the business will operate and create a profit.

Key knowledge

In this chapter students will learn about:

- Costs and benefits of purchasing an existing business compared with establishing a new business
- Types of legal business structures such as sole trader, partnership, franchise, private limited company, public listed company and the factors affecting choice of business structure
- Types of business models such as online business, bricks and mortar business, social enterprise, franchise, importer and exporter

Key terms

- accountability
- Australian Business Number (ABN)
- Australian Company Number (ACN)
- bricks and mortar business
- business model
- clicks and mortar business
- company
- dotcom business
- exporter
- franchise
- franchise agreement
- franchisee
- franchisor
- general partnership
- goodwill
- importer
- incorporation
- intangible assets
- limited liability
- limited partnership
- online business
- partnership
- partnership agreement
- passive investors
- private company
- proprietorship
- public listed company
- Registered Business Name (RBN)
- shareholder
- social enterprise
- sole trader
- unlimited liability

What's ahead

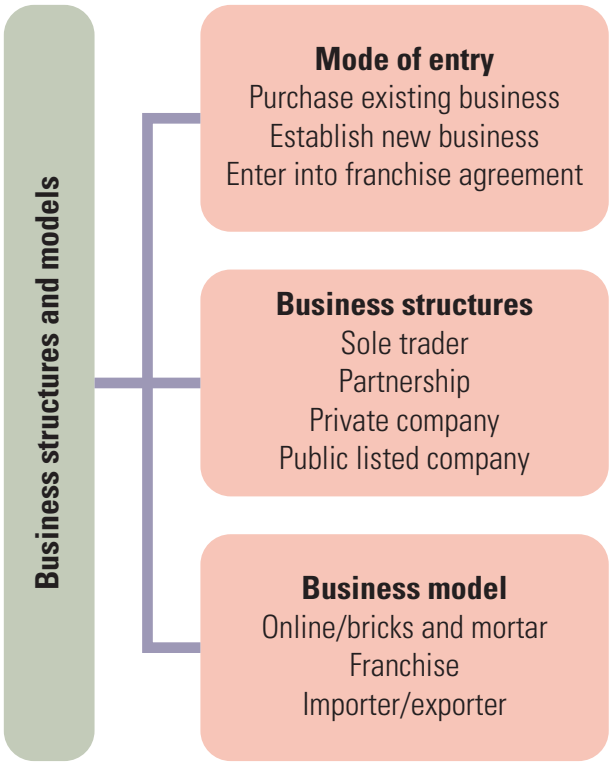


Figure 7.1 Business structures and models

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7.1 A new business from scratch or an existing business?

Once a decision has been made to enter into business the next consideration is whether to:

- start a completely new business from scratch or
- purchase an existing business.

Each option has distinct advantages and disadvantages. The potential small business operator must decide which best suits their circumstances, talents, skills, abilities, goals and personal requirements.

Establishing a new business

This is usually the best option if the business involves a completely new concept currently not available on the market that the business operator intends to develop.

The advantages of starting from scratch include:

- complete autonomy/control over the concept and form of the business – the owner is able to put their personal stamp on the business
- the business price will not include the added cost of **goodwill**
- freedom to implement personal ideas
- it avoids buying into the mistakes of others
- complete autonomy in operating the business and in establishment decisions
- original ideas and concepts belong to and will be associated with the business
- initial costs may be lower as **intangible assets** do not need to be purchased.

goodwill the difference in value between the price that a business is sold for and its net asset value; reflects the value of the firm's reputation and trading contacts

intangible assets assets that lack physical substance and are usually very difficult to value. Include patents, copyrights, franchises, goodwill, trademarks and trade names.

Potential disadvantages of starting from scratch include:

- far greater degree of uncertainty and risk with no previous sales history or figures to refer to
- more work initially as establishment of business systems, procedures and hiring and training of staff will be required from the ground up
- it will take longer to establish a client/customer base and, therefore, cash flow
- greater time and energy is required to establish a good name and reputation
- more difficulty in obtaining finance with an unproven venture
- a suitable location will need to be sourced and the business resourced from scratch – this involves time and potentially greater expense
- potential for unexpected competition
- more scope for error with the new business owner being required to make more decisions
- a significant period of time before profits may be generated because a customer base and business goodwill need to be established.



Figure 7.2 Starting a new business from scratch is riskier than buying a new business.

Extra considerations when establishing a business from scratch include:

- locating and obtaining suitable premises
- registration of the new business name, plus the need to ascertain relevant licensing and codes of practice requirements
- establishment of relations with reliable suppliers
- employment of staff
- registration of intellectual property.

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Purchasing an existing business

If the new business operator decides they would rather purchase an existing business as a going concern, the following costs will be incurred:

- premises, plant and equipment
- inventories of unsold stock purchased at valuation price (SAV)
- customer accounts
- contractual and legal rights such as patents
- employees
- goodwill
- intangible assets such as the value of the business brand, any intellectual property such as patents the business holds, and specialised knowledge and expertise held.

Potential advantages of buying an existing business include:

- it involves a much simpler process, because things like registration of business name and staffing have already been done
- ready access to business financial records makes it easier to obtain finance
- total cost is agreed upon initially and less likely to blow out
- the business will become operational and generate cash flow more quickly
- business operating procedures and practices are already in place and do not require development from scratch
- the business has existing suppliers, staff and client base
- established policies and systems.



Figure 7.3 Purchasing an established business is an option.

Disadvantages of buying an existing business include:

- the intangible assets of a business, such as goodwill, are difficult to value precisely and may be overvalued; the value of the business is therefore often difficult to gauge
- danger that the purchaser may be 'buying a lemon' (someone else's failure)
- goodwill can, in fact, be bad will if a business has a poor reputation.

Checklist for buying an established business

- ☐ Ascertain exactly why the business is for sale. Is it in fact a failing business? Is the vendor selling for financial reasons or not?
- ☐ Have an expert do an assessment of the business to ascertain if business goodwill is fairly priced.

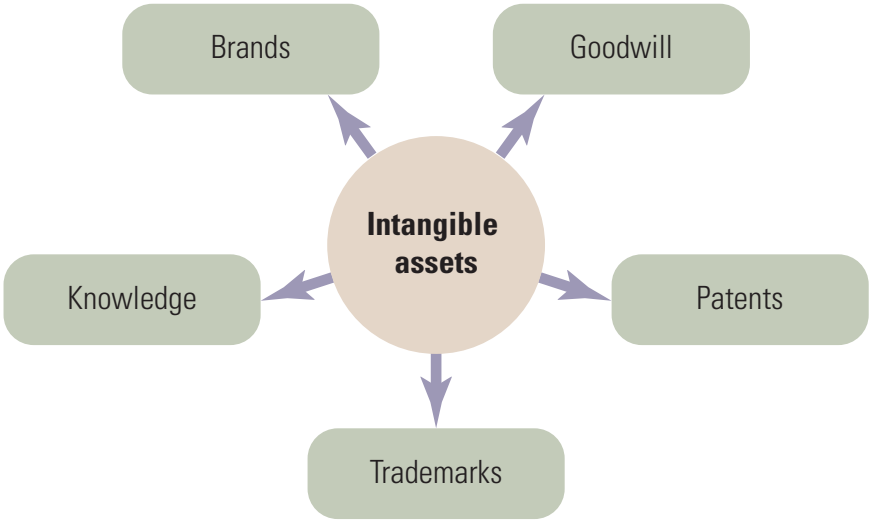


Figure 7.4 Calculating the true value of a business for sale is often imprecise.

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- ☐ Investigate future industry trends and existing market share of the business.
- ☐ Are suppliers reliable? Are inputs likely to be freely available at an affordable price in the future?
- ☐ Physically check that the business has all the required fixtures and fittings, equipment and stock in working order. Have these items valued.
- ☐ Have an accountant check all financial records, including taxation, receipts and wages.
- ☐ Check the premises.
- ☐ Check all the leases and legal contracts the business is subject to.
- ☐ Have an independent assessment of the business's financial viability done by a consultant and/or bank.
- ☐ Have a lawyer investigate the legal status of the business. Are there any pending court cases? Zoning changes? Does the business have outstanding debts?
- ☐ Check on the seller's right to open a competing business.
- ☐ Take care: many businesses that change hands in this way fail.

BUYER BEWARE!

7.2 Choosing the legal business structure

Once the decision to start a new business or to buy an existing one has been made the next decision is which form of **proprietorship** to adopt. There are four main structures. Each one has distinct advantages and disadvantages.

proprietorship the ownership of a business

Sole trader

This is the simplest form of business ownership and involves a single owner operating the business either under their own name or a registered business name. The owner makes all decisions and operates the business autonomously. It is the cheapest form of business structure to establish. A **sole trader** has exclusive rights to all profit and capital. Sole trader operations are run by one person, often based from home. Sole traders are personally and totally legally responsible for all actions and debts of the business. They are liable to meet all business financial obligations from their personal assets, placing these at risk. This is known as **unlimited liability**. For tax purposes a sole trader must declare all the business income as their own.

sole trader an individual owner of a business, entitled to keep all profits after tax has been paid but liable for all losses

unlimited liability full liability of owner (if their business fails) to the extent of their personal assets



Figure 7.5 A sole trader has more independence but carries more risk.

Partnerships

A business **partnership** combines the expertise and resources of between two and 20 people. Each partner is jointly liable for all debts

partnership a legal form of business ownership where two or more people (partners) work together



Figure 7.6 Business partnership is usually set out in a partnership agreement.

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general partnership all partners are deemed to be equally responsible for the management of the business. Each has unlimited liability for debts and obligations.

limited partnership where liability of one or more of the partners is limited

passive investor often referred to as a 'silent partner', provides financial input into the business but does not actively participate in the business operations

incurred by the business, meaning they have unlimited liability.

There are two forms of partnerships:

- **General partnership** when all partners are deemed to be equally responsible for the management of the business. Each has unlimited liability for debts and obligations.
- **Limited partnership**, where liability of one or more of the partners is limited. These limited partners are usually **passive investors** and not involved in the day-to-day running of the business. Their liability is limited in proportion to the amount contributed.

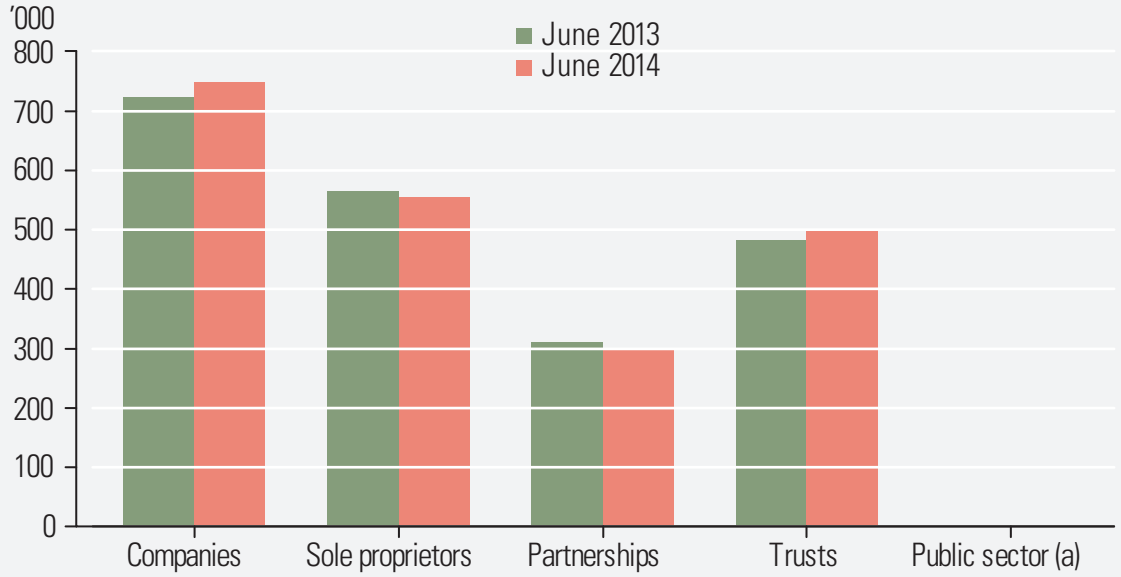
The *Partnership Act 1963* regulates partnership dealings. Most partnerships are based on a formal legal agreement known as a **partnership agreement**. If a partnership agreement is not signed, all partners are deemed equally liable for debts incurred.

partnership agreement a formal document which outlines the duties and responsibilities of the parties to a partnership

Common details included in a partnership agreement are:

- partner details
- commencement date and duration of the partnership
- description of the business and the nature of the partnership, including individual roles and what each partner brings to the partnership
- division of profits and remuneration
- contribution of capital from each partner
- responsibilities of each partner within the business

ACTIVITY 7.1



(a) There were 572 actively trading public sector businesses in June 2013 and 516 in June 2014.

(Source: Australian Bureau of Statistics, 'Counts of Australian businesses, including entries and exits', March 2015.)

Figure 7.7 Actively trading public sector businesses 2013–14

1 Rank the categories of business legal structure shown in Figure 7.7 from most to least common.
2 List the categories of business which increased during period 2013 to 2014. By how much did they increase? What do you think were the reasons for this?
3 Identify which category fell during this period. By how much? Provide possible reasons.

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and who has authority to do things such as access bank accounts
- how disagreements will be resolved
- provision for admitting new partners
- termination clauses, including procedures for distributing assets when the business is wound up.

A partnership does not have an ongoing life: if one partner leaves, a new partnership must be formed. In other words, there is no perpetuity. It is generally accepted that a person should only enter into a business partnership with people whom they completely trust, since a business partner may be liable for their partner's debts.

ACTIVITY 7.2

Bill, Barry and Bob are intending to enter into a business partnership. They are going to establish a driving school. Bill intends to work in the business full time as a driving instructor. He will contribute 50 per cent of the start-up capital and expects to earn a weekly wage.

Barry will contribute 20 per cent of the capital. He will work part time in the business as the financial officer.

Bob is not intending to work in the business, but will contribute 30 per cent of the working capital.

Questions

Suggest what should be included in the agreement in each of the following categories:

1. The amount of capital each person brings.
2. How profits will be distributed.
3. The roles and responsibilities of each partner.
4. How disputes will be handled.
5. Salaries and remuneration.

Justify your answers.

Company

Another legal business structure to consider forming is a **company**, otherwise known as **incorporation**. Features of companies are:

company a separate legal entity (incorporated body) that is subject to the requirements of the *Corporations Act 2001*, owned by shareholders who have limited liability, run by directors and has perpetual succession

incorporation the process of legally declaring a corporate entity as separate from its owners

shareholder owner of a company

limited liability shareholders are only personally liable to the level of their original investment in the company

- Companies have their own independent legal entity, separate from their owners. They are formed according to legislation and are registered with the Australian Security and Investments Commission (ASIC). Setting up a company can be both expensive and complex.
- The owners of a company are referred to as **shareholders**.
- A company pays tax on its earnings as a separate entity.
- Company directors are appointed by shareholders to manage and control the company.
- A company structure offers the protection of **limited liability**, whereby liability of the shareholders is limited to the value of their shareholding.

There are two forms of company: private and public. Each is discussed below.

Private company

The main features of a **private company** are:

private company a company where the shareholding is limited (small), with shares being sold privately; often run as a family business; has the words 'Proprietary Limited' (Pty Ltd) at the end of the company name

- A private company is restricted to a maximum of 50 shareholders.
- Shares can only be traded with the permission of the other shareholders, which must be given before the transaction takes place.
- Private companies have the letters 'Pty Ltd' after their name, which means 'Proprietary Limited'.
- Private companies are often family companies.

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Figure 7.8 Public listed companies, such as those shown above, are identifiable by the letters Ltd.

Public (listed) company

Larger companies are usually **public listed companies**. These have an unlimited number of shareholders. Other features are:

public listed company larger company with unlimited number of shareholders; shares can be freely traded on the stock exchange; has the word 'Limited' (Ltd) after its name

- A company initially issues a prospectus inviting the public to purchase shares.
- Shares are freely traded on the stock exchange.
- Public companies can be recognised by the word 'Limited' (Ltd) after their name, showing that they offer limited liability to their shareholders.
- Public companies are legally obliged to publicly report on their activities.

Which structure is the best?

Different structures are suited to different businesses. A business owner must decide which structure best suits them. Factors that need to be considered are:

- size of the business
- people involved
- type of business
- taxation and other financial issues
- finance
- start-up costs
- degree of risk
- personal preference.

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Business structure	Features	Advantages	Disadvantages
Sole trader	• One owner who operates the business under their own name or a **Registered Business Name (RBN)** and **Australian Business Number (ABN)**	• Inexpensive and simple to set up • Easy to maintain • Sole trader has complete control over all aspects of the business • Sole trader owns all assets and receives all profit • Less paperwork • Easy to disband • Simple to wind up • No legal requirement to disclose profits/losses (as with companies), privacy • Minimal government regulation	• Unlimited liability places personal assets at risk • Owner is tied to the business; difficult to have holidays or sick days • Profits are taxed at the marginal tax rate, which is higher than the company tax rate • Fewer tax concessions • Harder to get finance • Reliant on own knowledge and skills
Partnership	• Business owned by two to 20 partners • Partnership agreement to establish conditions • Partners jointly liable for business debts	• Inexpensive and simple to set up • Risk is shared • Minimal government regulation • Workload may be shared • Offers broader access to capital, knowledge, skills and experience	• Unlimited liability • Liability for debts incurred by others • Business could be threatened by one partner leaving • Potential for disputes and personality clashes • Taxation at personal tax rates, which are higher than company tax rates
Private company (Pty Ltd)	• Shareholders (owners) are legally separate from the business • Between one and 50 shareholders who appoint directors to run the company • Has an ABN • Operates under registered company name and **Australian Company Number (ACN)** • Registered with ASIC, which issues Certificate of Incorporation	• Limited liability • Extra capital can be obtained by issuing more shares • Separate legal existence • Existence is not threatened with death or removal of one of the directors • Can trade anywhere in Australia	• High degree of complexity in establishment • Higher establishment costs • Higher degree of government control and reporting requirements • Additional compliance costs • Legal obligation to report financial situation publicly (less privacy)

Registered Business Name (RBN) a trading name under which a person (sole trader) or partnership conducts its business or trade

Australian Business Number (ABN) nine-digit identifier of a company

Australian Company Number (ACN) nine-digit number to be used on a company's common seal and all public documents involving the company

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Business structure	Features	Advantages	Disadvantages
Public company (Limited or Ltd)	• Unlimited number of shareholders • Shares can be bought and sold on stock exchange • Has an ABN • Has an ACN • Registered with ASIC, which issues Certificate of Incorporation	• Limited liability • Extra access to capital through selling extra shares • Separate legal existence • Existence is not threatened with death or removal of one of the directors • Shares easily transferable	• High complexity and establishment costs • More government scrutiny, control and compliance requirements • Need for more **accountability** and paperwork • Legal obligation to report financial situation publicly (less privacy)

Table 7.1 Features, advantages and disadvantages of ownership structures

accountability the extent to which a business has to account for its activities, accept responsibility for them and disclose results in a transparent manner

CASE STUDY 7.1

Cotton On

'Cotton On is a true Australian new generation success story,' retail expert and former David Jones chief executive Paul Zahra says. Here's how they did it.

Nigel Austin was studying business at university when, in need of cash, he started selling acid-wash denim jackets from the boot of his car at the markets in Geelong almost 24 years ago.

In the first week he sold just one jacket for $30, barely enough to pay for lunch and petrol. Undeterred, he went back to his supplier, who just happened to be his father, the late clothing wholesaler Grant Austin, and negotiated a better deal.

'The next week I sold all 20 and made $200 – I thought that was pretty addictive,' Austin says.

Now 44, Austin is still selling denim jackets – as well as t-shirts, jeans, checked shirts, dresses, sweaters, bras, undies and homewares – but his Cotton On Group retail empire has grown from just two stores in 1991 to more than 1300 stores across eight brands in 19 countries including the US and South Africa.



Sales have risen more than 20 per cent a year for at least five years and are forecast to reach $1.51 billion this year, seemingly unaffected by the invasion of international fast-fashion chains such as Sweden's H&M, Inditex's Zara, Arcadia Group's TopShop and Japan's Uniqlo.

With almost 760 stores in Australia alone, the home-grown casual fashion factory arguably has more influence on what we and our kids wear on the weekend than any other fashion chain.

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'Success story'

Cotton On Group is now bigger than Solomon Lew's Premier Investments, which owns Just Jeans, Dotti, Portmans and Jay Jays, the Country Road/Witchery/Mimco group and even surf and skate wear retailer Billabong International. It's one of only a handful of domestic retailers that have successfully ventured overseas.

…

But Austin, his cousins Ashley and Michael Hardwick and their trusted lieutenant, chief executive Peter Johnson, have finally decided to lift the lid, disclosing for the first time the size of the company, its growth strategy and its ambition to become the world's dominant value fashion retailer.

…

No plans to sell

In exclusive interviews with *AFR Weekend*, Austin and the Hardwicks ruled out an initial public offer and say they have no plans to raise external capital or sell out, despite keen interest in the past from private equity investors and domestic competitors.

'They wouldn't even get to me today because it's not even on the agenda,' Austin says.

'It's just not something we spend time thinking about,' says Michael Hardwick, 46, who joined Cotton On as chief financial officer in 2009 after a long career with PwC and working in venture capital in the US. 'We don't need to do it [raise external capital] to continue to deliver on our aspirations for the business.'

On a chilly Tuesday last week, the 1000-odd staff at Cotton On's headquarters in an industrial estate in Geelong's north gathered for the group's monthly BBQ for an update on February sales and to learn more about plans for the coming year.

'It was another cracking month, the fifth in a row where we've beaten the market,' says Johnson, who worked for Country Road and Sussan Group before joining the COG team in 2004.

Comparable store sales across the group rose 9.2 per cent in February, led by 22 per cent growth at Cotton On Kids, 14.8 per cent at Supre, which was acquired in 2013, 12.5 per cent at stationery and homewares chain Typo and 8.6 per cent at the original Cotton On brand. In a subdued consumer spending environment, where annual retail sales growth is tracking at a below-trend 3.6 per cent and clothing sales are growing around 2.8 per cent year-on-year, it was an impressive performance, fuelled largely by overseas demand. Australian comps rose an enviable 8.8 per cent, Malaysian comps jumped 42 per cent, Singapore 15 per cent, Hong Kong by 14 per cent and Thailand 11 per cent.

New jobs

As staff bobbed for plastic fish in an inflatable pool or tucked into hamburgers with quinoa salad, Johnson unveiled plans to add 227 head office jobs this coming year – 171 in Geelong and 56 in Cotton On's four global hubs. Another 2000-odd retail jobs will be created as Cotton On opens more than 100 stores over the next 12 months.

Over the next three years the group plans to open 570 stores around the globe, taking the total to almost 1900, while lifting online sales to $250 million.

…

Products are designed by a team of more than 60 designers and trend forecasters, with a turnaround time between design and manufacture of two to eight weeks, depending on the category. Range reviews are conducted for each brand every quarter. New products are dropped in stores daily and new ranges arrive each week.

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Products are manufactured by 170 suppliers at 330 factories, mainly in China and Bangladesh, and are sent by sea freight to seven distribution centres in Melbourne, Brisbane, South Africa, China, Singapore, California and New Zealand.

…

Austin and the Hardwicks have no plans to retire soon, but like any family company COG will eventually have to grapple with the issue of succession planning.

Austin says his father taught him almost everything he knows about retail, but is reluctant to hand his share of the business to his own children, saying the burden would be too great.

In last year's *BRW* Rich List, Austin was estimated to be worth $295 million. But industry sources say COG would be worth more than $1 billion, based on sales of $1.5 billion and estimated earnings of $150 million, although it is impossible to verify these numbers.

'At this age they're still saying they'd like to take it over but the responsibility of such a big business [would be unfair], and it's going to be so much bigger by then, I don't think it's realistic,' he says. 'It's been a really great role to grow into as opposed to stepping into it.'

Ashley agrees. 'It's going to be a pretty big business, but with new people coming into the business all the time and the new brands and countries it keeps the enthusiasm levels high – we don't really need an exit plan.'

(Source: S Mitchell, 'Cotton On: the inside story of the retailer's rise to $1.5b in revenue', The Age.com.au, 2 April 2015.)

Analysis

1. Name the founder of Cotton On. Describe how, when and where this business was founded.
2. Describe how the Cotton On business expanded between 1991 and the present.
3. List six facts from the article that demonstrate the extent of the success of this business.
4. Name five other stores or brands owned by Cotton On Group.
5. Describe the plans Cotton On has for expansion.
6. Cotton On is still a private company. Explain what this means and how it differs from a public listed company.
7. Outline the reasons given in the article for Cotton On deciding to stay with the private company business structure for the moment.
8. Analyse the advantages and disadvantages for Cotton On of remaining a private company.

7.3 Types of business models

business model the plan implemented by a business to generate revenue and make a profit. The model includes the components and functions of the business, as well as how revenue will be generated and expenses incurred.

Businesses must select the most appropriate **business model** that meets their needs and maximises their chances of business success. A business model is the plan implemented by a business to generate revenue and make a profit. The model includes the components and functions of the business, as well as how revenue will be generated and expenses incurred. An original, unique or variation on an existing business model can become a competitive advantage.

Online vs bricks and mortar business models

Business enterprises with no physical presence that conduct business via the World Wide Web have become commonplace. Businesses in virtually every sector of the economy now rely on the internet in

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some form in order to reach customers, promote products and widen their customer base.

Online (internet-based) business models

There are seven main **online business** models:

online business business that conducts activities via the World Wide Web

1 *Advertising model:* The advertising online model involves a website providing content, either free or for a fee. Advertisers then pay the website to advertise/promote their products on the website. Payment may be based on the number of advertisements placed (per impression), per click or simply via a fixed cost. Facebook is one of many utilising this business model. Services such as Google AdSense and BuySellAds act as agents helping businesses add advertising to their websites.
2 *Affiliates model:* This model rewards the owner of a website every time a user clicks on a promotion and purchases a product.
3 *Brokerage model:* Businesses that use this model act as agents bringing buyers and sellers together. They may act as a transaction broker or a marketplace; eBay, for example, uses this model. Money is earned by charging a fee/commission on each transaction.
4 *Merchant model:* This model involves a business making direct sales to consumers via the internet in lieu of a bricks and mortar store. Amazon.com and most retail operations use this model.
5 *Subscription model:* This model involves a business charging a payment or subscription to log onto its website. Media outlets such as News Limited (*Herald Sun*) and Fairfax (*The Age*) use this model.
6 *Information model:* This model involves a website charging for information. The sale of eBooks is an example.



Figure 7.9 Facebook uses an online advertising business model. eBay uses a brokerage model.



Figure 7.10 Merchant online business model

7 *Community model:* These websites build a community of users interacting with each other. Blogs and chat sites are examples. Money is made via charging a subscription fee or calling for donations. Wikipedia is an example of this model.

ACTIVITY 7.3

Go to each of the following websites. Classify each according to the online business model/s used.

ASOS	Gumtree	YouTube
Twitter	Facebook	LinkedIn
Mycareer.com	eBay	Age.com
Guardian.com	Slideshare	Airbnb
Uber	Candycrush	Any Blog

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Figure 7.11 An online business model allows for greater flexibility.

Advantages of adopting an online business model

- It offers an easy and instantaneous connection with customers, suppliers and other stakeholders. In effect, the business can operate 24 hours a day worldwide.
- Promotion and marketing are usually cheaper and accessible to a wider world market.
- Costs/overheads are significantly less. There is no need to pay for premises, and overhead costs, such as bills and insurance, are less. Staffing requirements and costs are also less.
- Customers are easily able to access and purchase online from anywhere they can connect via an electronic device. Similarly, the business can be operated from remote sites.
- It is easy to keep track of competitors and change prices to match them.
- The potential for rapid growth is greater as costs of doing so, such as staffing and bigger premises, are reduced.
- The potential for customer impulse buying is significantly higher.

Disadvantages of an online business model

- Online commerce is often impersonal and a personal relationship is usually not developed between buyers and sellers. As a result, repeat customers are more difficult to maintain.
- The costs of planning, designing, hosting, securing and maintaining a professional e-commerce website are considerable.
- Customers may be reluctant to purchase online as they are unable to physically handle or try the products before purchase.
- The sense of trust and authority associated with a physical bricks and mortar location is lost. It is difficult to establish a trusted brand name without a physical business with a track record and a history of face-to-face customer interaction.
- Online fraud has the potential to negatively impact on the business's reputation.

Bricks and mortar business model

A business that has a traditional physical presence involving stores, offices or production facilities that customers/clients actually attend, rather than relying on an online presence, is referred to as having a **bricks and mortar business** model. A bricks and mortar business model usually offers face-to-face customer interaction.

bricks and mortar business business with a physical presence such as a shop front or office. Involves face-to-face interaction with customers.

Advantages of a bricks and mortar business model

- Face-to-face customer interaction is possible. This builds up a relationship with customers/clients and may contribute to increased sales through building a base of loyal, return customers.
- Customers can see, touch and try products before purchase.
- A physical presence with identifiable buildings and location makes it easier to build a trusted brand.



Figure 7.12 A bricks and mortar business model

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Disadvantages of a bricks and mortar business model

- Overheads and costs are higher.
- Shopping is less convenient for customers with busy lifestyles or who live in remote locations.
- A wider range of stock can be provided online.
- The potential market is smaller.
- Customers may face queues and crowding in a physical store.

Combining models

Many businesses that have been trading using a traditional bricks and mortar business model before the development of the World Wide Web have since developed and adopted online services and sales in addition to their traditional model. Most major retailers such as Woolworths, Coles, Myer and David Jones have done this in order to maintain competitiveness. These businesses are referred to as being **clicks and mortar businesses**. Businesses that have never owned a physical shop front and have always solely operated using an online model are often referred to as **dotcom businesses**.

clicks and mortar business a business that utilises a hybrid online/bricks and mortar business model

dotcom business a business that has always exclusively used an online business model

social enterprise private sector business that distributes profit to benefit the community rather than individual shareholders

Social enterprise models

A **social enterprise** uses a traditional business model of buying and selling goods and services with a view to creating a profit. Unlike a traditional business, however, the social enterprise business's prime motivation is not to create profit for owners/shareholders. Instead, it aims to use profits to fund or support social causes. Such causes might include reduction of poverty or social disadvantage, provision of employment to disadvantaged groups or addressing environmental issues. Many social enterprises do make a profit, but this is not usually their main reason for being. Profits go back into the business or to a charity. Social enterprises differ from charities in that they derive income from business activities and not donations.



Figure 7.13 Cafés are a business type that is compatible with the social enterprise model.

ACTIVITY 7.4

Go to the Social Traders website and answer the following questions.

1. Explain what a social enterprise is.
2. List and explain two ways a social enterprise differs from a charity.
3. How many social enterprises exist in Australia?
4. By what percentage has this increased over the past few years?
5. Identify the contribution made to Australia's gross domestic product by social enterprises.
6. Classify each of the following social enterprises as one of the categories of social enterprise (employment, goods and services, investment, hybrid):
   - **a** CERES
   - **b** Fair Trade Coffee Company
   - **c** Bawrunga Aboriginal Medical Service
   - **d** Cleanable
   - **e** Australian Disability Enterprises.

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There are four main social enterprise models:

1 *Employment model*: These social enterprises provide employment for marginalised people in society such as those with a disability, those with cultural or language barriers or any disadvantaged group.
2 *Goods and services model*: These social enterprises aim to offer alternative products to those seen to be socially or environmentally harmful. Fair trade is an example. Other enterprises provide organic food or products.
3 *Social investment model*: These businesses usually operate a traditional business model. All profits are given to a charitable cause.
4 *Hybrid model*: A hybrid combines more than one of the above models. For example, a restaurant selling organic foods sourced on a fair trade basis, employing long-term unemployed people, that directs its profits to charity.

Franchise models

Franchising involves a **franchisee** paying another business (**franchisor**) for the right to use that business's trade name, products and operating systems. The franchisor will then exercise a degree of control over the running of the business, but in return will provide assistance, advice, suppliers and reputation. The franchisee is, in effect, paying for the right to replicate another business in its entirety. The franchisee usually pays a one-time **franchise** fee plus a percentage of sales revenue as royalty. In return, the franchisee gains immediate name recognition, tried and tested products, recognisable building design and décor, marketing, employee training, and ongoing help promoting and upgrading products.

A franchisor retains a significant level of control over franchisees' operations in order to safeguard their trademark, and to ensure the quality of their product remains consistent from location to location. For example, any time you order a Big Mac from a McDonald's store you know exactly the form and quality of what

franchisee the person in a franchising agreement who purchases the right to use a business's trademarks, associated brands and other proprietary knowledge in order to open a branch. In addition to paying an annual franchising fee, the franchisee also pays a portion of turnover to the franchisor.

franchisor the company or individual owning/controlling the rights to grant franchises to potential franchisees

franchise where a business owner (franchisor) grants another (franchisee) the right to use their trademark or trade name, business systems and processes, to produce and market a good or service according to certain specifications

Figure 7.14 A franchise operation offers less autonomy but is less likely to fail.



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Figure 7.15 Some well-known franchises

you are buying, even though it is likely that each McDonald's will have a different franchisee owner. A franchisee signs a legal document known as a **franchise agreement** that specifies the rights and responsibilities of both franchisor and franchisee. A franchisee will be given an exclusive right to operate the franchise in a specified trading area and agrees to pay set fees that may include:

franchise agreement a legal document that outlines the rights and responsibilities of the franchisor and franchisee

- an initial, upfront fee
- a percentage of sales income each month
- a regular advertising and marketing fee.

Advantages and disadvantages of a franchise

Advantages of a franchise business model include:

- significantly reduced risk of business failure
- avoidance of the franchisor's initial mistakes
- franchisor-provided training
- a business system that has been tested and has usually succeeded
- expert assistance and advice from the franchisor
- less responsibility for decision making, as many key decisions are made by the franchisor
- established suppliers and the advantages of bulk buying (i.e. economies of scale)
- established procedures, policies and processes
- established buyer awareness of the brand name
- easier access to finance
- guarantee of an exclusive territory, which limits competition
- the franchise business should become immediately competitive as it is a recognisable and known brand.

Disadvantages of a franchise business model include:

- far less independence – in effect, a franchise owner performs the role of manager rather than owner
- a franchise owner is not able to utilise their own ideas
- excessive costs and fees. As well as an initial purchase fee, the franchise owner will also be expected to pay a monthly service fee and a percentage of takings.
- the franchise is judged by the performance of other franchisees. Poor service provided by someone else affects all.

Franchising: some history

Here are some interesting facts about the development of franchising as a business model.

- The modern franchising model blossomed in the USA during the 1950s and 1960s. McDonald's, Kentucky Fried Chicken, as well as several laundry and dry-cleaning franchises, hotels and rental cars were all significant players.
- Within a 10-year period, McDonald's opened 100 stores, Midas Mufflers had 400 locations, Holiday Inn 1000 motels and Budget Car Rental 500 outlets.
- Isaac Singer (1811–75) is credited as being the modern father of franchising. During the 1850s, Singer was selling his sewing machines. He wanted increased sales and a wider distribution, but could not afford to manufacture more. Customers also wanted training in how to use the machines, which retailers were not able to provide. Singer therefore decided to charge licensing fees to people to sell his machines in a specific area. Each licensee was also expected to provide training to customers.

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This provided the money for manufacture of new machines.

- Ray Kroc (1902–84) is credited as the founder of the McDonald's franchise. A milkshake mixer salesman, Kroc, came across the McDonald's hamburger store in California in 1954 and was impressed by the business model. He became its licensing agent and recruited franchisees. In 1961 Kroc bought the McDonald brothers out. By 1988 there were more than 10 000 McDonald's franchisees across the USA. Now there are more than 30 000 worldwide.

In Australia

- Post World War II: Car manufacturers such as Ford and Holden established a franchise model for retail sales. Petrol companies such as Shell, Mobil and Caltex established franchise models for petrol stations.
- 1968: Kentucky Fried Chicken (now KFC) established its first Australian store.
- 1970–71: Pizza Hut, McDonald's and Hungry Jack's opened their first franchise outlets in Australia.

ACTIVITY 7.5

Research the history and development of one of the following franchised businesses operating in Australia:

- McDonald's
- KFC
- Boost Juice
- Bakers Delight
- Jim's Mowing (or another Jim's Group franchise).

Write a brief report outlining:

1. Who founded the franchise and when.
2. Where it was founded.
3. A brief description of the products sold.
4. What competitive advantage a franchisee owner would enjoy.
5. Approximate costs of being a franchisee (visit the Franchise Business website for more information).

Year	Number of franchise outlets (Australia)
1990	9 570
1998	43 800
2002	51 100
2008	71 400
2012	73 000

Table 7.2 Franchising facts

Importer and exporter business models

Businesses that buy and sell products across international borders have an **importer** or **exporter** business model. According to the Department of Foreign Affairs and Trade Australia's two-way trade in goods and services was worth $660 billion in 2014–15 (see Cambridge weblinks: http://cambridge.edu.au/redirect/?id=6975).

importer purchases overseas products for resale in their home country

exporter sells home-country products overseas



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Reasons for adopting an importer or exporter business model

There are a number of strong reasons for adopting an importer or exporter business model.

- Price differentials between countries – some products are cheaper to manufacture and assemble in one country than another. Raw materials and labour are cheaper in some parts of the world, making it attractive to source some products from those countries. Importers and exporters take advantage of economies of scale to source goods from countries with lower cost structures and then sell the goods in countries where a higher price can be obtained. For example, clothing and footwear produced in South East Asia is often cheaper than similar items produced in Australia.
- Differences in quality, reputation and image – French perfume has a high reputation and Egyptian cotton is highly regarded in Australia. Australian wine is highly regarded in many parts of the world. Australia is a source of high-quality agricultural produce and dairy products.
- Ready availability of goods in quantities – some things are not grown in Australia, and some goods cannot be manufactured here for a competitive price. Electronic goods are currently being sourced from Asian countries where they are produced in large quantities and are available at competitive prices.
- Seasonality – agricultural products are mostly seasonal. At different times of the year some produce will grow in one part of the world, with many countries obtaining their supplies from that country. As the seasons change, the parts of the world where the products are sourced will change.
- Business opportunities become available for niche markets in Australia and overseas. Entrepreneurs will take advantage of these. Some established businesses see Australia as an expanding market and establish operations to take advantage of this; for example, fashion retailers H&M, Zara and Uniqlo have all created a presence in Australia. Similarly, some Australian businesses have expanded overseas; for example, Australian surf-wear producers.



Figure 7.16 Businesses across international borders adopt importer or exporter business models.

Import or export businesses need to be aware of legal requirements and restrictions in moving products between countries. Labelling requirements and quarantine requirements, as well as import licences, need to be investigated.

ACTIVITY 7.6

Select two of the following companies. Locate the website of each using a search engine. Complete the following:

1. Outline the history of each company.
2. Describe the types of products imported and sold by each company.
3. List the brands imported by the company.

JTC Import Export	Cut Price Imports	Leo's Imports & Distributors
DK Choices	Durmaz	North South Importers & Wholesalers

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Chapter summary

- The potential business operator may opt to enter into business in one of the following ways:
  - Establishment of a new business from scratch. This offers the advantages of greater autonomy and control over the business and its development, as well as freedom to implement original ideas. The owner also avoids buying the mistakes of others. Disadvantages include extra costs and time in purchase of all capital stock, staffing and establishment of business systems, procedures and relationships with suppliers. It also takes longer to generate a profit.
  - Purchase of an existing business. Advantages are: a simpler process, access to financial records, established clients and suppliers, staff, etc. Cash flow commences sooner and profits should come more quickly. Disadvantages are: intangible assets such as goodwill are included in a sale price. These are difficult to value. A purchaser may be buying the mistakes of others.
- A legal business structure must then be selected:
  - Sole trader: a single owner operates a business under their own name or a registered business name. This is simple and easy to establish but has the drawback of unlimited liability.
  - Partnership: between two and 20 partners operate a business based on a partnership agreement. This also carries the risk of unlimited liability.
  - Company: establishment of a separate legal entity through a process of incorporation. Offers the advantage of limited liability.
- There are two types of company:
  - Private company: two to 50 shareholders; not listed on the stock exchange; identified by 'Propriety Limited' ('Pty Ltd') in its business name.
  - Public listed company: unlimited shareholders; shares are listed for sale on the stock exchange; business name ends with 'Limited' or 'Ltd'.
- Each business structure has its own advantages and disadvantages.
- A business model must be selected and developed showing how the business will operate and generate profit. Types of business model include:
  - online
  - bricks and mortar
  - social enterprise
  - franchise
  - importer or exporter.

Chapter summary questions

1 Define each of the following terms. Then, using each term accurately, construct a paragraph that includes each of them.
- **a** Franchise
- **b** Goodwill
- **c** Sole trader
- **d** Established business
- **e** Partnership
- **f** Pty Ltd

2 Identify and summarise the advantages and disadvantages of each of the following options for entering into business:
- **a** starting a business from scratch
- **b** purchasing an existing business.

3 Suggest and justify the most appropriate method of entering into business for each of the following:
- **a** X has a limited budget. She wishes to run a small café in her local area. The area already has several cafés.
- **b** Y has a new invention she wishes to market.

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4 Draw up the following table and fill in:

	Private company (Pty Ltd)	Public listed company (Ltd)
Features		
Differences		
Similarities		

5 Identify the ownership structure of each of the following businesses:
- **a** Sophie's Kitchen Pty Ltd
- **b** Voula and Son Plumbers
- **c** Effie's Corner Store
- **d** Norfkut Ltd

6 Explain why it is vital for business partners to have complete trust in each other.

7 Identify the key features of, and differences and similarities between:
- **a** an online business model
- **b** a bricks and mortar business model.

8 Define each of the following terms and give two examples of each:
- **a** a clicks and mortar business
- **b** an online business.

9 Discuss the advantages and disadvantages of a business adopting an online business model.

10 Identify and briefly describe the seven types of online business model. Name at least one online business that uses each model.

11 Identify the online business model used by each of the following:
- **a** Melbourne Girl
- **b** Quick Sales
- **c** Horoscope.com

Extension questions

Go to the Franchise Business website and answer the following questions.

1 Outline the services that are available via this website.

2 Identify and research two categories of franchise. For each, select two franchises currently for sale.

3 For each franchise opportunity, name and describe:
- **a** the franchise and types of goods/ services sold
- **b** the areas available for purchase
- **c** the market demographic this franchise is appealing to (i.e. customer type)
- **d** the costs, fees and charges involved in the purchase of each.

4 Evaluate which of the four franchise opportunities you have researched offers the best chance of business success. Give reasons for your answers.

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CHAPTER 8
Business support services

Key terms

- Business Enterprise Centres
- business incubator
- contracts
- industrial espionage
- mentor
- network
- professional association
- Small Business Centres Victoria (SBCV)
- start-up
- support services
- transition period

Overview

Potential and existing business operators in Australia have at their disposal a wide range of support services providing expert advice and assistance. Effective utilisation of these support services gives a business greater chance of success. In recent years, the range and availability of these services has expanded. Australian governments, in particular, offer a wide range of services and assistance at little or no cost.

A healthy economy is built on the success of business. In particular, small businesses employing fewer than 20 people make a significant contribution. Australia-wide there are more than 2.2 million small businesses employing more than 5 million people (or half of private sector employment), with a total capitalised worth of more than 4.3 trillion dollars (see the Australian Government's Treasury website for more information). Obviously, it is in the interest of government to optimise the chances of small business success, as this will translate into a healthy economy.

Studies have shown that successful businesses tend to utilise the available support services more than those that fail. It is therefore vital that business operators, if they wish to optimise their chances of long-term success, are aware of, and know how and where to access the numerous support services available to them.

There are several places a business operator can access advice and assistance both on a formal and informal basis.

Key knowledge

In this chapter students will learn about business support services such as:

- Legal services
- Financial services
- Technological services
- Community-based services
- Formal and informal networks
- Business mentors.

What's ahead

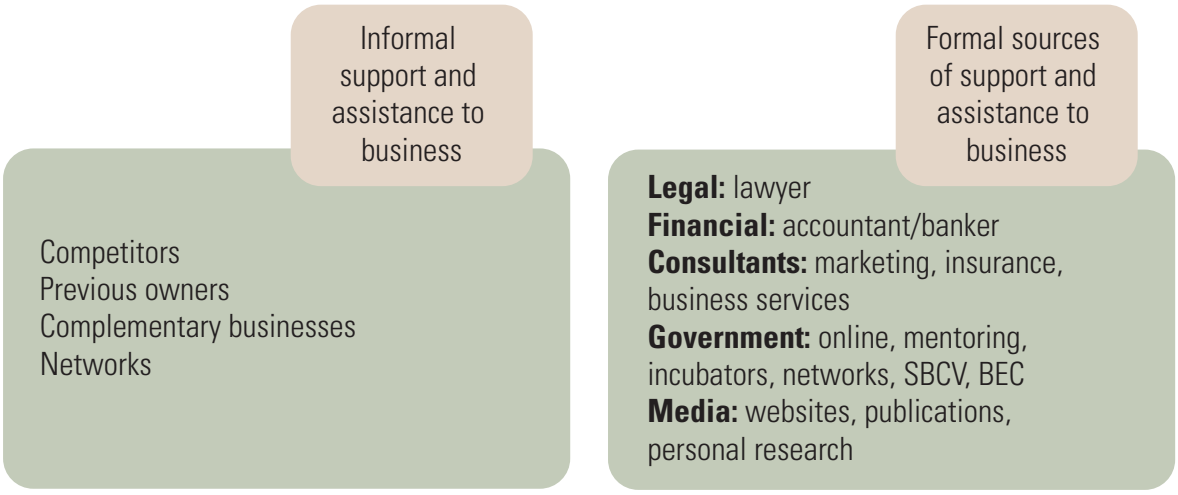


Figure 8.1 Informal and formal business support sources

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8.1 Informal support and assistance provided by networks

A **network** can be an informal friendship group or a more formalised grouping such as a service club like Rotary. Networks may form among business operators with something in common, such as operating in the same geographic area or being from the same industry.

network an interconnected system of people or businesses

Networks facilitate the exchange of ideas and advice and support between like-minded individuals and between groups of people. 'Old Boy' and 'Old Girl' networks from particular schools, for instance, are extremely important in the business world. Connections with a particular school can open doors in business that may otherwise remain closed. Business breakfast clubs, where business operators gather at breakfast meetings, are another important and growing network. The Victorian Government Network Program offers grants of up to $15 000 to assist small business in establishing networks in order to provide mutual advice, assistance and support in general (see the Business Victoria website for more information).

Networks also offer an opportunity to establish contact with owners of complementary businesses who may assist the business and further enhance their chances of success. A contact with a supplier of raw materials or component parts, for example, may result in a better deal, or an employment agency may offer access to staff. A network can offer invaluable advice, support and assistance for minimal cost.



Figure 8.2 It is common to have a transition period where outgoing owners train the new owners.

The previous owners of a business are potentially valuable sources of information and assistance as they may be able to demonstrate established systems operating in the business, as well as provide important information about clients, such as tastes and buying habits. Previous owners often help identify appropriate suppliers and advise on potential sources of support. It is wise for a new business owner to negotiate a period during which they operate the business alongside the previous owners before takeover occurs (known as a **transition period**). This allows for introductions to

transition period a period of time when the previous business owner works with the new owner to introduce them to the business operations, clients/customers, suppliers and other business contacts

ACTIVITY 8.1

Match each of the following businesses with an appropriate complementary business that would be desirable to have within the immediate vicinity.

Business	Appropriate complementary business
a Chemist	i Limousine hire
b Architect	ii General practitioner
c Florist	iii Beautician
d Bridal shop	iv Gymnasium
e Nightclub	v Car dealership
f Health food shop	vi Hospital
g Insurance agent	vii Coffee shop
h Hairdresser	viii Builder

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regular clientele, and other important contacts, such as suppliers. More importantly, it provides an opportunity to learn about the business's operations.

ACTIVITY 8.2

Access the website of at least one of these prominent schools or your own school. Find the past students' association link. Write a response to each of the questions that follow.

- Fintona Girls' School
- Geelong Grammar School
- Kew High School
- MacRobertson Girls' High School
- Melbourne High School
- Trinity Grammar School

1. List some of the activities organised by this group for past students of the particular school.
2. What advantages would membership of this group offer both socially and professionally?
3. How could the contacts offered by membership of this group help you in business?
4. List all of the networks of which you are currently a member. What advantages does membership of these groups offer you? (Include sporting, friendship, school, church, interest groups, as well as any others.)





Figure 8.3 Industrial espionage

Competitors are another valuable source of information for a business; hence the term 'keeping an eye on the competition'. Large organisations have been known to employ spies to gain information about what their competitors are doing. This illegal act is known as **industrial espionage**. Acting within legal limits, a lot can be learnt by simply watching the competition and taking note of important details such as their pricing strategies, special offers, types of customer service and even the layout of premises. Keeping a close eye on the opposition allows a business operator to identify those areas of the market that are currently inadequately catered for (market gaps). It also indicates the standards of customer service the consumer is accustomed to and likely to expect.

industrial espionage gaining valuable information on a competitor's activities (i.e. spying)

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8.2 Business support services

support services services (paid or unpaid) used by businesses to assist them in their decision making; for example, legal or financial advice or daily operational activities

All business operators can expect to pay for professional advice from specialist **support services**. A good accountant and solicitor are essential, as are the services of an insurance broker, a banker, and others such as marketing and computer experts.

Legal support services

Every business will require the services of a lawyer to negotiate on its behalf, give advice and provide representation on legal issues. A lawyer will be required to prepare legal documents such as **contracts**, and give specialist legal advice. A lawyer will also be required for:

contracts legally binding agreements that incorporate the following elements: offer, acceptance, the intention to enter into legal relations, consideration, the capacity to contract, legality of purpose, consent and certainty of terms

- advice on purchase or establishment of the business, and will act on behalf of the business owners during the process
- selection and establishment of the best legal ownership structure
- establishment of a debt recovery system and debt collection
- negotiation and advice regarding a franchising agreement
- negotiation and drawing up of leases for premises and/or equipment
- negotiation, establishment and implementation of contracts like employment agreements, conveyancing when purchasing property, and business transactions
- securing intellectual property such as trademarks and patents
- interpretation of legislation and how it will affect the business; for example, local government by-laws, WorkCover, employment, consumer protection and company law
- establishment and compliance with industry licensing requirements, permits, registrations and approvals
- preparation of partnership agreements
- dealing with creditors
- dealing with takeovers and acquisitions
- representing the business in court
- selling the business.

Because ignorance is not accepted as an excuse for breaking any law, appropriate legal advice is essential.

Where to find a lawyer

The cost of hiring a lawyer is significant; therefore, a business operator should select a legal professional carefully. Possible sources include:

- word of mouth
- internet
- Yellow Pages
- professional and business association lists of recommended lawyers for their members to deal with
- Law Institute of Victoria – the peak professional body for the legal profession. To find a lawyer or get a referral, or for more information on law and the services offered, go to the Law Institute of Victoria website.

Upon initial contact it is wise to ask a lawyer about:

- their qualifications and experience
- the type of clients they specialise in. Look for someone who specialises in and has other clients in the same industry. If you are entering into a franchise, look for a lawyer who specialises in franchise agreements.
- the likely costs involved in using their services.



Figure 8.4 A business will require qualified legal advice and assistance.

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Financial support services

A successful business will require an accountant to provide initial financial assistance during the establishment phase, as well as regular and ongoing services throughout the life of the business. An accountant's expertise will be required:

- to give an accurate valuation of a business intended for purchase, including goodwill
- to evaluate the financial feasibility of a business idea
- when undertaking negotiations regarding leases and contracts
- to establish a financial recording system
- to prepare loan applications
- to prepare quarterly financial statements, monthly cash flow summaries and budgets for auditing
- for taxation
- for financial planning
- to recommend appropriate computer software
- for advice on superannuation
- to identify and understand the cause of changes in business performance
- during liaison with government departments, especially the Australian Taxation Office (ATO).

Before using an accountant, a business operator should check that they have:

- appropriate qualifications
- good communication skills
- experience with clients in the relevant industry sector
- experience with business issues, especially taxation
- professional registration (e.g. Certified Practising Accountant)
- reasonable fees and charges and what these cover.

At a minimum, an accountant should be contacted:

- before starting, buying or selling a business
- before acquiring or replacing property, plant or other assets
- sometime between January and 30 June each year to plan for the end of the financial year so there are no tax surprises
- when planning future expansion
- when experiencing problems with creditors, debtors, finance, expenses or stock.

Where to find financial advice

Sources for locating a good accountant include:

- internet
- word of mouth



Figure 8.5 CPA Australia (Certified Practising Accountants) is a large professional organisation for accountants in Australia.

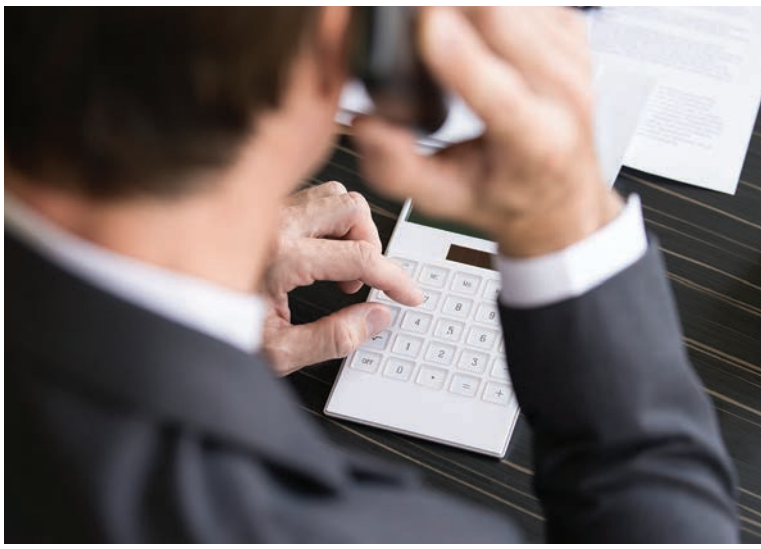
- Yellow Pages
- professional and business associations
- business referral centres
- CPA (Certified Practising Accountants) Australia or Chartered Accountants Australia and New Zealand (see their websites for more information).

It is important to check that an accountant has appropriate qualifications to perform the work you will be requiring of them. For example, they will need to be a qualified tax agent to deal with taxation matters; similarly, to give financial advice an Australian Financial Services Licence will be required.

Bank managers are another valuable source of financial advice and assistance. They are responsible for processing loans and supervising business bank accounts. They also:

- give advice on the feasibility of a business expansion
- give investment advice
- act as a source of finance
- provide EFTPOS facilities.

All businesses require banking services and facilities. The ATO is an excellent source of information regarding taxation matters (visit the ATO website for more information).



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ACTIVITY 8.3

1 Select two of the following banks and visit their websites:

- ANZ
- National Australia Bank
- Westpac
- Bendigo Bank
- Commonwealth Bank of Australia.

For each:

a go to the business banking section

b identify the nature of services offered by each bank for:

i insurance
ii franchising
iii establishment of a business
iv local business bankers
v banking services.

In your opinion, which bank offers the best service to a business operator? Justify your view.

2 Go to the Commonwealth Bank glossary on their website and find the definitions of each of the following business and banking terms:

a ABN
b EFTPOS
c credit card
d bank fees
e creditor
f debtor
g credit limit
h mortgage
i foreign exchange
j GST
k guarantor
l investor
m direct debit.



Figure 8.6 The four major Australian banks

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Other professional advisers and consultants

Additional support required will depend on the business type.

- *Insurance agents* and *brokers* are experts who will give advice on risk management and appropriate insurance. They also sell insurance. An agent works for one insurance company and will try to sell only that company's products. Brokers, on the other hand, work for themselves and act as agents to the person or business seeking insurance. They will negotiate insurance policies with different insurers on behalf of a client.
- *Marketing and advertising consultants* give specialised marketing and advertising advice for a fee.
- *Graphic designers and printers* may be employed to design and produce logos, letterheads, pamphlets, business cards and advertisements.
- *Information management and technology consultants* are experts who will help select technology, software and hardware, set up systems, train staff, and provide ongoing backup and assistance with all technology-related areas of the business.

ACTIVITY 8.4

MARKETING SERVICES

Go to the Kexino website and complete the following:

1. Name the company that owns this website.
2. In your own words, describe the services offered by this company to small business start-ups under each of the following headings:
   - **a** Content creation
   - **b** Marketing
   - **c** Translation
   - **d** Video.
3. Outline how each service could benefit a business start-up.
4. List 10 facts that you have learnt from looking through this website.
5. Search for and locate three other marketing businesses that offer similar services to small businesses.



Figure 8.7 A small business owner needs to consult advisers and professionals.

8.3 Government and community-based support and assistance

Australian federal, state and local governments each provide resources and assistance to business operators. Governments are usually judged by the voter on their economic performance; it is in their interests to try to promote a healthy business sector in order to optimise economic performance.

Local government assistance

Local government is an important source of information because it has responsibility for regulating many of the actions of businesses. Most local governments oversee programs designed to assist and support businesses. This usually includes facilitation of business networks for their operators. Prior to entering business, a



Figure 8.8 Local governments offer a range of support services for business.

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business operator should ascertain the types and extent of government assistance available. Local government should be contacted for information regarding:

- planning and zoning regulations – local government controls planning and zoning laws which limit where certain businesses can be located. A business must locate in the appropriate zone. For example, an area zoned 'Residential' can only have residential buildings within it; any exceptions will be rare. Planning laws will also affect any building, extensions or renovations.
- health, hygiene and food handling regulations – a business can expect health inspectors employed by local government to regularly check that they are meeting the required standards in this regard
- by-laws covering matters such as parking restrictions, outdoor dining and footpath trading – these must be clarified before entering into business.

ACTIVITY 8.5

1 Go to the website of your local government. Look for and locate the services and support offered to local business. Fill in the following table:

LOCAL GOVERNMENT AREA: _____

Business service and advice	Yes	No	Details
Business mentoring services			
Business incubator			
Training seminars			

2 Identify and outline five permits that a business may need to apply for to operate in your local government area (e.g. footpath trading).

3 Name a development project the council is undertaking that would benefit business development in the area (e.g. retail developments or a business park).

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State and federal government assistance

Federal and state governments also provide a great deal of assistance to business owners, as it is to their benefit for businesses to succeed.

Online resources

Both federal and state governments have an extensive array of services for business operators, and provide online information for business. Table 8.1 summarises some of these sites.

Government organisation or area of interest	Website address	Content
Business Victoria	Cambridge weblink: http://cambridge.edu.au/redirect/?id=6976	Provides information on a wide range of topics in relation to small business, including **start-up** and operation. Has access to a small business counselling service and the Business Referral Service, and links to Victorian Government Business. Any new government initiatives will appear on this site. Make this the first site that you visit.
business.gov.au (Commonwealth Government)	Cambridge weblink: http://cambridge.edu.au/redirect/?id=6977	Provides information on all aspects of establishing and running a small business. Access to all government information, services and transactions, such as acquiring an ABN, and government forms required by small business. Information on business assistance, business questions, business start-up, employing people, taxation, importing and exporting, superannuation, occupational health and safety, customs, and so on. Comprehensive information and numerous links to other relevant sites.
Victorian Small Business Commissioner	Cambridge weblink: http://cambridge.edu.au/redirect/?id=6978	Victorian Government website dedicated to providing a competitive and fair operating environment for small business. Covers promotion of small business, informed decision making, dispute mediation, dealing with complaints, and encouragement of awareness of small business needs. First port of call for independent guidance on business disputes. Quick, effective, neutral and low-cost mediation services.
Austrade	Cambridge weblink: http://cambridge.edu.au/redirect/?id=6979	Provides export and investment services to Australian companies.
Small business grants	Cambridge weblink: http://cambridge.edu.au/redirect/?id=6980	A quick way to locate relevant government grants and assistance programs for business.
IP Australia – Patents	Cambridge weblink: http://cambridge.edu.au/redirect/?id=6981	How to apply for a patent online.

start-up commencement of business operations

Table 8.1 Information available through government-provided websites

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Government organisation or area of interest	Website address	Content
Australian Bureau of Statistics	Cambridge weblink: http://cambridge.edu.au/redirect/?id=6982	Good source of business data, statistics and advice on use of this type of information.
Australian Business Licence and Information Service	Cambridge weblink: http://cambridge.edu.au/redirect/?id=6983	Provides information on licences and codes of practice affecting particular types of business.
Australian domain name administrator	Cambridge weblink: http://cambridge.edu.au/redirect/?id=6984	Policy authority for the internet.au domain space.
Australian Taxation Office	Cambridge weblink: http://cambridge.edu.au/redirect/?id=6985	Government website giving taxation information for individuals and businesses of all sizes.
e-business	Cambridge weblink: http://cambridge.edu.au/redirect/?id=6986	Specific resources for e-business.
Scamwatch	Cambridge weblink: http://cambridge.edu.au/redirect/?id=6987	Advice on and awareness of frauds targeting small businesses.

Table 8.1 Information available through government-provided websites

Small Business Centres Victoria (SBCV) offices are located both in metropolitan and rural areas. Staffed by business development managers who are specialists in business and industry, these centres offer help and support to business owners. Help with the navigation of government services, programs and regulations is provided.

Small Business Centres Victoria (SBCV) a network of community based, not-for-profit business centres providing a range of business services in both metropolitan and regional locations throughout Victoria

Business Enterprise Centres a national network of government-funded centres that serve as a first point of contact for business owners seeking business information, advice and guidance

Business Enterprise Centres are a national network of more than 100 centres. Partially funded by the federal government these centres serve as a first point of contact for business owners seeking business information, advice and guidance. Face-to-face contact is provided as well as a support line.



Figure 8.9 Business Enterprise Centres can be found Australia-wide.

Community-based support services

Business incubators

A **business incubator** is an organisation that supports new businesses by making available business premises, office/secretarial services, advice, consultancy and training at minimal cost, until that business is established. The

business incubator an organisation that supports new businesses by making available business premises, office/secretarial services, advice, consultancy and training at minimal cost, until that business is established

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mentor person who offers their knowledge, wisdom and advice to someone with less experience

incubator manager also acts as a **mentor** or provides an introduction to other mentors. A business incubator allows a new business operator to interact with others in similar circumstances. This encourages networking and exchange of ideas. Research has shown that business incubators lessen the likelihood of business collapse.



Figure 8.10 Business incubators support new businesses.

CASE STUDY 8.1

Brunswick Business Incubator is good news for start-ups

The façade of the former Brunswick High school is well known to many Moreland residents. Yet not many would be aware of the significant contributions its occupants have made to the Victorian economy. Vacant for some years under the watchful eye of neighbourhood cats, parts of the building were revitalised in August 2002 through a collaboration of Local, State and Federal Government funding. This … culminated in the opening of the Brunswick Business Incubator (BBI). …

Since its inception 90 start-up businesses have progressed to commercial sites and there are currently 50 businesses operating at the BBI.

… it offers multi-purpose spaces to existing tenants and prospective business operators, with added BBI programs and services aimed at fostering growth. …

Research conducted by the National Institute of Economic and Industry Research (NIEIR) in October 2012 … found that BBI start-ups have a 75% success rate compared to the national average of 49% and added $27.32 million to the Victorian Gross Regional Product in 2012, with potential for further growth.

Much of this success is attributed to the BBI's operating model and value adding services; such as support from full-time staff and management. This includes day-to-day administration and reception services to advice on marketing, technology, finance, professional development and regular opportunities for networking and mentoring. The BBI is also a sounding board to prospective business operators by providing free information and advice.

Another success factor relates to the diversity of its occupants. The BBI is a mixed-business incubator supporting a vibrant business community of tenants sharing a common purpose; contrary to the isolation of many start-ups. The BBI sustains a range of sectors including professional and administrative to creative, fashion and health services and fosters a spirit of collaboration. …

BRUNSWICK BUSINESSINCUBATOR

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CASE STUDY 8.1 continued

Joe Crosara of Estate Financial Services, sums it up well. 'For 16 months prior I was working from home, the support from management from day one has been great, the rates are significantly cheaper than commercial rates, the mentoring and support services have helped me grow my business and the networking opportunities are some of the reasons I love it here.'

To date BBI businesses have created 948 jobs and a few of the watchful cats have been adopted. The BBI's objective is to continue to support future growth for many micro and small businesses within the Northern Region and wider Victorian community.

(Source: Banyan Agency, 'The Brunswick Business Incubator is good news for start-ups', media release, 4 June 2014.)

Analysis

1 Where is the Brunswick Business Incubator located?
2 Identify how many businesses operate from the BBI.
3 Identify how many started there and have moved out to other premises.
4 Explain the evidence that commencing operations in a business incubator is advantageous to a business.
5 How many jobs are estimated to have been created by businesses from the BBI?
6 Explain the advantages offered by a business incubator in terms of:
   a cost
   b mentoring
   c support
   d networking.
7 Research one of the following business incubators. Outline the location and services offered by each:
   a Ballarat
   b Monash
   c Darebin.

ACTIVITY 8.6

Locate and contact your nearest Business Enterprise Centre office or Small Business Centre Victoria. Then, working in groups of three to five, produce a booklet or pamphlet advertising Victorian Business Centres and the services they offer to small business.

Before you contact a centre, make sure you work out exactly what information you require from the contact. Headings that may be used in the booklet or pamphlet include:

- Getting started
- Coming up with a business idea
- Legal advice
- Financial advice
- Government assistance and advice
- Business structure and registration.



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Community-based networks

As mentioned earlier, SBCV is a network of community-based, not-for-profit business centres providing a range of business services in both metropolitan and regional locations throughout Victoria. Each SBCV is incorporated and run locally under a public/private partnership. Each is designed to facilitate the creation, retention and development of sustainable business enterprises and foster local economic development. SBCV offices provide a range of services including business advice and mentoring, training programs, business incubators as well as general advice to local business operators. Regular events and workshops are held for business operators. Advice about government programs such as the New Enterprise Initiative Scheme (NEIS), which offers grants to new business operators, is also available.

Business mentors

Local and state governments also facilitate numerous local business groups and make mentoring arrangements. These assist business through the opportunity to share experiences of others. There are a range of programs provided by government to promote and support business networks and provide mentoring services.

The Victorian government operates the Small Business Mentoring Program (SBMP). This is a low-cost program offering the services of 90 highly experienced business people with skills and qualifications in a wide range of industries and disciplines. An SBMP mentor will assist in:

- starting a new business
- establishing objectives and direction for a business
- writing business plans
- developing marketing strategies
- increasing sales and profits
- identifying new products and services
- improving time management
- identifying new opportunities.

Some local governments also offer mentoring services to local businesses.

ACTIVITY 8.7

SMALL BUSINESS MENTORING SERVICE

Go to the Small Business Mentoring Service website. Select a case study from the link on the home page and answer the following questions:

1 Name the business and the owners who participated in the SBMS.
2 Name the mentor. What experience did they have?
3 Outline the reasons the business owners decided to participate in the program.
4 What was involved in participating?
5 Describe the benefits participation brought.

ACTIVITY 8.8

JELLY

Access the following link at Cambridge weblinks: http://cambridge.edu.au/redirect/?id=6988

Explore the website and answer the following questions:

1 What is Jelly?
2 When was Jelly established? By whom? For what reason?
3 List 15 cities worldwide where a Jelly network can be found.

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ACTIVITY 8.8 continued

4 Describe some of the business operators who use Jelly.
5 In your opinion, what advantages does membership and participation in a Jelly network bring?
6 Go to the webpage of Melbourne Jelly at Cambridge weblinks (http://cambridge.edu.au/redirect/?id=6989) and:
   a Describe three events/meet-ups recently organised by this group.
   b Explore the Twitter and Facebook pages.
   c How many Melbourne members does Jelly currently have?
   d Describe the advantages membership brings to the Melbourne members.

Professional, trade and industry associations

A business operator should seriously consider joining a specific industry association or **professional association**. These associations cover specific types of industry, trades or professions. For example, the Master Builders Association represents and assists builders. Similarly, the Law Institute of Victoria is made up of lawyers.

professional association usually a not-for-profit organisation seeking to further a particular profession and the interests of individuals engaged in that profession

Membership of a relevant industry association allows business operators to keep up to date with training, support and advisory services, as well as general industry news and information. Membership also allows businesses to be part of a network.



Figure 8.11 The Law Institute of Victoria is a professional association for lawyers.



Figure 8.12 The Victorian Automobile Chamber of Commerce provides business support to and advocates on behalf of their more than 5000 members and promotes skills, training and careers in the automotive industry.

General industry bodies

These groups are broad-based bodies of members from different industries providing general information and assistance. Examples of these groups include: Ai Group (Australian Industry Group), which represents more than 60 000 Australian businesses, and the state chambers of commerce, such as VACC (Victorian Automobile Chamber of Commerce). For a complete list of general industry bodies, go to the Australian Government Directory website.

Other networks

Other formal and informal networks exist to help the small business owner.

Local traders associations

Businesses operating in a certain geographical area often form networks to offer mutual support and to provide a forum for discussion of local business issues. They also lobby governments on issues in their mutual interest.

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CASE STUDY 8.2

Hampton Street Traders Association – everyone benefits

Hampton Street Traders Association is a not-for-profit organisation run by and for traders for the purpose of promoting and marketing Hampton Street.

Membership has its privileges

The association is the peak collective body for the street. Members have a say in how the street is run, how money gets spent, how and what events get run and are empowered to positively contribute to the street environment and local community. Member benefits include:

- **A Voice.** A voice to Bayside Council for issues like Street Upgrades, Council planning and budgeting. A voice to local residents and consumers… Hampton Street Traders presents a unified voice to ensure our needs are heard.
- **Marketing and Promotion.** Member Promotion and marketing through online presence and Traders directory listing, Social Media promotion, Individual Trader Profiles, Members only promotions, advertising and collateral.
- **Street Events.** Participation in street promotions and events. Local events to engage the community and bring business to Hampton Street. Feet on the street, directly for trader members benefit.
- **News.** Members' news and updates about what's going on in the street, distributed via email newsletter. Member news contains notification of upcoming events and reports on matters such as council funding, streetworks, and member benefits.
- **Member Identification.** Identification of members to consumers including bold Directory listing, Members Window Stickers, Member's only online Resources, discount Affiliate Memberships such as Bayside Business Network.
- **Street Action.** Member input and action for street works and upgrades, council works. Members are represented at council level by the committee. The committee is able to take member complaints and issues directly to the council for action.

(Source: Hampton Street Traders Association website, 'Member benefits'.)

Analysis

1 In what local government area is Hampton Street Traders Association located?
2 Describe the purpose of the Hampton Street Traders Association.
3 List its members.
4 Describe the benefits of joining a traders association such as this.
5 Go to the website of the Hampton Street Traders Association. Find answers to the following:
   a What is the cost of joining?
   b List the marketing activities currently being undertaken by this group.

Economic development units

These are run by local governments and aim to improve basic business opportunities in a local government area. They run projects and initiatives aimed at local businesses, such as seminars and workshops. Most publish a newsletter, which can be accessed via the local government website. Local business awards and access to information about government grants are another common feature.

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ACTIVITY 8.9

Where would a small business operator go to find information on the following issues? In your responses, consider both formal and informal sources of assistance. (The first one has been done for you.)

Issue	Potential source of information
1 Legal advice	Lawyer, Law Institute of Victoria, government websites
2 Feasibility of a business venture	
3 Taking out a business loan	
4 Preparation of a tax return and GST	
5 Up-to-date industry news	
6 Advice on footpath trading	
7 Help with a marketing campaign	
8 Information regarding the demographics of the local area	
9 Licensing information	
10 How to register a business name	
11 Advice on industry standards	
12 An industry code of ethics	

Publications

Individual industries will most likely publish a journal that will provide business operators with useful advice. These will be available through trade associations. Other useful publications could include magazines such as *Business Review Weekly* and *My Business* and newspapers (business section).

Individual research

This might include visits to trade shows, conferences and other resource centres, such as libraries.

Other useful websites from non-government providers

A plethora of information is available online, including:

- Flying Solo; an online community for the solo business operator
- Ninemsn Finance Small Business website
- *My Business* magazine
- *Dynamic Business* magazine
- Kochie's Business Builders
- Australian Small Business and Family Enterprise Ombudsman

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- Advice on employment law and wages (see the Employment and Workplace section of the Victorian Government website)
- Australian Businesswomen's Network (herBusiness)
- Australian Copyright Council
- Australian Institute of Export
- Victorian Employers' Chamber of Commerce and Industry.

Altona Village
TRADERS ASSOCIATION

Figure 8.13 Local traders associations are important sources of support for small business.



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Chapter summary

- There is a wide range of support services available to the Australian business operator.
- Governments provide much of this assistance at minimal cost. A healthy economy is dependent on a healthy business sector.
- Businesses that utilise available support services stand a greater chance of survival and prosperity.
- Informal sources of support include:
  - networking (e.g. service clubs such as Rotary). These are groups of business owners who exchange ideas and support for mutual benefit.
  - previous owners of a business – to demonstrate established systems and provide information about clients
  - competitors – to recognise standards expected in the industry, identify gaps in the market, pricing, standards being set, and so on.
- Formal sources of support include:
  - professional advisers – lawyers, accountants, financial advisers, bank managers, insurance brokers, marketing and advertising professionals, graphic designers and printers, information technology professionals.
- Government assistance:
  - Australian Taxation Office
  - local government, to provide help with by-laws, zoning, health regulations, parking, planning issues
  - state and federal governments, to facilitate and provide business centres, business incubators, network and mentoring services
  - professional, trade and industry associations offering training, advice, support, industry news, networking.
- General industry bodies such as Australian Industry Group offer practical information, advice and assistance to help members run their businesses more effectively.
- Local trader associations are networks of small business owners operating in the same geographical area.
- Economic development units aim to improve business opportunities within their geographic area.
- Industry publications and business magazines are useful for individual research.

Chapter summary questions

1 List the sources of informal advice and assistance available to the business operator.

2 Describe the advantages that are available through business networking.

3 List the sources of formal assistance available to businesses. Categorise these as government or non-government providers.

4 What is industrial espionage? List and explain three instances you can think of where a business might consider employing this tactic.

5 Describe two instances where a business operator would be wise to take out a patent.

6 Explain the steps a business operator might take in order to register intellectual property.

7 Explain why it is vital for a business operator to be aware of the range of support services and assistance available.

8 What is a professional or trade association? Explain the benefits of being a member of one of these organisations.

9 Explain the purpose of a local traders association.

10 Imagine that you are a business operator looking to employ the services of an accountant and a solicitor. Devise a list of four questions you would ask each of these professionals before you engage them for your business. Explain why you believe each of these four questions is important.

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11 Why might a business operator looking to buy insurance save time by approaching an insurance broker rather than an insurance agent?

Extension questions

1 You are the owner/operator of one of the following businesses in your local area (choose one):

- a hairdressing salon
- a plumbing business
- a café.

Using the Business Victoria website, locate the following information:

a Minimum wages you are required to pay staff.

b Licences and qualifications required in order to run this business.

c Business registration requirements.

d Available industry or trade associations you could join.

e Extent and scope of competition in your industry in your area.

2 Use the internet to locate the website of one of the following organisations:

- Victorian Chamber of Commerce and Industry
- Australian Industry Group (AIG).

Prepare a summary, including:

a the goals/mission of this organisation

b a brief history of the organisation

c membership numbers

d services this organisation offers to its members.

3 'The assistance offered by the Victorian Government to the aspiring business operator is insufficient.' Discuss this statement. Your response should include the following:

a Explain the types of assistance and support a potential business operator might require while setting up and establishing a small business.

b Outline the types of assistance currently available from the state government.

c Evaluate whether, in your opinion, this level of assistance is sufficient. Justify your response.

4 Using the website of your local government, complete the following:

a List the support services available to business in your local area.

b Identify the name of a contact person for advice.

c Describe what is offered to business under each of the headings: Networking; Financial grants; Support and advice.

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CHAPTER 9
Business planning

Key terms

- best practice
- business plan
- business strategy
- customer satisfaction
- environmental audit
- executive summary
- marketing plan
- operational planning
- planning
- quality assurance
- quality control
- strategic planning
- tactical planning
- tactics
- total quality management (TQM)

Overview

Planning involves working out how to do something, get somewhere or achieve a desired objective. As individuals, we all need to plan our lives in order to achieve objectives. Businesses are no different! A business must plan to achieve business objectives right from inception. Failure to plan will see the chances of success in business lessen considerably. There is an old saying: 'businesses do not plan to fail; they simply fail to plan'. In other words, it is most commonly those business operators who rush headlong into a business venture without taking the time to plan who do not succeed.

A business should be built up with a specific strategy and direction in mind. Think of a plan as being like a street directory or global positioning system (GPS). Attempting to navigate through an unfamiliar area without consulting a street directory or GPS is hardly effective. By consulting a street directory or GPS, however, it is possible to assess all of the route options and select the best one. Like these direction finding devices, a business plan should maximise the chances of arriving at a desired destination without wasting time and other valuable resources. Planning should occur both before establishment and on an ongoing basis for the life of the business.

Key knowledge

In this chapter students will learn about:

- Planning tools such as a SWOT analysis
- Features and construction of business plans and benefits of using them
- Corporate social responsibility management issues regarding business planning.

What's ahead

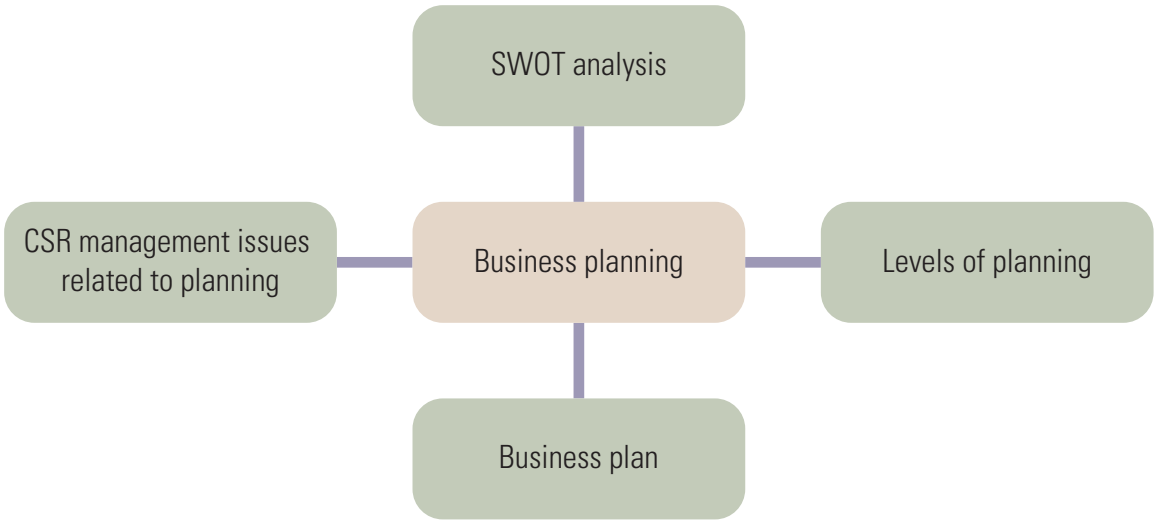


Figure 9.1 Business planning

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9.1 Planning

Planning is a formalised process involving a series of decisions that are aimed at assisting a business to achieve its objectives. A systematic approach to planning, which is based on five stages, can be undertaken by different levels of management, with the decisions made varying in time from long-term to short-term. Planning involves working out what the business wants to achieve (i.e. targets and objectives), how it will achieve these (strategies/tactics) and who will manage the process.

planning a formalised decision-making process that is future oriented

Levels of business planning

Businesses must make plans for the long, medium and short term if they are to be successful.

Strategic planning

Strategic planning is long-term planning over a period of two to five years and is concerned with the whole business and its long-term direction. A strategic plan looks at how that business intends to compete and survive in the marketplace for the long term. It involves setting long-term whole-of-business goals. For example, if a business sets an objective of increasing its market share, the **business strategy** could be to provide a superior product and quality customer service.

strategic planning long-term (two to five years) planning undertaken by senior management to achieve business objectives

business strategy the long-term plan of action adopted by a business to achieve its goals and objectives

Tactical planning

Tactical planning covers the short to medium term (one to two years) and usually involves planning **tactics** or steps within the overall business strategy. For example, if a business strategy is to provide quality customer service, the tactical planning would involve identifying what the business believes quality customer service to be and then planning the training program required to implement this strategy. Put simply, tactical planning sets out the tactics that make a strategy happen.

tactical planning the planning undertaken by middle-level management to assist in implementing strategic decisions; its time frame is medium term (one to two years)

tactics activities or courses of action taken by a business to achieve business objectives

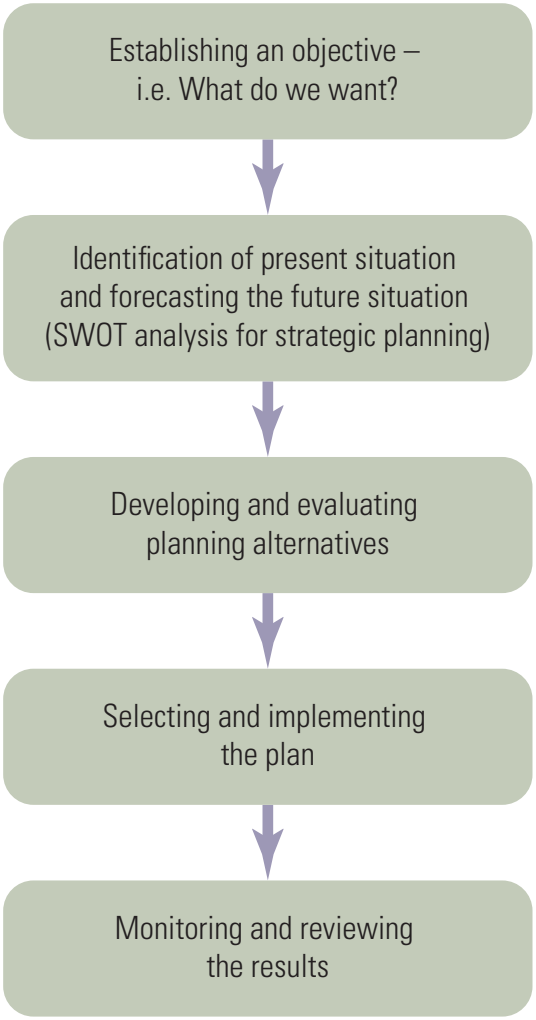


Figure 9.2 Five stages of planning

Operational planning

Operational planning covers the short-term (day-to-day, weekly, monthly, up to one year) planning undertaken by a business. This level of planning is detailed and is designed to implement strategies that will ultimately achieve specific objectives

operational planning the detailed, short-term planning undertaken by a business



Figure 9.3 Three levels of business planning

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that have been determined by a higher level of management.

SWOT analysis – a planning tool

An important analytical tool for a business to use when undertaking strategic (long-term) planning is a SWOT analysis. This analytical exercise helps a business to focus on its internal environment by recognising its strengths (what it is good at) and minimising its weaknesses (what it has performed poorly at). The business also needs to focus on its external environment so that it may take advantage of opportunities (what it can use to its advantage) and reduce any threats (things that could adversely affect it).

A SWOT analysis can be broken down into the following areas:

- A strength can be defined as an internal characteristic that contributes to the realisation of the mission of the business. This could include a positive reputation, strong branding, type of product, how the product is made or the quality of the service provided.
- A weakness is an internal characteristic that negatively influences the functioning of the business. For example, poor reputation, weak market or the current structure of the business may not be suitable.
- An opportunity is an external fact or development that, if taken advantage of, could contribute to the realisation of the mission or purpose of the business. This could include globalisation and decreased interest rates.
- A threat can be defined as an external fact or development that can have a substantial negative effect on the performance of the business. Examples of threats could include globalisation, increasing costs, environmental issues or a decline in the industry.



Figure 9.4 SWOT analysis – strengths and weaknesses are internal factors, opportunities and threats are external factors.

Internal environment	
Strengths	**Weaknesses**
Skilled workforce	Unskilled workforce
Strong reputation/brand	Poor reputation and brand recognition
Quality customer service	Poor customer relations
Excellent product/service	Outdated product/service
Highly skilled/experienced management team	Unskilled/inexperienced management team
Strong financial position	Under-capitalisation/constantly needing funds
Up-to-date facilities	Outdated facilities
Dynamic and responsive organisational structure	Bureaucratic management structure
Positive corporate culture	Poor/toxic corporate culture
Stable workforce	High level of staff turnover

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External environment	
Opportunities	**Threats**
New and changing customer needs	Changes in customer preferences and buying behaviour
Development of new products/services	Actions taken by competitors, including pricing, special offers, promotions
Expansion to different locations	Changes in lease conditions, e.g. increased rental or eviction
Government policies – favourable	Government policies – restrictive
Improving economic conditions	Economic factors
New technologies	Developments in technology
Strategic alliances	Competitors entering into strategic alliances
Excess of resources	Shortages of resources, e.g. materials, skilled staff
Legal issues – protection/removal of restrictions	Legal issues – restrictive legislation or legal action

Table 9.1 Examples of strengths, weaknesses, opportunities and threats as part of a SWOT analysis

CASE STUDY 9.1

IKEA's strategies determined through a SWOT analysis

IKEA is an internationally known home furnishing retailer that is recognised for its Scandinavian style. Founded in 1943, it is now the world's largest furniture retailer. The majority of IKEA's furniture is sold as a flat-pack, which is then assembled by the consumer. This allows for reduced costs of assembling the furniture, storage and packing. In late August 2015 it was estimated that IKEA stocks approximately 12000 products and sells these via their 373 stores in 47 countries and their online stores. IKEA stores also have a restaurant and café which serve typical Swedish food. At the exit to the stores there is a small food shop which sells Swedish grocery items.

Low prices are the cornerstones of the IKEA concept and help to make customers want to buy from IKEA. In addition, their products are well-designed, functional and appeal to a wide range of age groups and types of households.

IKEA has a social conscience, in particular for people and the environment. Its vision 'to create a better everyday life for the many people' demonstrates that this concern underpins their business. Its commitment to sustainability is shown in its choice of product range, suppliers, stores and communication. Their concern for people and the environment is seen in the better use it is making of raw materials and energy. These actions, while helping to keep costs



Figure 9.5 IKEA is an internationally recognised Scandinavian homewares and furniture brand.

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down, also help the company to reach its green targets and have an overall positive impact on the environment.

IKEA uses SWOT analysis to help it reach its objectives. Set out below is a summary of a SWOT analysis on the operations of IKEA.

Strengths

- Specialist marketing expertise
- Store location
- A strong global brand
- Its vision 'to create a better everyday life for the many people'
- A strong business concept which is based on offering a wide range of well-designed, functional products at low prices
- Reaches all demographic groups in its design. It balances the product function, quality, design and price
- Increased use of renewable materials
- Smarter use of raw materials
- Creation of long-term partnerships with suppliers
- Using economies of scale, i.e. bulk buy at cheaper unit costs
- Sourcing materials close to supply chain to reduce transport costs
- Delivering products directly from the supplier to IKEA store, so cutting handling costs, reducing road miles and lowering the carbon footprint

Weaknesses

- The size and scale of its global business. This makes it difficult to control standards and quality.
- Difficult to control working conditions in some of the countries where IKEA products are made
- The need for low cost products has to be balanced against producing good quality items
- Need to keep good communication with all global stakeholders about its environmental activities

Opportunities

- Ensure in the price sensitive marketplace IKEA gets its story out to consumers that it conducts itself in an 'environmentally sensitive manner'
- A growing demand for greener products
- A growing demand for low priced products
- Demand for reduced water usage and lower carbon footprints
- Giving customers tips and ideas on how to create a sustainable life at home
- Sustainable use of resources. IKEA aims for zero waste to landfill, wastewater treatment and programmes to reduce use of water.
- Reducing carbon footprint. IKEA aims to reduce its energy use, use more renewable energy and reduce packaging.
- Develop their social responsibility by providing greater support for charities such as World Wildlife Fund, UNICEF and Save the Children
- Being open with all stakeholders – by building trust through good communication with consumers, co-workers, suppliers and the media

Threats

- Slowdown in first-time buyers entering the housing market
- More competitors entering the low-price household and furnishings markets
- A recession which will act to slow down consumer spending as disposable income reduces

(Source: Based on Business Case Studies website: an IKEA case study, 'SWOT analysis and sustainable business planning'.)

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Analysis

1 Describe what is meant by a SWOT analysis.
2 Explain the difference between internal and external factors.
3 Suggest ways you believe IKEA has managed to minimise threats to its business.
4 Discuss the contribution undertaking a SWOT analysis has made to IKEA's success and business growth.

9.2 The business plan

To optimise the chances of business success, it is important to spend time preparing and developing a good **business plan**. This document sets out the details of a business, the direction it intends to take, defines its goals and maps out strategies to achieve these. Initially, a business plan should establish the objectives of a business and assess the feasibility of a business proposal. It should then demonstrate how stated business objectives are to be achieved, as well as provide formal direction for business ideas.

business plan the formalised planning a business undertakes on a periodic basis

A business plan should be a living document that is constantly evolving. A regular review and update of a business plan is required. As the business's environment changes, its plans, actions and strategies should also evolve and adapt in response. This should be reflected in the business plan. The plan should be reviewed and refined annually to keep the business on track, reinforce its key goals and objectives and assess whether the chosen strategies are working. This annual review will then allow the business to adapt to any changes occurring in its business environment and take advantage of any new opportunities that may have arisen, such as new technologies or changes in consumer tastes, since the previous plan was written.



Figure 9.6 A good business plan will increase the chances of business success.

A business plan performs numerous roles. It:

- defines the objectives and direction of the business, setting out where the business is headed and how it intends to get there
- assists in obtaining financial backing – financial institutions and investors will seldom grant finance or invest in a business venture before viewing a detailed business plan
- keeps the business on track and focused on achieving its objectives – a detailed business plan helps to keep a business, regardless of its size, focused on the primary business objectives and avoids decision making on the run
- enables realistic estimations regarding business costs, thereby reducing chances of cost blow-outs.

Components of a business plan

Businesses are able to access many templates or suggested formats when writing their business plans. Regardless of which format is used, the following 11 sections should be included in the plan:

1 Title or cover page
2 Executive summary
3 Business profile and details
4 Legal details and considerations
5 Insurance and risk management
6 Sustainability plan
7 Products/services
8 Operations plan
9 Marketing plan
10 Financial section
11 Appendices.

Section 1: Title (cover) page

The first page of a business plan should contain the following details:

- business name (both registered and trading names)
- owner/s names and titles
- main business address

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Figure 9.7 A business plan sets out how business objectives will be achieved.

- Australian Business Number (ABN) (registered with Australian Taxation Office)
- Australian Company Number (ACN) (registered with the Australian Securities and Investments Commission (ASIC))
- date the plan was prepared and by whom
- table of contents.

Section 2: Executive summary

The **executive summary** immediately follows the cover page and generally is the first thing read by interested parties. It is often referred to as the 'front end', and it is usually the section that is written last. It contains a summary, or overview, of what is included in each section to follow. An executive summary should highlight strategies proposed by the business to achieve objectives.

executive summary an overview or summary of the key points contained in the business plan

The purpose of the executive summary is to enable a quick appraisal of the proposal by someone reading the document. For instance, a bank manager deciding whether to finance a business can read the executive summary and quickly gauge if it is worth reading further. This section is vital in 'selling' the business to others, and should indicate that what follows in the body of the plan is worthwhile. If an executive summary fails to impress, it is unlikely people will bother reading further. It should be no more than one page in length. Clear presentation and structure are vital.

Key aspects of the executive summary are:

- registered business name
- business legal structure (e.g. company, sole trader or partnership)
- ABN and ACN (if applicable)
- location
- date established
- owner names and their relevant experience and qualifications
- products and/or services
- business goals and objectives
- target market and an outline of marketing strategy
- outline of financial plan including sales and profits forecast; start-up capital required
- mission statement/vision statement.

Mission statement

The mission statement and/or vision statement demonstrates what the business has to offer the market and its overall aspirations. It usually contains some of the following:

- a statement about the intended target market (types of customers the business intends to cater for)
- reference to the types of products to be sold or services to be provided

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- reference to location of the business market and area it intends to serve
- clarification of things the business views as important, including values and aspirations.

Company	Mission/Vision
Gloria Jean's Coffees	*Vision*: To be the most loved and respected coffee company in the world. *Mission*: Gloria Jean's Coffees is committed to building a unified family, consistently serving the highest quality coffee and providing outstanding personalised service in a vibrant store atmosphere. *Values*: At Gloria Jean's Coffees, our values are simple: We demonstrate a commitment to excellence and innovation in everything we do. Our partnerships are based on integrity and trust. We believe in people, building and changing lives. We foster a culture of joy and passion throughout our company. (Source: Gloria Jean's website, 'Our story'.)
The Shed Café	Mission Statement To consistently aim at raising the benchmark in serving exceptional espresso matched with freshly baked breads & pastries over a relaxed and peaceful environment. (Source: The Shed Café website.)
McDonald's	McDonald's Vision Statement: 'Our overall vision is for McDonald's to become a modern, progressive burger company delivering a contemporary customer experience. Modern is about getting the brand to where we need to be today and progressive is about doing what it takes to be the McDonald's our customers will expect tomorrow. To realise this commitment, we are focused on delivering great tasting, high-quality food to our customers and providing a world-class experience that makes them feel welcome. **Our mission** is to be our customers' favourite place and way to eat & drink. We're dedicated to being a great place for our people to work; to being a strong, positive presence in your community; and to delivering the quality, service, cleanliness and value our customers have come to expect from the Golden Arches – a symbol that's trusted around the world and valued.' (Source: McDonald's website, 'Company profile'.)

Table 9.2 Examples of mission/vision statements

ACTIVITY 9.1

1 Using the internet, obtain the mission and/or vision statements of three different Australian businesses. For each of these statements, analyse their key elements based on the four points (customers, location, products, philosophy).

2 Working in pairs, write an appropriate mission statement for two of the following fictitious businesses:

a a child care centre named Totes Tots Pty Ltd
b a dog training school named Heelers
c a hairdressing salon named French Cutzzz Pty Ltd.

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Section 3: Business profile

This section contains:

- a statement of the business objectives and purpose of the business
- a brief rationale explaining why the business is being established and how it will succeed
- a list of the management and other key personnel together with an organisational chart showing responsibilities of each
- staff required and an outline of the experience, qualifications of key personnel and staff
- business size based on the number of employees or estimated annual turnover of the business
- an outline of the business structure
- business location plus details about premises; for example size, whether the premises are owned or leased
- a brief description of main activities to be undertaken and products and services offered
- anticipated competitive advantage
- date of business establishment plus any operating history
- any domain names registered
- relevant licences/permits held or applied for (e.g. a tradesperson requiring a certificate, permits required for footpath trading, etc.).

Section 4: Legal considerations (regulatory strategy)

The regulatory strategy section specifies exactly how the business intends to comply with laws and regulations affecting it and its activities, including:

- business registration – ABN, goods and services tax (GST), employees' tax file numbers (TFNs) and Pay as you go (PAYG) withholding tax
- location and local government zoning restrictions
- workplace health and safety and anti-bullying laws
- employee relations and unfair dismissal laws
- environmental laws
- storage and handling of dangerous goods
- consumer protection laws
- labelling requirements
- licensing and registration permits
- privacy – the handling, processing and use of personal information.

Section 5: Insurance and risk management

This section outlines details of insurance policies to be taken out by the business. Examples include:

- WorkCover
- public liability
- professional indemnity
- product liability
- protection of business assets in the event of fire, burglary or damage
- business revenue protection.

The risk management section lists all potential risks to the business, their potential impact on the business, and evaluates the likelihood of occurrence of each of them. Strategies to lessen potential risks, known as mitigation, are then detailed.

Section 6: Sustainability plan

This section first outlines potential environmental impacts of the business, followed by strategies to minimise any negative environmental and community impacts. Plans for environmental audits, an environmental management system and/or environmental goals are included.



Figure 9.8 Analysis of levels of risk and plans to manage potential risks feature in a business plan.

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Section 7: Products and services

This section contains a description of products/services to be offered by the business, including:

- diagrams and plans explaining new products in detail
- a description of the market position of the products/services – are they high end, competitive, low cost?
- the pricing strategy to be adopted
- a description of the competitive advantage of the business. This might be lower costs, a better location, reputation or superior customer service. Every business must have a competitive advantage if it is to succeed in the marketplace.
- details of any intellectual property held, such as patents
- anticipated level of customer demand
- a brief description of possible future opportunities and developments, and an analysis of barriers to entry into the market, potential threats to the business and how these will be countered.

Section 8: Operations section

This section provides detailed information about the people and processes the business will use to achieve its objectives. It includes a number of subsections.



Figure 9.9 Where to position the products/service in the marketplace

Production process

The production process that is undertaken by the business to produce its products and dispose of waste is described. The steps of the production process may be outlined using a flow chart such as that shown in Figure 9.11 for a hairdresser.

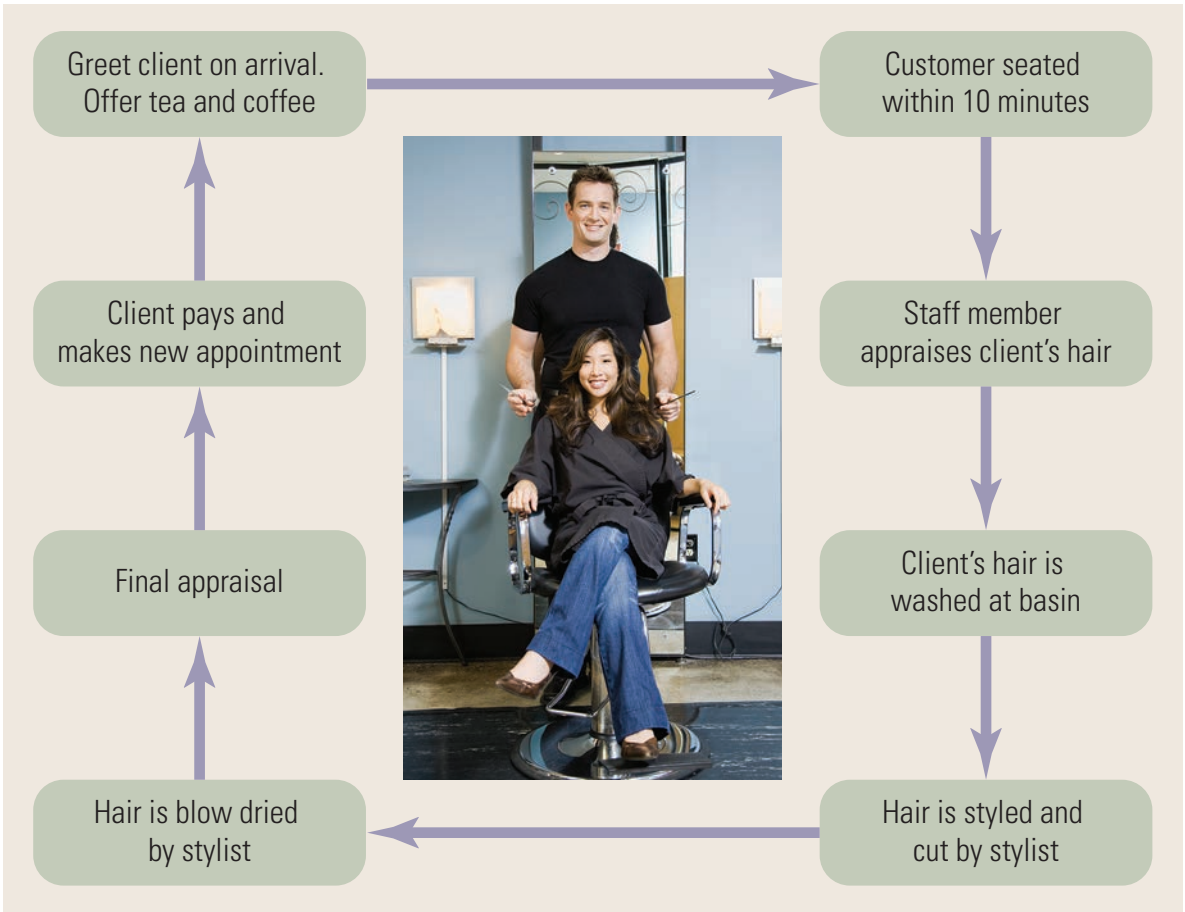


Figure 9.10 Production process for a hairdresser

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The following details should also be included:

- suppliers providing inputs into the business
- plant and equipment required including costs; for example, vehicles, computer equipment, phones
- current items of inventory (stock)
- technology and software required plus cost
- trading hours including details of peak trading periods
- payment methods accepted; for example, cash, credit, PayPal
- credit policy
- warranties and refunds
- membership and affiliations; for example, industry associations.

ACTIVITY 9.2

Design a flow chart demonstrating the production process for one of the following tasks:

- kicking a football
- serving a customer
- borrowing a book from the library
- writing an essay
- loading a dishwasher.

Quality management system

These are the processes and procedures in place to ensure standards of product and service quality remain consistently high. Quality management ensures the product or service a client receives tomorrow is of the same quality that someone else received yesterday. There are three basic quality management systems used:

1 **Quality control**: Goods and services are physically checked against a set of predetermined standards. This can occur after they have been produced or prior to the product being sold. It is a reactive process aimed at managing quality. Examples of this are inspections or random checks, such as those used by many clothing manufacturers.

quality control process of checking the quality standards of work done or quality of raw materials or component parts

quality assurance a system established to ensure that predetermined quality standards are achieved

2 **Quality assurance**: A system used by a business to ensure that predetermined quality standards are achieved during producing the products or providing the service. It is a proactive approach to managing quality. A business that adopts the quality assurance approach can bring in an outside agency or organisation (known as a 'certification body') to check the way they conduct their business, with a view to gaining quality assurance certification. In short, the business must show that it meets set standards in how it does things; it must also show that it follows certain procedures and processes. When the business can show that it meets all of these requirements, it becomes 'certified'. The business is then entitled to advertise this and it is also entitled to use the logo of the certification body in its marketing and advertising materials.



Figure 9.11 Differing approaches to quality management – quality control is reactive, while quality assurance is proactive

The International Organization for Standardization (ISO) is responsible for developing the ISO 9000 family of quality management standards, the most widely known of the internationally recognised quality management standards. SAI Global, which is associated with Standards Australia, is a locally based organisation that carries out certification and assists businesses in meeting **best practice**.

best practice a method or technique that has consistently shown results superior to those achieved with other means, which is used as a benchmark

The process of obtaining quality assurance certification requires investment in time, money and resources, but will generally pay

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Figure 9.12 This is a certification mark owned by SAI Global Limited. Only parties certified by by SAI Global to ISO 9001 on SAI Global's terms and conditions have the right to display this mark in the context of the good or services subject of certification.



Figure 9.13 One of the keys to business success is adopting total quality management (TQM).

customer satisfaction the degree to which customer expectations have been met

off with increased **customer satisfaction**, sales and opportunities. Furthermore, gaining a recognised quality certification such as the ISO 9000 is extremely helpful when trying to do business with government, multinationals, large corporations and overseas customers. A business with accreditation has a distinct advantage, as it is immediately recognisable as having achieved certain standards of quality.

3 **Total quality management (TQM)**: A system requiring every person in a business to take responsibility for quality in both product and service. Employees are put into teams, often called 'quality circles'. Each of these groups is expected to look on a continual basis for possible improvements that can be made in their own area. With everyone making small incremental improvements, the total quality standards of the business and what it does will result in an overall improvement in the business. It is worth noting that the strong reputation Japanese-produced goods have for high quality has resulted from the use of TQM practices by Japanese businesses.

total quality management (TQM) a concept whereby all staff in a business have responsibility for its process and output

CASE STUDY 9.2

ISO accreditation

ISO is an independent, non-governmental international organization with a membership of 162 national standards bodies. Through its members, it brings together experts to share knowledge and develop voluntary, consensus-based, market relevant International Standards that support innovation and provide solutions to global challenges…

Today we have members from 162 countries and 3368 technical bodies to take care of standard development. More than 150 people work full time for ISO's Central Secretariat in Geneva, Switzerland.

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CASE STUDY 9.2 continued

…International Standards make things work. They give world-class specifications for products, services and systems, to ensure quality, safety and efficiency. They are instrumental in facilitating international trade.

ISO has published more than 21 000 International Standards and related documents, covering almost every industry, from technology, to food safety, to agriculture and healthcare. ISO International Standards impact everyone, everywhere.

(Source: International Organization for Standardization website, 'About ISO'.)

Analysis

Go to the website of the International Organization for Standardization and answer the following questions:

1. What is the ISO? When was it established? Where is its headquarters located?
2. Explain briefly what the ISO does.
3. Explain how meeting ISO standards might be compulsory for businesses in one country, but not in another.
4. List 10 important facts about the ISO.
5. Use the internet to find the names of 10 Australian businesses that have ISO 9000 accreditation.

Analysis of key personnel and staff of the business

A detailed audit of the skill base of the key people and staff within the business provides a record of what skills people already possess. The business needs to determine what future skills its staff will need to grow the business. If these skills are not currently held by staff, the business may train the existing staff or recruit people with a specific skill or qualification.

Section 9: Marketing plan

The **marketing plan** is usually one of the larger sections in a business plan, containing an analysis of the market, the particular industry in which the business will be operating, and how the business will operate within that market. It may include:

marketing plan the plan that sets out the marketing objectives and strategy to be undertaken by a business

- a description of the market in which the business will be operating, including customer demographics, size of the market, changing tastes and trends
- an industry analysis or evaluation of the characteristics of the particular industry category the business is entering into. This is done to gauge the minimum standards of entry and to ascertain what the business's competitive edge might be. A typical industry analysis would include the:
  - size of the industry and its parts/segments
  - number of businesses in the market
  - number of people employed in the industry
  - average size of businesses in the industry
  - average operating hours
  - average profits and earnings
  - relevant legal structures
  - industry trends.
- a statement and analysis of current market trends, including what changes are occurring in the market. Do people want something different or new? How do we know this?
- a profile of the business's customers, including age, income level, lifestyle, tastes and values
- an analysis of the internal strengths and weaknesses of the business and how these can be exploited and overcome. External to the business, the future opportunities and threats and how these might be overcome should also be included (i.e. a SWOT analysis).
- the pricing structure and strategies
- a description of how the business intends to promote itself and its products, including marketing and public relations strategies

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Figure 9.14 Key elements of a marketing plan

- methods of sales and distribution to be employed. This details how the business intends to sell and deliver its product to customers/clients; for example, home delivery, internet sales, mail order, after-sales back-up.
- an analysis of how the business expects to gain and maintain a competitive edge.

Section 10: Financial plan

This section provides an assessment of the financial viability of the business. A financial plan will include:

- a balance sheet that details the net assets and liabilities of the business. Included will be other financial statements, which detail the working capital requirements and level of business liquidity. These statements indicate the current financial position of the business, including funds available, value of assets and sources of finance.
- expected volume of sales, income and expense projections for the first five years of the business; these are estimates based on market research
- estimated profits and losses based on income and expenditure projections
- a forecast of expected cash flow for five years – this tracks money flowing in and out of the business
- a break-even analysis – this calculates at which point the business should start making a profit.



Figure 9.15 Businesses need money to grow and flourish.

ACTIVITY 9.3

1 List all of the capital items (equipment and buildings) that would be required to establish each of the following businesses:
   - **a** small clothing retail outlet
   - **b** plumbing business
   - **c** courier business
   - **d** gardening business.

2 Explain why it is not uncommon for a new business operation to expect to make a loss for the first year, or at least the first few months, of operation.

Section 11: Appendices

Any extra material that might strengthen the case for a potential business should be included as an appendix to the business plan. For example:

- brochures prepared for the business
- any patents or trademarks taken out or acquired on behalf of the business
- the résumés of the key personnel
- any market research relevant to the business
- any articles, press releases or publicity material featuring the business or key personnel.

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9.3 Corporate social responsibility management issues and business planning

It is important to consider corporate social responsibility when developing and planning a business. There is an expectation in the community that businesses, regardless of their size, will have a plan of action around social responsibility (see Chapter 4 for further information on corporate social responsibility).

It is advised by Business Victoria that, when preparing a business plan, information on how the business will approach sustainability and corporate social responsibility should be included. Suggested areas related to this would be covered in the following sections in the business plan:

- *Environment and resource impacts* – an outline of the impact the business will have on the environment.
- *Community impact and engagement* – identifying the possible positive impact the business will have on the community and the ways it will engage with the community.
- *Risks/constraints* – identification of potential risks or constraints the business may experience related to environmental matters.
- *Strategies* – identification of any strategies or a course of action that will be taken by the business to minimise the impact on the environment of its activities.
- *Action plan* – lists the key sustainability and environmental targets and includes sustainability milestones such as reduced water consumption and the dates the business expects to reach the targets.

Sustainability Victoria recommends that businesses should complete an environmental audit as this allows businesses to also set benchmarks for improvement. An **environmental audit** will highlight any areas of the business that might impact on the environment and can also act as a check to make sure the business acts in accordance with environmental laws.

environmental audit highlights how the business affects the environment and sets a benchmark for improvement

Conducting an environmental audit is useful for finding the areas of the business that impact the most on the environment. It is also an effective risk management tool to check how effectively a business is acting in accordance with environmental regulations.

An audit can also assist in:

- assessing how to manage or improve the condition of the environment
- prioritise what actions can be taken to reduce the impact on the environment
- demonstrate accountability to third parties such as government, customers and shareholders or owners.

As part of a plan, a business also needs to ensure that it adheres to sustainable practices. Adopting these sustainability practices will then often act as a way of attracting customers to the business.

The *Competition and Consumer Act 2010* sets out requirements when marketing a product or good as environmentally friendly. Businesses that make environmental or 'green' claims need to ensure these claims are scientifically sound and substantiated. Consumers are entitled to rely on any environmental claims made and to expect these claims to be truthful. Not only is this good business practice; it is law. The Australian Competition and Consumer Commission (ACCC) advises businesses to avoid using terms such as 'safe' and 'friendly', as these terms are unhelpful and may be misleading. It is also important for a business



Figure 9.16 A symbol that often appears on goods being marketed as 'environmentally friendly'

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to check and investigate the processes used in areas such as manufacturing, transportation and packaging. It is essential to test and confirm any claims such as 'environmentally friendly' and 'no testing on animals'.

A business plan should also take into account sourcing of materials and products from sustainable and ethical suppliers. This is important because the reputation of the business may be negatively affected if there are found to be unethical or illegal practices related to its suppliers. Supply chain management is important and needs to be considered (see Chapter 10 for further detail).

ACTIVITY 9.4

1 Identify why it is important for a business to consider social responsibility issues when developing a business plan.
2 Explain why ethical marketing is important as part of a business plan.

CASE STUDY 9.3

Fairtrade school uniforms

In 2016, Hazelbrook Public School became the first school in Australia to incorporate a Fairtrade certified item into its school uniforms. The school's polo shirts are made out of 50 per cent polyester from recycled plastic bottles and 50 per cent ethically sourced cotton. They were acquired from a Fairtrade certified supplier named Change Threads in Katoomba, produced in India and then delivered back to Australia. Fairtrade certification encompasses standards along the whole supply chain such as a fair price and long-term contracts for the producers as well as environmental sustainability.



Figure 9.17 Fair trade logo

Change Threads was founded by Anna Dohnt, who has been involved in Fairtrade for many years. Ms Dohnt, who has four daughters, said she didn't like taking her children to school 'in something made by a child living in misery'. 'We need to make our children understand ethical supply chains and what better way to do that than with a uniform,' she said. Ms Dohnt has travelled to India to make sure every worker involved in producing the textiles is treated and paid fairly.

It was in Ms Dohnt's Fairtrade store, Uplift, that a parent from Hazelbrook Public School first discovered the Change Threads uniform label. The concept was then communicated to the school's uniform shop coordinator, who was eager to expand on the school's existing ethical culture of sourcing bags produced from recycled PET bottles and selling Fairtrade reusable lunch bags. Rather than being unattainably expensive, Change Threads was able to match the pricing, as well as the style, of the existing school polo shirt.

According to the Change Threads website, it is combating today's culture of exploitative economic systems by making Fairtrade Certified Cotton products available and accessible. Its aim is to provide sustainable livelihoods for marginalised producers in poor communities as well as educating, equipping and empowering Australians to make ethical choices that help change the world.

Change Threads is an Australian Clothing Company that partners with Indian cotton farmers and garment producers to provide a range of uniforms and garments in accordance with the

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CASE STUDY 9.3 continued

international Fairtrade standards. It has 'followed the thread' of the clothing supply chain – to understand the people and systems who are producing the clothes we wear.

Analysis

1 Explain why Hazelbrook Public School looked at finding a different place to source its uniforms.

2 Describe how Change Threads came up with the idea of ethically sourcing the polo shirts and contributing to the standard of living of people in India.



Figure 9.18 Ethically sourced student uniforms at Hazelbrook Public School, created by Change Threads

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Chapter summary

- Businesses need to plan to assist them to achieve their business objectives.
- There are three levels of business planning: strategic, tactical and operational.
- Conducting a SWOT analysis, where a business looks at its internal strengths and weaknesses and its external opportunities and threats, assists in the strategic planning process for a business.
- Planning is essential for a small business in order to establish:
  - what it wants to achieve (business objectives)
  - how objectives will be achieved (strategy)
  - who will be responsible for which aspects of the plan
  - the timeframe for achievement of objectives.
- The business plan outlines the strategic details of the business, shows direction and long-term objectives, and shows strategies to be used to achieve objectives.
- The purpose of the business plan is to help establish the business and keep it on track, to help obtain finance and backing for the business venture, and to set a direction for business ideas.
- Sections commonly found in a business plan include:
  - Title or cover page
  - Executive summary
  - Business profile and details
  - Legal details
  - Insurance and risk management
  - Sustainability plan
  - Products/services
  - Operations plan
  - Marketing plan
  - Financial section
  - Appendices.
- Corporate social responsibility should be considered when developing a business plan.
- A business plan should include sections on the approach the business will take in relation to being sustainable and its impact on the environment. It should also examine possible resource issues and impact on the community.
- An environmental audit will assist a business and should be included in the business plan.
- Laws relating to marketing and product requirements should be taken into account.

Chapter summary questions

1 Define the following terms and then use each in a sentence to demonstrate your understanding:
- **a** objective
- **b** business plan
- **c** mission statement
- **d** quality assurance
- **e** executive summary.

2 Describe the benefits for a business of conducting a SWOT analysis as part of its strategic planning process.

3 Identify and outline the components/sections of a good business plan.

4 Explain why it is vital for the potential small business operator to prepare a detailed business plan before commencing operations.

5 Explain why quality control could be described as a reactive system of quality management, whereas quality assurance and total quality management are both proactive approaches.

6 Classify each of the following quality management examples as: quality control; quality assurance; or total quality management measures.
- **a** A quality system where items are checked for faults before leaving the factory.
- **b** A system involving a quality circle to devise methods to reduce defects in the items produced.

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c A system where people posing as customers at a fast-food restaurant perform spot-checks on customer service levels.

d When a business has earned the right to display the logo of a standards association.

7 Describe why a business should include reference in its business plan to its approach to corporate social responsibility and the environment.

8 Explain why a business should try to ethically source materials and inputs.

Extension questions

Imagine that a friend who is thinking of going into business has come to you for advice on whether or not to write a business plan.

1 Write a list of 10 reasons why it is wise to write a business plan before going into business.

2 List and explain the contents of the essential sections of a business plan.

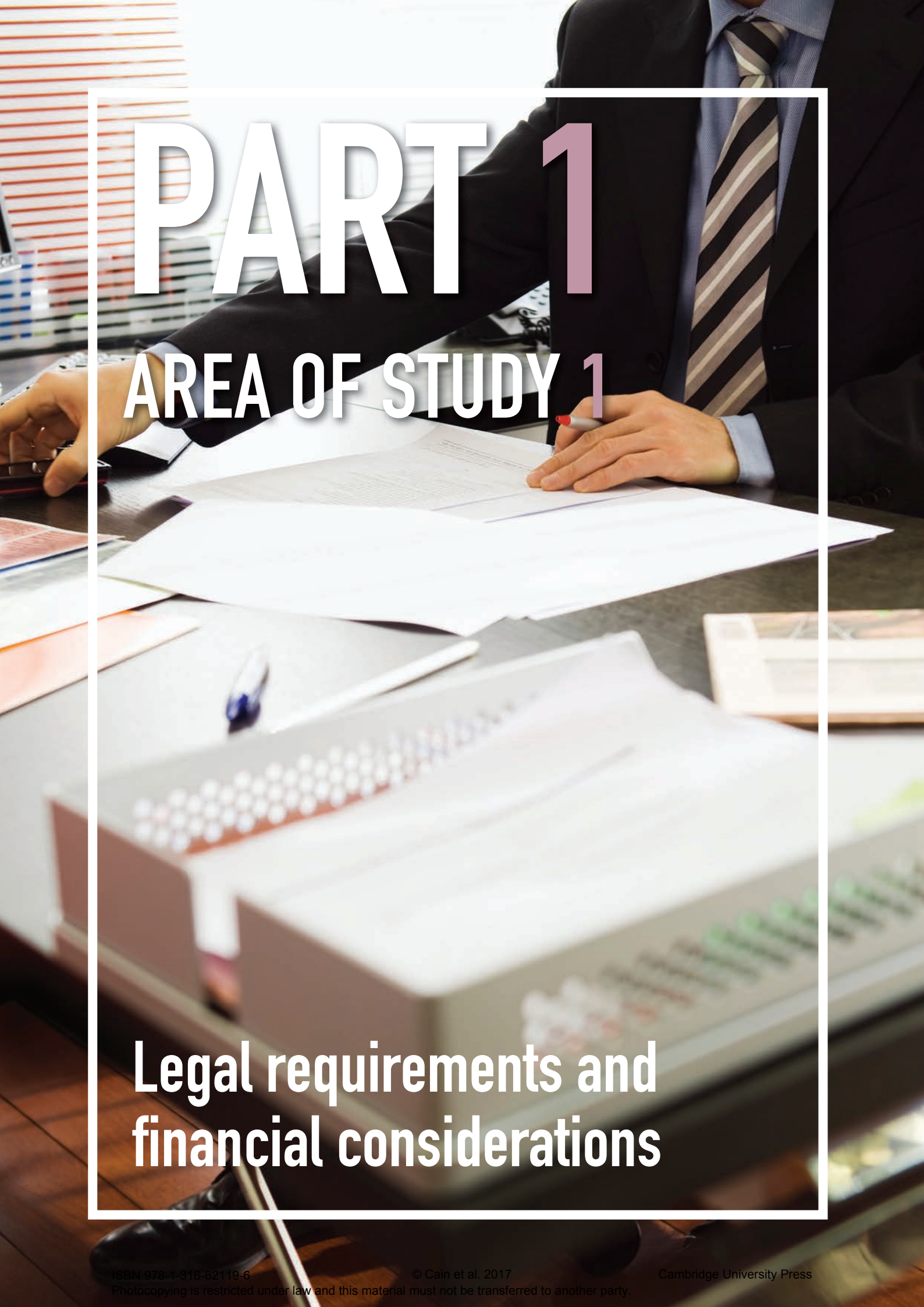
3 Suggest some useful websites and links that would help educate someone on the benefits of writing a business plan and how to do it.

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UNIT 2
ESTABLISHING A BUSINESS

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PART 1

AREA OF STUDY 1

Legal requirements and financial considerations

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CHAPTER 10

Establishing a business – legal requirements

Overview

There are numerous legal considerations and requirements to be aware of during the process of establishing and operating a business. A business operator must ensure the business is in compliance with all laws and regulations, or otherwise risk exposure to legal sanction.

Key knowledge

In this chapter students will learn the following about the legal aspects of a business:

- An overview of key legal and government regulations to be considered when establishing a business, including:
  - Registration of a business name
  - Registration of a website domain
  - Trade practices legislation
  - Business tax compliance
  - WorkSafe insurance.

Key terms

- by-laws
- code of conduct
- codes of practice
- cooling-off period
- corporate citizenship
- domain name
- Environment Protection Authority (EPA)
- equal opportunity legislation
- Fair Work Commission (FWC)
- Fair Work Ombudsman (FWO)
- false and misleading representation
- insurance
- legal compliance
- licence
- occupational health and safety (OH&S)
- premium
- product recall
- public liability insurance
- regulation
- risk assessment
- self-regulation
- superannuation
- warranty
- WorkCover
- workplace relations

What's ahead

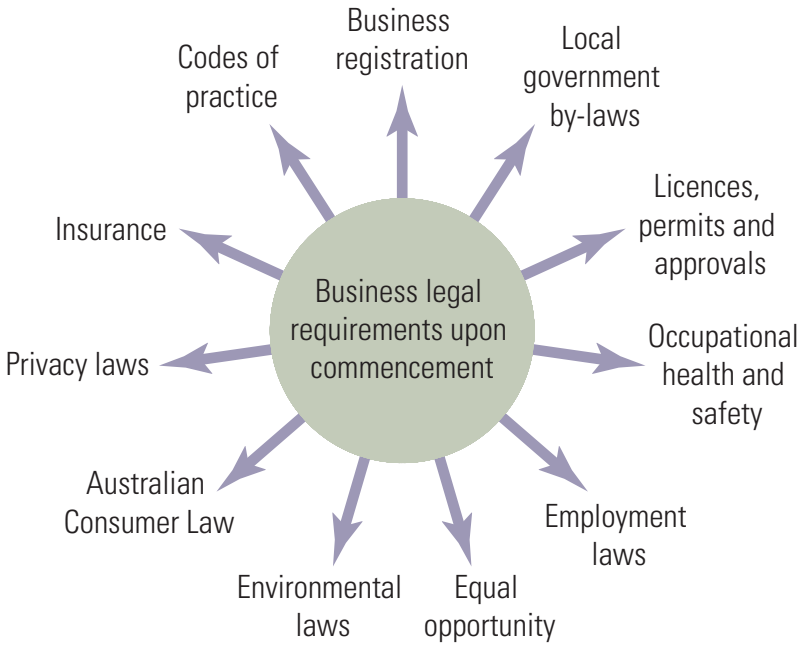


Figure 10.1 Business legal requirements at start-up

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10.1 Compliance with key legal and government regulations

Legal compliance must be considered both prior to business commencement and throughout the life of the business. Like individual citizens, businesses are subject to a plethora of laws and other government-imposed regulations that both restrict and impact on business activity. As citizens, individuals are subject to laws imposed by governments. Similarly, the business sector is also subject to laws and standards of expected behaviour. This concept of **corporate citizenship** and its consequent social obligations has increasingly become the focus of media attention in recent years.

legal compliance the process by which a business ensures that it observes and complies with the external statutory laws and regulations

corporate citizenship acceptance by a corporate of its responsibility to stakeholders for actions and decisions

regulation rule or directive made and maintained by an authority

A business is subject to numerous and changing legal, ethical and social responsibility requirements. Failure to take account of these may mean legal prosecution, professional deregistration and/or forcible closure of the business. It is vital that a business operator complies with the relevant laws, regulations, licensing requirements and codes of behaviour included in Australian business **regulation**.

Business registration

The *Business Names Act 1962* requires registration of the names of all businesses that conduct business in Victoria under a business name. Consumer Affairs Victoria holds a registry of business names. A business operator is obliged to display a sign showing the business name. If using a personal name (e.g. Jane Smith) as a business name, there is no need to register it. However, any additions, such as 'Jane Smith & Co', will require the business name to be registered, as '& Co' is not part of a personal name.

Registering a business name

Businesses wanting to register a business name must have an Australian Company Number (ACN). A business that is a company will have an ACN. This is a unique, nine-digit number issued by the Australian Securities and Investments Commission (ASIC) that offers identification while transacting business.



Figure 10.2 Registration of all business names is required in Victoria.

It is a legal requirement for the ACN to be displayed on a range of documents, including invoices, official company notices, cheques and business letterheads.

The following steps describe how a business name is registered.

Step 1: Select an appropriate name. An effective business name should be:

- memorable
- easy to pronounce and spell
- original
- appropriate, professional and non-offensive
- descriptive and functional.

Once a few names have been shortlisted, the online Business Name Register must be checked to see if any of the names have already been taken and are currently in use by another business. The most appropriate available name is then chosen and reserved for the process of registering it. This is known as 'holding the business name'.

The Business Name Register can be found on the ASIC website.

Step 2: Before the chosen business name can be registered an Australian Business Number (ABN) needs to be obtained through the Australian Business Register.

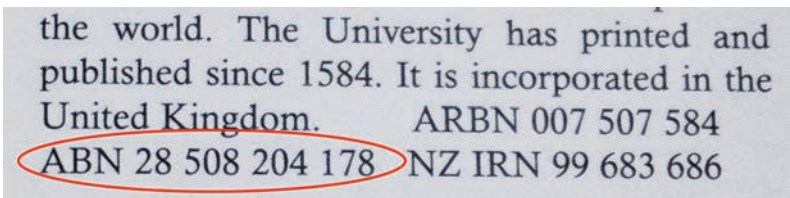


Figure 10.3 Before a business name can be registered, a company must obtain an Australian Business Number.

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The ABN enables businesses in Australia to deal with a range of government departments and agencies using a single identification number.

Step 3: With the ABN, the business applies to the ASIC website, provides details of persons holding the business name and addresses for the business. This can be done by signing up to ASIC Connect on the ASIC website.

Registering a website domain

It is advisable to buy a website **domain name** for a business website. In this context, the domain name is the part of an internet address that identifies a website, such as 'Cambridge' in www.cambridge.edu.au.

domain name a unique name identifying the website in a web address

In general, the best domain names:

- reflect the business name
- are three syllables or less (e.g. Yahoo, webwombat)
- are easy to remember, pronounce, spell and type (e.g. Google)
- are alliterative (e.g. Redraven, Bluebug and Firefox)
- are also available for registration via social media channels.

If planning to use social media to market a business, it's a good idea to check if the name is also available on Twitter, Facebook, Instagram or other social media channels. A quick way to find out if a domain name is available is to use the free service provided by AusRegistry (see Cambridge weblinks: http://cambridge.edu.au/redirect/?id=6990).

If a name is available and not in breach of any law, the next step is to register it. This can be done through several accredited registration organisations. A list of accredited registrars can be found on the .au Domain Administration website.



Figure 10.4 A business website domain must be registered.

Initial business registration	What it is	Go to
ABN	Australian Business Number	Cambridge weblink: http://cambridge.edu.au/redirect/?id=6991
ACN	Australian Company Number	Cambridge weblink: http://cambridge.edu.au/redirect/?id=6992
PAYG withholding	Legal requirement when a business has employees	Cambridge weblink: http://cambridge.edu.au/redirect/?id=6993
Intellectual property registration	Patents, copyright, trademarks, designs, etc.	Cambridge weblink: http://cambridge.edu.au/redirect/?id=6994
GST	Goods and services tax	Cambridge weblink: http://cambridge.edu.au/redirect/?id=6995
TFN	Business tax file number	Cambridge weblink: http://cambridge.edu.au/redirect/?id=6996
Business name	Business name	Cambridge weblink: http://cambridge.edu.au/redirect/?id=6997
Fringe benefits tax	Fringe benefits tax	Cambridge weblink: http://cambridge.edu.au/redirect/?id=6998

Table 10.1 Business registration sites

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Local government by-laws

by-laws local government laws/regulations relating to activities within a municipality

Local government **by-laws** affect the operation of businesses in a given local area. These vary according to the local government.

Building and planning controls

Each local government has a planning scheme administered by its planning department. Different areas are designated for different types of use. For instance, large parts of any local government area will be zoned for 'residential use' only. This designates the area for residential dwellings with very few exceptions; for example, home offices and a few mixed businesses.

Other areas are zoned 'light industrial', 'heavy industrial', 'retail' and 'commercial'. The purpose of this system is to ensure that like businesses are restricted to similar areas. No one, for instance, would like to discover that the vacant block of land next to their house has been sold to a developer building a four-storey office block, or even a supermarket. The system of zoning prevents this from occurring.

Council planning approval must also be obtained for all plumbing and building work. The operation of a home office may also require council planning permission.

Other by-laws impacting on business

Businesses must also be aware of other local by-laws, including:

- parking restrictions
- hours of operation
- health regulations covering hygiene and food handling
- restrictions on activities such as outdoor dining.

Permits and approvals are required from the local government planning department to set up or make fit-out changes to business premises.

Business licences, permits and approvals

Most businesses require some type of **licence**, permit or approval from a government authority or professional association to operate. Licences grant the right to perform a specified activity or role. For example, skilled tradespeople and/or professionals such as accountants need to be licensed with the appropriate authority. Often a particular qualification is required to practise. A licence is issued for a specified period of time and must be reapplied for once this period has elapsed. For example, a medical practitioner must be registered with the Health Insurance Commission to treat patients under the Australian system of Medicare. Similarly, other types of business may need to have registration or a licence from a specified body or organisation.

licence permit from an authority to own or use something, do a particular thing, or carry on a trade



Figure 10.5 Local government is responsible for much business regulation.

Some businesses require a variety of licences. For example, a restaurant might require the following:

- food premises registration for preparing and selling meals
- liquor licensing for selling alcohol
- APRA copyright licensing for playing music
- local council permits for footpath seating.

ACTIVITY 10.1

Using the ABLIS website, compile a list of the licensing requirements for each of the following businesses:

- café
- real estate agency
- child care centre
- beautician.

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ACTIVITY 10.2



Figure 10.6 City of Port Phillip town hall

Use the following link to the website of the City of Port Phillip at Cambridge weblinks (http://cambridge.edu.au/redirect/?id=6999) and answer the questions:

1 Footpath trading:
   - **a** When is footpath trading allowed?
   - **b** When is footpath trading not permitted?
   - **c** Are there any costs involved?
2 Outline three by-laws that apply to mobile food vans and their operation in the City of Port Phillip.
3 Outline four requirements applying to businesses that sell food in the City of Port Phillip.
4 Identify three health by-laws that apply to a beauty salon operating in the City of Port Phillip.

Occupational health and safety laws (WorkSafe in Victoria)

All Australian employees have a legal right to a safe workplace; consequently, laws are designed to ensure employers provide this. In Victoria the *Occupational Health and Safety Act 2004* obliges all employers to provide a safe workplace by proactively working to reduce all physical, chemical and behavioural hazards as far as is practicable.

occupational health and safety (OH&S) area concerned with the safety and welfare of people engaged in work or employment. In Victoria, workplace health and safety is governed by a system of laws, regulations and compliance codes that set out the responsibilities of employers and workers to ensure that safety is maintained at work.

Occupational health and safety (OH&S) laws aim to prevent accidents in the workplace through involving all within the business in actively working to identify and remove hazards. Every workplace must have an OH&S policy.

An employer's OH&S obligations include:

- a commitment to a safe workplace covering all workplace activities
- to involve all workers, management and owners in the development of an OH&S policy
- to communicate the OH&S policy and its relevant processes and procedures
- to provide training in all relevant OH&S procedures and processes
- to regularly monitor compliance and review the policy.

In Victoria laws are enforced by WorkSafe. Inspectors from WorkSafe may be called in to assess



Figure 10.7 Occupational health and safety is an important obligation of a business.

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risks and hazards and, if necessary, may close down the business until these are removed. The business operator therefore must be aware of OH&S legislation, and standards and codes relevant to their particular industry. Failure to do so could result in legal prosecution.

WorkSafe insurance (provided through WorkCover)

WorkSafe's statutory obligations include providing reasonably priced workplace injury insurance for employers. This is generally known as workers' compensation insurance. **WorkCover** insurance is compulsory insurance for Victorian employers which is funded by their contributions. It provides employers with insurance cover for the cost of benefits if their workers are injured or become ill because of their work. (See more on this on the following page, under 'Employment laws'.)

WorkCover compulsory insurance scheme that provides employers with insurance cover for the cost of benefits if workers are injured or become ill because of their work

CASE STUDY 10.1

Cosmetics company wears $75 000 fine after forklift incident

A cosmetics distribution company was convicted and fined $75 000 at the Magistrates Court in Moorabbin last week following an incident in which a worker inside a cage was dropped by a forklift.

Total Beauty Network Pty Ltd was charged with failing to provide a safe working environment and failing to maintain safe systems of work over the incident which caused the worker to suffer multiple vertebrae fractures requiring a spinal fusion and an extensive period of rehabilitation.

The court was told that employees at the company's Carnegie warehouse were expected to get into a cage, raised by the tynes of a forklift operated by the warehouse manager, in order to retrieve products from high racking.

This system of work meant the business avoided taking the time to safely retrieve a large box of stock with the forklift, place it on the ground to select particular items and return it to the high racking.

On 20 October 2014, a worker was lifted in the cage to a top rack to retrieve products. When the warehouse manager lowered the forklift, the cage snagged on a beam of racking and fell several metres to the ground with the worker inside.

The court heard that the cage was not designed to carry workers for picking stock, nor was the forklift designed to carry a cage.

The court also heard that the warehouse manager did not hold a licence to operate the forklift. He was charged with one count of failing to hold a licence in accordance with regulations and was convicted and fined $2 500.

Executive Director of Health and Safety, Marnie Williams, said there was no excuse for the total disregard for safety that the business had adopted in its warehouse operations.

'It is just staggering that in this workplace employees were expected to get into a cage, which was not designed for carrying people, and be elevated by a forklift controlled by someone not qualified to do so,' she said.

'It is because of this attitude to health and safety that a worker was involved in a traumatic incident which caused serious spinal injuries and ongoing rehabilitation – it is just inexcusable.' …

(Source: WorkSafe Victoria, 'Cosmetics company wears $75,000 fine after forklift incident', 11 December 2015. The WorkSafe website (which can be accessed via http://cambridge.edu.au/redirect/?id=7000) should be accessed for more information and future updates on any references used.)

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Analysis

1. Name and describe the business that has been prosecuted.
2. What Act of Parliament was this business prosecuted under? What penalties have been imposed as a result?
3. Describe what has occurred and how the law has been breached.
4. Explain who you believe was at fault in this case. Was the penalty imposed adequate in your view? Give reasons for your answer.
5. Describe how this prosecution and the publicity surrounding it might affect the business in terms of its reputation and sales.



Figure 10.8 Total Beauty Network Pty Ltd was charged with failing to provide a safe working environment.

10.2 Employment laws

All businesses are subject to laws and regulations affecting employment of staff. These include:

- Since 1992 all Australian employers must pay **superannuation** contributions on behalf of their employees to a regulated superannuation provider. Currently, this is at a rate of 9.5 per cent of the employee's income. The purpose of this is to guarantee all workers superannuation income for their retirement.

superannuation a pension or lump sum payment made to workers on retirement; the money comes from employers' contributions made during the working life of the employee

- WorkCover is a compulsory insurance scheme employers pay into on behalf of their employees. Its purpose is to provide an income and compensation for employees and/or their families in the event of injury, disability or even death in the workplace. Premiums vary according to the level of risk in the workplace. The insurance may cover:
  - replacement of lost income
  - medical and rehabilitation treatment costs
  - legal costs
  - lump sum compensation in the event of a serious injury.

Workplace relations laws

Both state and federal governments enforce **workplace relations** laws regulating the relationship between employers and employees. These laws stipulate procedures for:

- resolving disputes in the workplace
- setting minimum wages and conditions.

Minimum standards for wages and conditions are known as awards and are established by an independent tribunal called the **Fair Work Commission (FWC)**, which acts like an industrial court to resolve disputes and to establish minimum wages and conditions. The FWC oversees and enforces regulations regarding:

- the safety net of minimum wages and employment conditions
- enterprise bargaining
- industrial action
- dispute resolution
- termination of employment
- other workplace matters.

workplace relations historically referred to as industrial relations, workplace relations is concerned with the contractual, emotional, physical and practical relationship between employer and employee

Fair Work Commission (FWC) Australia's national workplace relations tribunal. Its role is to assist employees and employers to maintain fair and productive workplaces. The FWC is an independent body that operates under the *Fair Work Act 2009*

Fair Work Ombudsman (FWO) an independent statutory agency of the Australia government that acts as a central point of contact for free advice and information on the Australian national workplace relations system

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The **Fair Work Ombudsman (FWO)** is an independent statutory agency of the Government of Australia that acts as a central point of contact for free advice and information on the Australian national workplace relations system. The Office of the Fair Work Ombudsman also investigates workplace complaints and enforces compliance with national workplace laws.

ACTIVITY 10.3

Go to the Fair Work Ombudsman website. This is a website provided by the government for both employers and employees to check their entitlements and obligations.

1 Using the website, go to 'Employment' then 'National Employment Standards' and answer the following questions.
   - **a** What are the National Employment Standards (NES)? Who is affected by them?
   - **b** Explain how the NES are designed to protect employees.
   - **c** List the 10 NES that apply to all employees covered by the national workplace relations system.
   - **d** What penalties does an employer face for providing an enterprise agreement to their employees with entitlements less than the NES?



2 Go to 'Resources' then 'Pay Rates Calculator'. Use this to calculate the minimum pay rate for each of the following employees:
   - **a** Andrew, a Grade 2 food and beverage attendant working in a restaurant
   - **b** Eleni, an 18-year-old third-year apprentice chef
   - **c** Bruce, a second-year apprentice hairdresser.

3 Go to 'Complaints' then 'Fair Work Inspectors'. Summarise the role and powers of a Fair Work Inspector.

4 Suggest why the federal government would establish this type of website.

Equal opportunity, anti-discrimination and sexual harassment laws

There are numerous pieces of federal and state legislation that regulate the behaviour of employers towards employees, as well as employees towards each other. **Equal opportunity legislation**, in particular, aims to ensure that employees are judged by their employers on their merits. Legislation relates to three main areas:

equal opportunity legislation laws that aim to protect people from certain kinds of discrimination in public life and from breaches of their human rights

- Anti-discrimination laws aim to protect employees from discrimination on the grounds of race, gender, sexual preference, religion, pregnancy, ethnic background, disability or any other personal characteristic. Employers are also liable for the actions of their employees in this regard. The Equal Opportunity Commission may fine employers if they perpetrate or allow discrimination based on an employee's personal characteristics to occur in their workplace.
- Affirmative action laws aim to improve the chances for career advancement for groups that have traditionally been disadvantaged, such as women and people of a non-Anglo ethnic background. The *Equal Opportunity for Women in the Workplace Act 1999*, for example, requires businesses employing more than 100 people to report on the progress made in appointing women to non-traditional work areas.
- Federal sexual harassment legislation outlaws unwanted or uninvited sexual behaviour that is offensive, embarrassing or humiliating in the workplace either by employers to workers or between workers. There are clearly specified procedures for investigating a sexual harassment claim that must be followed by employers.

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Figure 10.9 Environment protection laws are enacted by governments at all levels.

Environment protection laws

Environment protection laws are enacted by governments at all levels. A business will be prosecuted if it fails to meet the environmental standards defined in a particular law. An operator is required to become acquainted with the relevant environmental legislation and ensure that the business meets expected standards. The **Environment Protection Authority (EPA)** is the Victorian body charged with enforcing environmental laws. Areas that are covered include:

- noise
- waste discharge
- use of toxic substances
- emissions into the environment.

Environment Protection Authority (EPA) authority that monitors the environment and the things that impact on the environment

ACTIVITY 10.4

Visit the website of Environment Protection Authority Victoria and answer the following questions.

1. Briefly describe the role of the EPA.
2. List 10 facts about EPA Victoria.
3. Explain how a polluter can be reported to the EPA.
4. What is an environmental audit? Name two recent environmental audits conducted by the EPA.
5. What is a Pollution Abatement Notice? When is one of these issued? What are the penalties for ignoring a Pollution Abatement Notice?
6. Click on 'News Centre' and then 'EPA Media Releases'. Briefly outline two recent prosecutions launched by the EPA against small businesses in Victoria. For each one:
   - **a** name the business
   - **b** describe the damage it inflicted on the environment
   - **c** outline the penalties imposed.
   - **d** Were these penalties justified in your view? Explain what you would have done if you were the judge in each case and justify your views.

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Figure 10.10 Australian consumer law is designed to protect consumers from exploitation and is administered by the ACCC.

Trade practices legislation

The *Trade Practices Act 1974* was replaced by the *Competition and Consumer Act 2010* (CCA). Schedule 2 of the CCA is known as the *Australian Consumer Law 2011* (ACL). All Australian businesses must comply with the national law designed to protect Australian consumers. The CCA established the Australian Competition and Consumer Commission (ACCC) to protect consumer rights, business rights and obligations, perform industry regulation and price monitoring, and prevent illegal anti-competitive behaviour.

The objectives of the CCA are:

- to promote competition and fair trading
- to provide protection for Australian consumers
- to prevent anti-competitive conduct by businesses, thus encouraging competition and efficiency
- to safeguard consumers in their dealings with businesses, and businesses when they are dealing with other businesses.

The CCA prohibits restrictive trade practices, cartels, exclusive dealing, anti-competitive agreements, misuse of market power and unconscionable conduct.

Under the ACL, Australian consumers now have the same rights no matter where they live, where they purchase goods and services or where a supplier is located.

The ACL is administered by the ACCC, and state and territory consumer protection agencies.

10.3 Rights of the Australian consumer

Consumer guarantees

Australian Consumer Law covers goods and services purchased up to the value of $40 000 for domestic, household or personal use. Consumers are guaranteed rights to repair, replacements or refunds under ACL; if the goods or services bought are found to not:

1 be of acceptable quality: the product must be able to:
   - be used for the purpose it was intended
   - match the description given before sale
   - have an acceptable finish and appearance
   - be free from defects. (Except where the supplier has informed the purchaser about defects before purchase.)
2 be safe to use
3 match sample or demonstration models
4 have available repairs and spare parts
5 be durable.

Services must be:

1 performed with due care and skill
2 fit for the purpose intended: the service must do what it was supposed to do and achieve promised results
3 completed in reasonable time.

When a product fails to meet these criteria, a consumer has the right to a remedy through repair, replacement or refund. The consumer guarantee provided by the ACL is separate from a supplier's



Figure 10.11 Suppliers' warranties are separate from the ACL consumer guarantee.

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ACTIVITY 10.5

Explain why each of the following customers would be entitled to a remedy under ACL.

1. A customer purchases a drink that claims to be 100 per cent orange juice. The product is 50 per cent apple juice.
2. A plumber repairs a toilet which starts leaking again after three days.
3. A builder takes three years to complete a job.
4. Bob purchases a car the salesperson claims has done 10 000 km. He later finds evidence that the car has in fact done 45 000 km.

Using the ACCC website, prepare a presentation entitled 'Guarantees, Warranties and the Australian Consumer'. Include:

- When can I claim a remedy as a consumer?
- How to claim a refund, replacement or repair.
- How to go about claiming a remedy.

warranty a written guarantee, issued to the purchaser of an article by its manufacturer, promising to repair or replace it if necessary within a specified period of time

warranty, which is a voluntary promise of what the supplier will do if something goes wrong. Such a warranty can be enforced by the ACL, but the ACL consumer guarantee trumps suppliers' warranties. For instance, a supplier's warranty may last for six months, but the consumer guarantee may support the argument that an item should be more durable than this.

Returning products

A consumer is entitled to ask for a refund or exchange when the product:

1 does not work in the way it is supposed to
2 does not look the way it is supposed to
3 is broken or faulty
4 is unsafe.

Product recalls

The ACL states that if a product might reasonably lead to injury to the public through its use, or even misuse, it must be withdrawn from sale. This is a **product recall**; a compulsory recall notice will be issued and consumers who have bought the products contacted. The faulty product may be replaced, repaired or its cost may be refunded. The reasons for the product recall must be publicly disclosed.

product recall when a defective product is sourced and either rectified or replaced after it has been sold by the manufacturer

Harassment and coercion

The ACL protects consumers against unethical and high-pressure sales practices.

Consumers are also entitled to a 10-day **cooling-off period** after making a purchase from a direct sale. During this period, they are entitled to change their mind about the purchase. Consumers are entitled to a copy of any agreement made.

cooling-off period a period of time where a purchaser (in some cases) is permitted to change their mind about a purchase

Signs that state **'No refunds on sale items'** are illegal

Signs that state **'No refunds'** are illegal

Signs that state **'No refunds will be given if you have simply changed your mind'** are legal

Signs that state **'Exchange or credit note only for return of sale items'** are illegal

Figure 10.12 Returning products

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Figure 10.13 A business must comply with Australian Consumer Law.

Misleading and deceptive conduct

A seller may not make **false and misleading representations** to a consumer. This means they must not lie or exaggerate the quality, benefits, warranty, possible uses or prices of the products they are selling.

false and misleading representation to lie or exaggerate about the features or benefits offered by a product being sold

For example, a consumer might go to a hair loss clinic where a salesperson assures him they will restore his head with real natural hair, not a wig. The consumer asks questions about the treatment and expected results and pays $4000 deposit. When later the 'restored' head of hair proves to be a wig stuck to his head, the consumer is entitled to a refund because the supplier made a false and misleading representation. The service offered was not what he received.

Contracts

Any agreement to buy or sell goods or services, whether it is written or spoken, is a contract. Both a purchaser and a seller have rights and responsibilities under contract law. Each can be sure that the other individual or business involved in the contract will perform their side of the bargain. For example, a contract ensures that the products sold will be of reasonable quality and fit for the purpose intended. The consumer is legally bound to pay the agreed price set out in the contract.

Product labelling

The ACL ensures that products are labelled accurately. A label on a product must accurately reflect its content. It must state information so that the consumer knows exactly what they are buying and can make an informed decision. Labels must not be deceptive or misleading. For example, to be entitled to label a product 'Made in Australia' the products must be 'substantially transformed in Australia' and 50 per cent

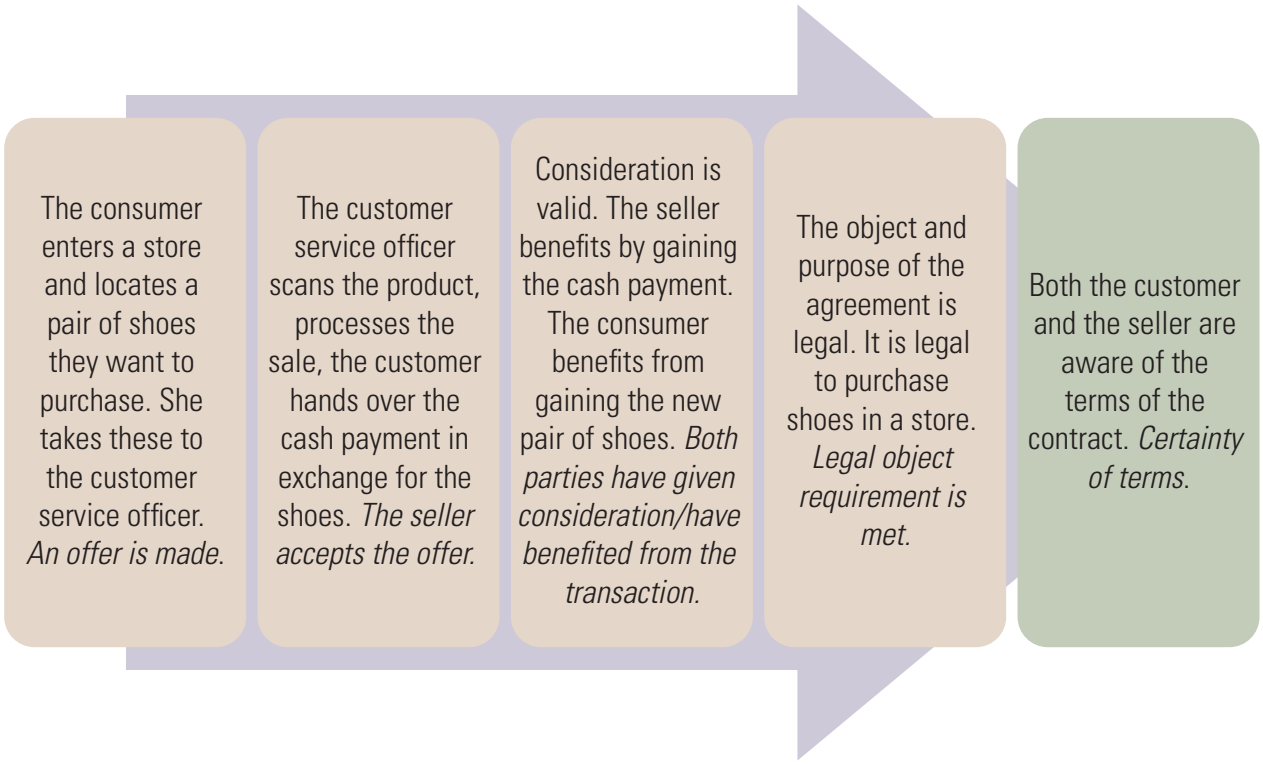


Figure 10.14 This figure demonstrates that a purchase transaction is a legal contract.

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Figure 10.15 Labelling laws ensure that products are labelled accurately



Figure 10.16 Taxation compliance

or more of the production completed in Australia. A producer may be prosecuted if they claim their product is 'Made in Australia' but are shown not to meet these two criteria.

ACTIVITY 10.6

1. Examine the labelling of at least four food items. Describe three factors they all have in common in regard to their labelling. Do you think these would be a legal requirement for food labels? What information do you deduce must be displayed on food labels? Give reasons for your answers.
2. Examine the labelling on three household cleaning products. What factors do the three labels have in common? Why do you think these things have to be on this type of label?
3. What information do you look for on each of the following items? Give reasons for your answer:
   - **a** a packet of biscuits
   - **b** an item of clothing.

Privacy laws

The federal *Privacy Act 1988* regulates how a business may handle and use the personal information of people. Personal information is any information about an identifiable individual, such as names and addresses, income and marital status. Compliance with the Act means the businesses concerned must always inform people that such information is being collected. The information must only be used for the purpose specified, be open to scrutiny by the individuals concerned and only be used for a reasonable purpose.

Business taxation compliance

There is an old saying: 'there are only two things that are certain in this life: death and taxation'. A business *must* pay tax. The Australian Taxation Office (ATO) administers Australia's taxation and superannuation systems. Business taxation obligations include:

- A business carrying out an enterprise in Australia must obtain an Australian Business Number (ABN).
- Business partnerships and companies require their own tax file number (TFN).
- All businesses must pay tax on income, and collect income tax from the wages of employees.
- Businesses are required to collect goods and services tax (GST) from their sales.
- A business activity statement (BAS) must be submitted periodically to advise the ATO and remit tax due on income earned during that period, plus any GST and employee income tax owed.
- Fringe benefits tax (FBT) and capital gains tax (CGT) may also apply.
- A business with employees may also be subject to state government payroll tax.

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Insurance

Every business requires some form of **insurance** to provide financial compensation in case of accidents, fire, theft and other mishaps and disasters. An insurance policy is a legal contract which works by the insured (client) paying a sum of money (**premium**) to an insurer (usually an insurance company). In return, the insurer guarantees to financially compensate the client for accidental losses incurred, or for the client being liable to compensate staff, customers or members of the public for accidental damage and loss suffered due to the business's operations. Premiums increase according to the amount of risk and the cost of replacement or amount of financial protection offered. For example, it costs more to insure against fire in a bushfire-prone area, and more to insure against theft in an area with high rates of burglary.

insurance a contract, represented by a policy, in which an individual or entity receives financial protection or reimbursement against losses from an insurance company.

premium periodic payment made to an insurance company

The small business operator should carry out risk management by investigating potential safety risks and hazards, taking action to reduce them, and taking out insurance accordingly. Risk management should be repeated regularly as the business develops. The insurance company will also conduct **risk assessment** of the business to gauge premiums. Business owners can obtain reduced premiums if they take action to reduce their level of risk. For example, installing fireproof doors, smoke alarms and extinguishers reduces fire risk.

risk assessment conducted by an insurance company to assess the level of risk for which insurance cover is sought

Some types of insurance are compulsory and must be purchased by all businesses:

- Workers' compensation insurance (WorkCover – see section 10.2, 'Employment laws').
- Some types of businesses are required to take out **public liability insurance**.
- If the business owns a vehicle it must pay for third party personal injury insurance.

public liability insurance to protect the business against damages or injuries to another person or property



Figure 10.17 Some businesses have higher levels of risk than others.

ACTIVITY 10.7

Devise a poster, booklet or presentation outlining the different types of insurance a small business might require.

Codes of practice

Codes of practice are sets of guidelines established by external bodies to regulate the standards of behaviour and conduct within an industry. They may be known by any of the following names: code of ethics, **code of conduct**, good practice, professional conduct, standards, rules or specifications. While they are not legally enforceable, and breaches are not subject to law, they are usually enforced by the authority also responsible for licensing. A breach of an industry code of practice can result in a business losing its licence to trade.

codes of practice sets of guidelines established by external bodies to regulate the standards of behaviour and conduct within an industry

code of conduct guidelines to regulate standards of behaviour and conduct either within an organisation or within an industry

self-regulation a group or industry regulates its own conduct and behaviour

Often an industry code of practice is used by an industry as a form of **self-regulation**. Australian consumers have become much more aware of the ethical and social responsibility issues covered by industry codes of conduct. Breaches of these are often reported in the media and can potentially create a poor business image.

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Chapter summary

- A business must be aware of its legal obligations, otherwise it runs the risk of prosecution.
- The following obligations must be considered:
  - registration of both a business name and website domain name
  - local government by-laws such as planning and health regulations
  - required licences, permits and approvals
  - occupational health and safety laws
  - employment laws, including workers' compensation
  - equal opportunity laws
  - environment protection laws
  - Australian trade practices law (consumer protection)
  - labelling laws
  - taxation
  - insurance
  - industry codes of practice.

Chapter summary questions

1 Define the following terms and explain how each relates to the issue of small business legal compliance:
- **a** by-law
- **b** social responsibility
- **c** occupational health and safety
- **d** workers' compensation
- **e** risk assessment
- **f** code of conduct
- **g** licence.

2 List the main areas of legal compliance with which business operators must be acquainted.

3 Suggest why a business is required to submit a list of possible business names rather than simply one when applying for business registration.

4 Identify which organisation an employer would go for advice on the following:
- **a** Resolution of an employee's sexual harassment claim
- **b** Obtaining a licence to discharge waste into the environment
- **c** Obtaining an ABN
- **d** Finding out their legal obligations in regard to consumer rights
- **e** Registration of a website domain name.

5 Explain what occupational health and safety laws are. What is the purpose of these laws?

6 Outline the obligations of a Victorian employer in regards to occupational health and safety.

7 Explain what each of the following are and outline the obligations of Australian business in regards to them:
- **a** income tax
- **b** ABN
- **c** TFN
- **d** GST
- **e** FBT.

8 Compare the role of the Fair Work Commission with that of the Fair Work Ombudsman in the Australian system of workplace relations, noting the differences and similarities.

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Extension questions

1 Go to the website of Consumer Affairs Victoria. Go to 'Shopping and trading' and answer the following questions relating to returns and refunds.

- **a** Describe the circumstances under which a trader is legally obliged to provide a refund at a customer's request.
- **b** Does a refund have to be a cash refund or will a credit note suffice?
- **c** Describe the circumstances where a customer is not legally entitled to a refund.
- **d** Is it legal to hang up a sign saying 'No refund' in Victoria?
- **e** Are the following signs legal in Victoria? Explain your answer.
  - **i** 'Refunds on unworn items only'
  - **ii** 'No refund on sale items'.

2 Discuss the social obligations you believe Australian businesses have to the general community. Use examples to support your arguments.

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CHAPTER 11

Establishing a business – policies and procedures

Key terms

- balance sheet
- bank statement
- cash book
- cash flow
- cash payments
- cheque
- cheque butt
- customer data base
- environmental sustainability
- evidence
- financial management
- petty cash
- policy
- procurement policy
- Profit and Loss Statement
- record keeping
- source documents
- transactions

Overview

All businesses need to plan for and develop policies and procedures to ensure consistency and stability in their day-to-day operations. Having policies also means a business is more likely to be compliant with legal and other requirements. This chapter will initially focus on policies and procedures revolving around occupational health and safety, equal opportunity and anti-bullying, customer rights and licensing requirements.

Financial record keeping and financial management are also examined as these are crucial for the ongoing success of any business, regardless of size. When in the planning and establishment phase of a business, it is important that bank accounts, financial control systems and record-keeping strategies are all in place.



Suppliers are a vital component of a competitive business venture. The final section of this chapter will focus on the important factors to be considered in the selection of suppliers.

It is also essential that a business takes into consideration technological needs such as the types of information technology systems that are required and any hardware and software necessary to run the business. The need to develop business opportunities in other countries and establish relationships with overseas suppliers and retailers are important when establishing a business. In an increasingly global economy many businesses, regardless of size, either import components and goods or sell products overseas, so this should also be considered and planned for.

Key knowledge

In this chapter students will learn about:

- The need for policies and procedures to achieve compliance with legal requirements and establish business routines
- The importance of establishing bank accounts, financial control systems and record-keeping strategies
- The importance of choosing appropriate suppliers, including the benefits and limitations of suppliers which meet the corporate social responsibility objectives of the business
- Technological and global issues that may affect decision making when establishing a business, such as generating customer data bases and contacts with overseas suppliers and retailers.

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What's ahead

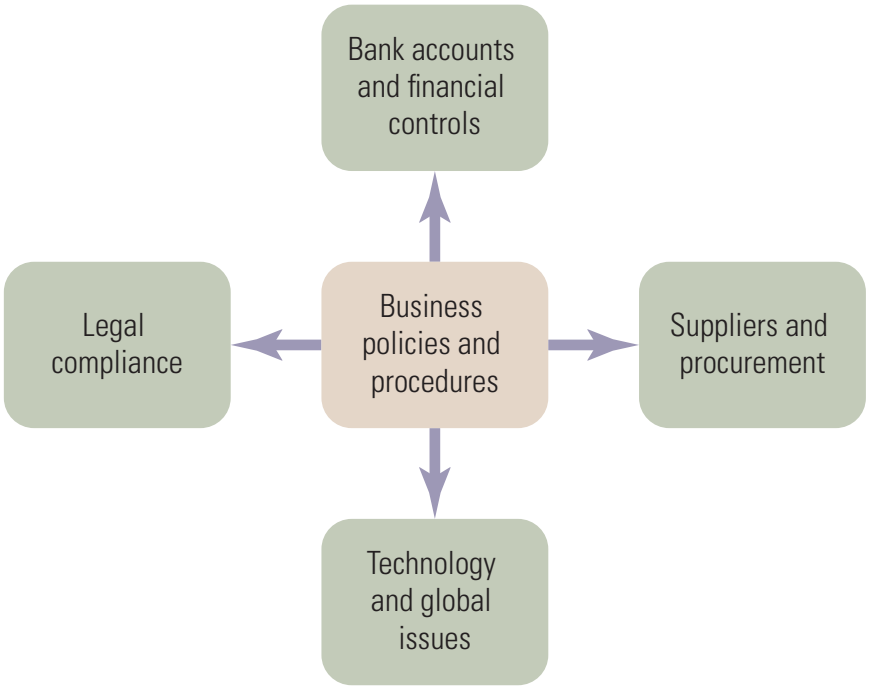


Figure 11.1 Policies and procedures for establishing a business

11.1 Policies and procedures relating to legal requirements

It is important that a business develops policies and accompanying procedures to ensure it complies with legal and other regulatory requirements. A **policy** is a written statement detailing the processes, procedures, rules and regulations that should be followed in a given situation. Having clear policies and processes in place allows for consistency and certainty in all aspects of the business. Sometimes a policy is developed in response to laws and other legal requirements, at other times events and needs in the business dictate the types of policies required. Policies are developed in a range of different areas including safety in the workplace, anti-discrimination and equal opportunity, licensing requirements, marketing and customer relations, warranties and guarantees, and environmental issues.

policy a written statement of the processes, procedures, rules and regulations

A business would need to consider and develop policies in areas such as:

- occupational health and safety and emergency management
- anti-discrimination, equal opportunity and anti-bullying
- customer service, such as returns, marketing and refunds
- licensing requirements, such as food handling.

Each of these is discussed further below.

Occupational health and safety laws and emergency management

All businesses need to ensure they comply with the relevant health and safety laws for their state. In Victoria, businesses are bound to observe occupational health and safety (OH&S) laws, which set out the responsibilities of employers and employees to ensure a workplace is safe. These obligations and responsibilities are set out in the *Occupational Health and Safety Act 2004*. Businesses must comply with procedural and administrative matters under the Act.

In addition to the Act, there are compliance codes that provide practical advice to those who have duties or obligations under the Act.

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Figure 11.2 Elements of a health and safety system

CASE STUDY 11.1

WorkSafe Victoria charge Essendon Football Club

Essendon have been charged by WorkSafe Victoria for breaching two counts of the Occupational Health and Safety Act after a long investigation which also saw the AFL investigated but cleared of any breaches.

The charges relate to the supplements scandal which took place at Essendon from the end of 2011 until August 2012 and saw the club fined $2 million by the AFL.

WorkSafe released a statement on Monday morning outlining the charges. 'Following a comprehensive investigation, WorkSafe has charged the Essendon Football Club with two breaches of the OHS Act 2004 in relation to its 2011–2012 supplements program,' the statement read.

'The charges are: One breach of section 21(1) – failing to provide and maintain for employees a working environment that is, so far as is reasonably practicable, safe and without risks to health; one breach of 21(2)(a) – failing to provide and maintain for employees a system of work that is, so far as is reasonably practicable, safe and without risks to health.'

'We are aware of the charges laid by WorkSafe Victoria, and have liaised with both WorkSafe and Essendon Football Club throughout the investigation,' Brett Murphy, legal counsel for the AFL Players Association, said.



Figure 11.3 The Bombers released a statement via their website.

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CASE STUDY 11.1 continued

'Essendon Football club has been assisting WorkSafe with its investigation and agreed to the charges laid today,' the statement said.

'The charges reflect the governance failings of the club at that time, which the club has accepted responsibility.

'As this matter is now before the Court, the club will make no further comment at this time.'

(Source: Based on C Wilson, 'Worksafe Victoria charge Essendon Football Club', *The Age*, 9 November 2015.)

Analysis

1 Summarise why it is important for a business to ensure it has a safe workplace.
2 Explain why Essendon Football Club was charged under the OHS Act.
3 Describe some of the policies a business might need to develop for staff safety.

A business might also need to ensure it has put into place policies around emergency management and evacuations. It is a legal requirement that all businesses have a policy to deal with possible events such as flood or fire. By developing a policy, a business will need to consider how it might cope with events and unforeseen emergencies (see Cambridge weblinks: http://cambridge.edu.au/redirect/?id=7001).

ACTIVITY 11.1

Find the emergency management plan for your school or institution.

1 Outline the type of information that is included in the plan.
2 Explain why schools and all businesses need to develop these types of policies.

Anti-discrimination, equal opportunity and anti-bullying policies

The Victorian Equal Opportunity and Human Rights Commission defines discrimination as 'treating, or proposing to treat, someone unfavourably because of a personal characteristic protected by law'. Victoria's *Equal Opportunity Act 2010* protects people from discrimination and harassment in all areas of public life, including the workplace. A business needs to make sure it has clear policies that comply with relevant laws. An employer is obliged to ensure their employees understand the policies and that there are processes in place to deal with complaints. Discrimination can be direct or indirect and may include:

- the recruitment process; for example, job advertisements or interviews being inaccessible because of a disability
- being offered unfair terms of employment; for example, because of your race or religion
- being denied access to training; for example, because of your age
- being refused or having limited access to opportunities for promotion, transfer or other



Figure 11.4 Discrimination is treating, or proposing to treat, someone unfavourably because of a personal characteristic protected by law.

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employment benefits; for example, because of parental status
- being unfairly dismissed, retrenched or demoted; for example, because you become pregnant.

A business must also ensure it has policies to stop cyberbullying in the workplace. This area is also covered by laws and a business is obliged to develop and put into place relevant cyberbullying and internet usage policies.

(Source: Victorian Equal Opportunity and Human Rights Commission website, 'Discrimination'.)

Customer service policies such as returns, marketing and refunds

Australian Consumer Law 2011, which is part of the *Competition and Consumer Act 2010*, is designed to stop and prohibit exploitative business behaviours. The scope of the Act includes misleading advertising, consumer protection and contracts.

A business needs to have policies that ensure it does not make false and misleading representations about products sold. Illegal practices include:

- a 'half-truth' in advertising
- suggesting a product has an attribute that it does not have
- stating a product is made in one country when it is made in another
- using a logo, business name or packaging that is similar to a well-known brand
- overly optimistic claims about a product
- false or misleading labels or misleading statements about the characteristics of a product
- offering gifts and prizes with no intention of supplying them
- bait advertising, which is advertising a good when there are only a few available.

Businesses must also develop policies regarding warranties and guarantees for the products and services they provide.

A guarantee policy may be a powerful marketing tool. Guarantees can be either written or verbal, and send a message that the business is confident about what it sells.

There are legal obligations businesses must meet when devising warranties and guarantees. The business must ensure that its products and services are suitable, are not faulty and will perform satisfactorily, the product or service must be fit for the purpose for which it is sold and must be of a quality that means it can be used. While the focus of warranties and guarantees is on retailers of goods and services, manufacturers also need to ensure the products they supply and design are suitable for use.

Consumers are automatically covered by warranty protection under the Act. If statutory warranties are breached or ignored then consumers are entitled to a refund, compensation, repair or replacement of the item they have purchased. There are penalties imposed on businesses that fail to follow the provisions relating to guarantees, warranties and advertising (see also Chapter 10).

Licensing requirements such as food handling

Local government (municipal councils and shires) are responsible for a number of laws and regulations relating to businesses. These include areas such as:

- food handling regulations
- advertising; for example, billboards
- planning and building permits
- hours of operation
- land and business zoning (see Chapter 10 for more on this).

Food handling regulations

According to the Victorian Department of Health and Human Services, all food business owners are legally responsible under the *Food Act 1984* to ensure that the food sold to customers is safe to eat. Victorian food laws also require businesses to comply with the Food Standards Code. This means the business owner/proprietor is responsible for food safety in



Figure 11.5 In Victoria, all food business owners are legally responsible for ensuring their food sold to customers is safe to eat.

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the business, and needs to ensure that all staff who prepare food are fully trained in safe food handling. Businesses need to ensure that they have policies in place and staff are properly trained. Policies should be developed around storage and display of food and ensuring food is heated or cooled at correct temperatures.

11.2 Financial control systems

Among the most vital aspects of business operations are **financial management**, **record keeping** and the ability to evaluate financial performance. It is essential that a manager/owner of a business has the necessary skills to perform these tasks and enable the business to remain financially viable. Financial planning, management and evaluation necessitate the development and maintenance of financial record keeping, control and evaluation systems and processes.

financial management managing financial activities relating to the operation of a business

record keeping maintaining accurate records of all matters related to business activities

Establishing a bank account for a business

When establishing a business, it is important to set up a bank account that is separate from the owner/s of the business. If this does not occur, then it is impossible for the owner/s to monitor and separate personal and business income and expenses. It can also become an issue when tax returns need to be completed. If the business is a company, partnership or trust it is compulsory to have a separate account (see Chapter 7 for further information on business structures).



Figure 11.6 When establishing a business, it is important to set up a bank account that is separate from that of the owner/s of the business.

ACTIVITY 11.2

Sunni and Liam have started a business selling comic books. Presently the business is selling online and the comics are stored in their front room. Sunni believes they should open up a separate bank account because the revenue from sales and business expenses are coming out of Liam's personal bank account.

Explain why it is advisable that the business has its own separate bank account.

Financial control systems and record-keeping strategies

It is essential that all businesses establish a financial management system, although this is sometimes more difficult for a small business. However, this does not mean it should not be done. A business needs to have control over its cash and **cash flow**.

There are a range of considerations to be taken into account when establishing financial control systems. If a business is to be successful and viable over a long period of time, a range of controls and systems are required.

cash flow tracking the cash or money coming into and going out of the business

Financial control and business documents required

Small and new businesses are the most vulnerable to fraud because they often do not have effective internal controls. By removing the opportunity and motivation for fraud and theft, and ensuring systems are in place to discourage errors and identify mistakes and anomalies quickly, it is easier to avoid fraud and easier to take corrective action to minimise losses.

Internal controls are methods adopted in a business to:

1 safeguard its assets

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2 ensure financial information is accurate and reliable
3 ensure compliance with all financial and operational requirements.

If the owner/manager does not establish controls then it is unlikely that staff will, and this can lead to issues around financial control and resource management. Having a code of ethics, plus clear processes and policies that are known and followed, will set the culture and tone of the business. It is also important for the business to have formal systems and written procedures and policies in place to identify any issues or oversights. Proper and accurate record keeping and clear procedures will minimise exposure to risk and possible fraud because these can then be detected early and quickly.

Each internal control procedure should address at least one of the following criteria:

transactions contractual arrangements undertaken by a business; for example, payment of wages or rent

- completeness – all records and **transactions** are included in the reports of business
- accuracy – the right amounts are recorded in the correct accounts
- authorisation – the correct levels of authorisation are in place to cover such things as approval, payments, data entry and computer access
- validity – the invoice is for work performed or products received and the business has incurred the liability properly
- existence – of assets and liabilities; that these have been recorded accurately and in a timely manner
- error handling – that errors in the system have been identified and processed
- segregation of duties – to ensure certain functions are kept separate; for example, the person taking cash receipts should not also do the banking
- presentation and disclosure – timely preparation of standard financial reports.

(Source: CPA website, 'Internal controls for small business: 2008 update'.)

There are a range of financial records that should be kept by business. These can be used to compile reports accessible by owners and other interested stakeholders. A simple book-keeping system for a small business should include records of financial transactions such as cash and credit sales and payment of expenses. These transactions should be recorded. There needs to be **evidence** of all financial transactions. A document should include the date, the type of transaction, the monetary value and the name/s of those involved where relevant.



Figure 11.7 It is essential that all businesses establish a financial management system.

If these **source documents** are not kept it is almost impossible for a business to track the financial data or prove expenditure; for example, phone expenses.

evidence information which identifies type of transaction, its date, parties and financial value (if any)

source documents documents that provide evidence of transactions

A **cash book** is one of the simplest forms of financial record keeping. A cash book sets out all the cash transactions of a business including receipts and payments. Once a business starts operation it enters into transactions, which must be correctly recorded. Examples of transactions include revenue from the sale of a good or service and **cash payments** such as employee wages and payment of rent. A business needs to ensure that it keeps evidence of all transactions. The cash book can be kept manually as a multicolumn cash book, on a

cash book one of the simplest forms of financial record keeping; sets out all the cash transactions of a business including receipts and payments

cash payments when items are purchased and paid for in cash

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Figure 11.8 A spreadsheet is one of the simplest forms of financial record keeping.



Figure 11.9 A cash receipt is a source document and also provides evidence for the business.

spreadsheet program such as Microsoft Excel, or on a computerised accounting package such as MYOB (Mind Your Own Business) or QuickBooks.

A cash receipt is a source document and also provides evidence for the business. Cash source documents are set out in Table 11.1.

ACTIVITY 11.3

Determine whether the following events are transactions. Give reasons for your answers.

1. A customer places their name on a mailing list.
2. A manufacturer purchases raw materials.
3. A supplier distributes a catalogue of plumbing parts to a hardware store.
4. A customer returns a faulty Blu-Ray player.
5. A phone bill is paid by an advertising agency on a Visa card.

Type	Explanation
Receipts	A receipt is a record of cash transactions and money received by a business.
Cash register roll or summary	Most retail stores use electronic cash registers. A cash transaction is recorded by the business, often on a cash register roll, or a summary which can be accessed.
Pay-in book or slip	When cash is deposited into the bank, a pay-in book or slip is completed and provides evidence. It is a sound practice to bank cash daily to ensure that the records balance with the cash received or paid out by the business.
EFTPOS records	Businesses are increasingly using EFTPOS (Electronic Funds Transfer at Point of Sale). While it is still recognised as a cash transaction, the money is transferred into the bank account of the business by the customer's financial institution. The growth in the use of EFTPOS and internet banking means that small businesses need to check that these electronic transactions are in the business records and bank accounts. Failure to check may mean that the cash flow is not accurate.

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Type	Explanation
Credit card transactions	Many businesses offer credit card facilities. The financial institution or credit card provider reimburses the business for the sale, with the business also paying a fee for the use of these facilities.
Periodic payments	Businesses also have periodic payments (direct debits or payments) made by the bank or other financial institution on behalf of the business. The business has authorised the financial institution to withdraw the amount from its bank account. Lease payments, insurance instalments, electricity bills and many other regular payments can be made.
Petty cash	Businesses usually need to make small payments including for stamps, tea, coffee and tram fares. The petty cash system allows small amounts of cash to be kept on hand for these expenses. A petty cash voucher should be completed when petty cash is required; this voucher then provides evidence of the expenditure and is then recorded in the petty cash book.
Cheques	Cheques are used less now and most businesses use direct debit and EFTPOS for payments of business expenses. A cheque is simply an 'IOU' to the person or business. The bank involved transfers this amount into the account of the person owed the money. A **cheque butt** provides the business with a record.

petty cash a small amount of cash held to pay for items such as stamps, tea and coffee

cheque an instruction to the bank to pay money from an account to the person named on the cheque (drawee)

cheque butt form of evidence to support writing of the cheque and payment of an account

Table 11.1 Cash source documents

Figure 11.10 Businesses are increasingly using EFTPOS.



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Bob's Pet Grooming Service
Cash Book for the month ended September 2017

Cash Receipts							Cash Payments							
Date	Details	Rec No.	Grooming fees	Sales of pet products	Sundries	Bank	Date	Details	Ch. No.	Products	Motor Vehicle Exp.	Wages	Sundries	Bank
3-Sep	fees	112	350			350	4-Sep	Wages	123			150		150
9-Sep	pet care	113		56		56	11-Sep	Petrol	124		50			50
13-Sep	fees	114	123			123	14-Sep	cleaning products	125	34				34
16-Sep	fees	115	68			68	17-Sep	wages	126			72		72
21-Sep	pet minding service	116			86	86	20-Sep	Petrol	127		24			24
25-Sep	fees	117	193			193	24-Sep	cleaning products	128	18				18
27-Sep	fees	118	67			67	26-Sep	electricity	129				75	75
29-Sep	fees	119	48			48								
30-Sep			849	56	86	991	30-Sep			52	74	222	75	423

Figure 11.11 An example of a cash book, for Bob's Pet Grooming Service

ACTIVITY 11.4

Katie Walker has been successfully running her business A-Plus Dog Walking for the past six months. She has been trying to keep her records manually in a cash book. This seemed to be working, however, she cannot account for $150 of petty cash expenses, although she may have used some of it to buy coffees, movie tickets and dinner during the last month. Her **bank statements** are sent every three months, but Katie has not had time to check them properly. She paid three suppliers and has received a phone call from one of them telling her that the direct deposit did not go through.

Advise Katie as to what she could do to ensure that she can gain control over her business finances.

bank statement a periodical statement where the bank itemises the transactions relating to an account; for example, debits, credits, government and bank charges

Cash control

For a business to be financially successful it must maintain control of its cash and cash flow. Cash flow is tracking the cash or money coming into and going out of the business. As part of the control over the cash and financial system, a business should also put in place the following processes:

- Cash registers should be used and cash stored securely.
- Cash should be banked regularly, preferably daily.
- If possible the tasks of handling cash, banking and writing cheques should be completed by different people.
- Bank statements and cash books should be checked regularly and reconciled (balanced).
- Correct procedures should be in place for petty cash. Cash should not be reimbursed without a receipt and a petty cash voucher. The petty cash tin should be kept locked and in a secure place.



Figure 11.12 For a business to be financially successful, it must keep control over cash and cash flow.

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Figure 11.13 A business should have financial statements audited and checked by an independent auditor or accountant

Many businesses also have credit transactions as well as cash, and these are just as important to control. Again, this means it is important to have accurate records and ensure that any outstanding money from customers is followed up. Many businesses will put in place strategies, such as limiting the amount of credit given to customers and monitoring the terms and time given to customers to pay. At the same time, a business should try to extend the time given by suppliers to pay bills at a later date to keep cash in the business.

There are two important financial statements a business will use; these are the **Profit and Loss Statement** and the **balance sheet**. The Profit and Loss Statement will provide an outline of the revenue and expenses of the business and any profit (if one has been made). A balance sheet will set out the assets, liabilities and owners' equity (investment) in the business. Both provide information that can be useful for business owners and allow them to monitor and evaluate business performance.

Profit and Loss Statement an accounting report that outlines the revenue less the expenses for an accounting period. It provides a business with an overview of whether it has made a profit for the accounting period.

balance sheet an accounting report that sets out the assets, liabilities and proprietorship (owners' equity) of a business as at a given date

A business should have financial statements audited and checked by an independent auditor or accountant. Audits are generally prepared by a CPA (Certified Practising Accountant) who will ensure that the financial statements are compliant and meet standards. Large businesses must have an independent financial audit and there are codes of corporate governance.

ACTIVITY 11.5

Go to the website of a large business; for example, NAB, Wesfarmers or Flight Centre. Look at the first few pages of the business's current annual report (a summary and overview).

1. Identify the profit or loss of the business.
2. List other financial information regarding expenses and revenue that is outlined.

'The top ten do's for a business'

1. Adjust and readjust cash flow projections.
2. Establish maximum limits of purchasing authority.
3. Require all payments be supported by invoices.
4. Use an inventory control system.
5. Work with a CPA to upgrade financial controls.
6. Require bids on all purchases over a stated limit.
7. Be loyal to good suppliers.
8. Pay on time, but only after verification.
9. Consider higher audit levels.
10. Implement an 'edit log' for website changes and updates.

'The top ten don'ts for a business'

1. Run out of cash...ever.
2. Discount the importance of hiring an accountant.
3. Overlook suppliers as sources of financing.
4. Disregard contingency planning.
5. Have the same person handling payables and receivables.
6. Place an order without a written price and terms.
7. Delegate signing of cheques.
8. Assume that shipments are complete and in perfect condition.
9. Neglect to ask for and use term discounts.
10. Think that hand-shake agreements are best when buying.

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All internal controls, whether administrative or accounting, are linked to a financial consequence. Many decisions are based on the information in financial reports, hence accurate and up-to-date information is crucial. Businesses have many compliance obligations and need to ensure these are met. Without accurate financial information, decision making becomes very difficult and the business will suffer. Internal controls also help to ensure financial information is accurate and timely, so that managers and owners can take the correct action to meet the business's objectives and goals.

The types of controls needed will vary with the different flows of goods and funds within a business. Some areas of the business are at greater risk of loss or fraud and require more stringent controls.



Figure 11.14 A good relationship with suppliers is vital.

CASE STUDY 11.2

Strategies for small businesses – financial control and record keeping

It is important for a small business to keep record keeping simple while still ensuring records are accurate.

A number of strategies should be introduced including:

- keep financial records and transactions separate from the owner/s
- keep documents of all transactions in one place and filed in a logical way
- at least once a week check that all transactions have been accurately recorded
- at the end of each month 'close off' the records. Any adjustments can be made in the next month.

Financial controls for large businesses

Large businesses have several obligations regarding financial record keeping and financial control. These financial reporting and auditing requirements are set out in the *Corporations Act 2001*. The Australian Securities and Investment Commission (ASIC) regulates compliance. Companies listed on the Stock Exchange are actively monitored to ensure that financial reports and audit opinions are relevant and reliable to assist users of this information to make informed decisions.

Analysis

Discuss why it would be important for a business owner to record and monitor this type of information.

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11.3 The importance of choosing appropriate suppliers and procurement policies

The importance of suppliers

The relationship a business has with its suppliers is crucial to competitiveness. Contracts must be established with reliable suppliers of high-quality inputs in order to maximise competitiveness. A reliable supplier of high-quality inputs will bring the following competitive advantages:

- *Quality*: the quality of inputs a business is able to access will directly impact on the quality of the products it is able to provide for sale in the market. Higher-quality products will in turn create higher levels of customer satisfaction, reduce defects and returns and generally improve the level of sales and efficiency. For example, if a bakery is able to access high-quality eggs, flour and butter the quality of the cakes it produces will be high. This will make the business more competitive, and increase sales and business performance.
- *Timeliness*: suppliers that deliver reliably and on time enable a business to create products both reliably and in a timely manner. Unreliable suppliers may mean a business is forced to halt or slow production. This in turn will affect its reputation for reliability and reduce productivity levels. Reliable deliveries from suppliers mean that a business is able to maintain minimal inventory levels, thereby reducing storage costs and thus minimising waste, theft and loss of items in inventory. This in turn increases efficiency and business competitiveness.
- *Competitiveness*: businesses with reliable suppliers of high-quality inputs at competitive prices can offer high-quality products at competitive rates.
- *Innovation*: suppliers are often major contributors to new product development and innovative ideas. Having established relationships with them will mean that a business is able to take advantage of these as they arise. For example, if a florist already has an established relationship with a flower grower who has developed a new type of rose, the florist will likely be the first to gain access to and sell the new flower, thereby gaining a competitive advantage.
- *Finance*: a good relationship with a supplier may allow a business to postpone debt.



Figure 11.15 A business may establish and maintain a mutually beneficial relationship with a reliable supplier.

Maintaining positive supplier relationships

A business may establish and maintain a mutually beneficial relationship with a reliable supplier of quality inputs using the following strategies:

1. Settle bills on time: a business that pays accounts reliably and promptly becomes a valued customer. This will often extend into preferential treatment over other clients.
2. Allow adequate lead times for orders: a supplier given ample warning of an order is more likely to deliver on time and provide high-quality products.
3. Maintain transparent, open and frequent communication: regular contact with suppliers and maintenance of positive relationships often leads to preferential treatment. News of new products and promotions may consequently reach the business before it reaches competitors.

Choosing suppliers and corporate social responsibility

The following criteria should be applied when selecting suppliers:

1. Price: lower input costs enable a business to produce at a lower cost, thereby increasing competitiveness.
2. Quality: quality inputs enable high quality in a finished product, also enhancing competitiveness.
3. Reliability: suppliers who are reliable reduce the

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risk of production delays. This means increased productivity and business reputation.

4 Social responsibility: **environmental sustainability** and other social responsibility considerations are also important criteria in selection of suppliers. Many businesses adopt a **procurement policy** that stipulates environmental sustainability and social responsibility criteria to be applied when selecting suppliers of inputs. This means the environmental and social performance of potential suppliers is considered as part of the tender process. Factors to be taken into consideration when evaluating the environmental and social responsibility credentials of a supplier include:

environmental sustainability the ability of an ecosystem to maintain itself into the future; involves using the earth's resources at a rate they can be replenished

procurement policy the rules and regulations that are set in place to govern the process of acquiring goods and services needed by a business to function efficiently

a the environmental management practices in use; for example, many businesses will not trade with sellers of genetically modified foods.

b supplier environmental and social responsibility policies: suppliers are increasingly chosen according to their levels of commitment to environmental practices and policies such as recycling, or fair trade principles. The Body Shop, for example, will only trade with cosmetics suppliers who do not test their products on animals. Traders who sign up to fair trade agreements agree to only purchase from ethical suppliers who pay a fair price to producers in less developed countries.

c local suppliers may also be given first consideration as they have a reduced impact on CO_2 emissions owing to the shorter distances required for deliveries. Similarly, local suppliers may also be favoured in an effort to protect Australian jobs and industries.

d social responsibility considerations may include treatment of employees by the supplier; for example, the payment of fair wages and not using child or forced labour. They may also include aspects of how the supplier supports its local community and the employment policies of the supplier.

e socially responsible inputs: every product has an effect on the environment. The purchase of more sustainable inputs will minimise the environmental impact of a business. Therefore, suppliers of more environmentally friendly inputs are often favoured because these produce less waste, can offer greater efficiencies and improve the reputation of a business in terms of environmental performance.



Figure 11.16 Suppliers are increasingly chosen according to their levels of commitment to environmental practices.

Social responsibility and supply chain management

The community increasingly expects that a business considers social responsibility factors when selecting suppliers. Many businesses adopt a procurement policy stipulating environmental sustainability and social responsibility criteria to be applied. An environmental management system (EMS) sets out a sustainable procurement process.

The lowest price is no longer the only criteria for the selection of a supplier. Evaluation of a supplier's environmental and social performance must be made before awarding a contract. Factors to be considered may include:

- Does the supplier use environmental management practices? Does the supplier have an EMS? Does the supplier meet ISO 14001 environmental management standards and practices?
- Is there legal compliance with environmental legislation?
- Does the supplier have appropriate environmental and social responsibility policies in place?
- Does the supplier treat employees properly and pay them a fair wage?

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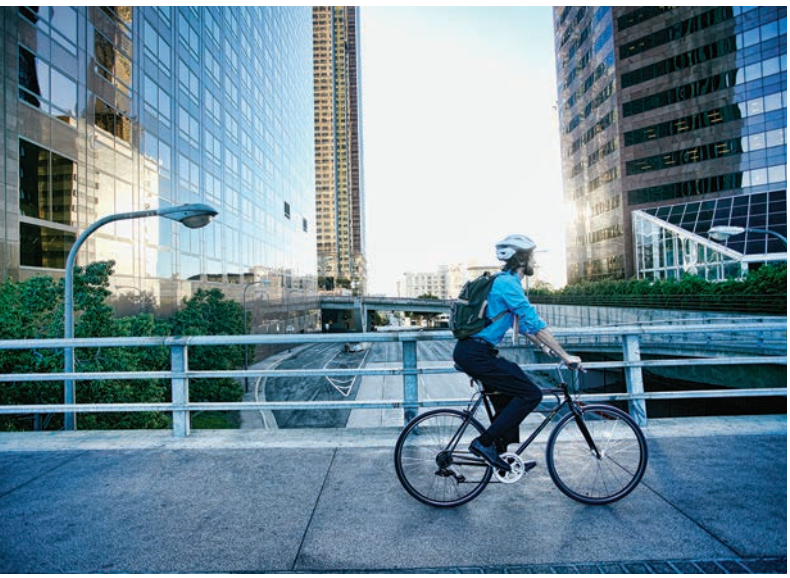


Figure 11.17 Suppliers of more environmentally friendly inputs are often favoured.

An audit of suppliers and their social responsibility practices and policies may be done to assess which suppliers satisfy the criteria.

Social responsibility considerations may include treatment of employees. Do they pay fair wages and provide adequate working conditions? Suppliers who are found to use child labour or exploit workers may be excluded on these grounds.

Examples of environmentally sustainable input strategies include:

- purchase and use of green energy options: this will reduce carbon emissions and minimise energy use
- purchase of sustainable technology and equipment options: energy efficient equipment will save on energy use. Green company vehicles, for example, with smaller hybrid engines will save on fuel costs, reduce CO_2 emissions and improve the business's image.
- purchase of the most sustainable input options; for example, recyclable materials
- choosing local suppliers to reduce carbon footprint and transport costs
- choosing suppliers based on principles of corporate social responsibility.

Advantages of ethical procurement are:

1 Suppliers of environmentally sustainable products usually offer reduced costs due to energy efficiencies such as:
   a lower transport costs
   b reduced waste and waste disposal costs
   c newer, more efficient technologies
   d recycling.
2 Improved business reputation in terms of social responsibility including:
   a a better reputation among investors who look for 'green' or socially responsible investment opportunities
   b improved customer relations: consumers are often drawn to purchase from businesses with a positive reputation in terms of corporate social responsibility
   c a positive message is sent to investment analysts, the media, shareholders and the local community about the commitment of the business to social responsibility.

The positive publicity associated with an ethical procurement policy will often result in improved business competitiveness levels.

Potential disadvantages of ethical procurement are:

1 increased costs involved in sourcing ethical and socially responsible suppliers
2 potential for reductions in quality of products.

CASE STUDY 11.3

Green logistics – the competitive advantage of bicycle couriers

In Paris, one of Europe's most traffic-congested cities, a green delivery company is bringing the world one step closer to a low carbon future.

With a team of 45 people, 34 customised electric cargo bikes and seven electric small vans working from two sorting offices, The Green Link makes a range of daily deliveries, from meals to housebound citizens to goods to large multinationals, servicing a total of 2000 customers.

The Green Link chief executive and co-founder, Michael Darchambeau, is passionate about ecology and about the role that small businesses can play to ensure clean energy. He not only wants to grow the company financially (it started in 2010 with just €10 000 in personal savings

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Figure 11.18 Can pedal power help deliver a green logistics sector?



Figure 11.19 Customised electric cargo bikes use cycle lanes around the congested city in order to outpace their fuel-driven four-wheel rivals.

and now has an annual turnover of €1.3 million), but he wants his model to be replicated throughout Europe, and then the world.

'It's much more important than business', he explains. 'The environment, when it's destroyed you cannot restore it.'

The Green Link receives parcels from global courier companies and then delivers them throughout Paris using bicycle lanes, outpacing its competitors' four-wheeled delivery vans and, claims Michael, leaving a zero carbon footprint.

Not everyone is eager to embrace green solutions, however. Alluding to the plunge in oil prices that encourages consumers to continue using petrol and diesel, Sony Kapoor from the think tank Re-Define calls for radical action by governments to ensure that clean energy businesses thrive. He suggests, 'Increasing tax on oil at the pump would make sure that the real cost doesn't fall.'

Analysis

1 Describe how The Green Link delivery company differs from its competitors. Describe its competitive advantage.
2 Identify the capital investment required to establish this business.
3 Describe the effect the fall in oil prices has had on this business.
4 Name three suppliers this business would use.
5 Name three types of businesses that might utilise the services of this business.
6 Identify the long-term goals the owner has for this business.
7 Analyse the advantages and disadvantages of using this business rather than a conventional courier business.
8 When selecting suppliers, ethical and social responsibility considerations as well as quality and reliability are key factors to consider. Explain why each of the following factors is important when selecting suppliers:
   a social responsibility levels of suppliers
   b environmental impacts of transport
   c quality of inputs supplied
   d reliability of delivery.
9 Analyse the potential advantages and disadvantages of using a local Australian supplier rather than one from an overseas location.

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CASE STUDY 11.4

David Jones – ethical sourcing

Our commitment

David Jones is committed to working with our suppliers to have a positive impact on environmental, social and ethical standards along our supply chain. As a business, we recognise that our customers and employees expect more of us which is why we have started to improve our understanding of our supply chain and what we can do to better meet our stakeholders' expectations. We acknowledge that the first step is to work in partnership with our suppliers, our people and the wider industry to understand and better manage our ethical sourcing impacts.

Our Supplier Code of Conduct

Our Supplier Code of Conduct outlines the minimum requirements of doing business with David Jones, in relation to environmental, social and ethical issues along our supply chain. There are four key elements of our Supplier Code of Conduct, which requires suppliers to:

1 Ensure safe and fair working conditions, in line with the ETI Base Code (Ethical Trading Initiative)
2 Ensure integrity and transparency in dealings between David Jones and its supply chain partners
3 Improve environmental outcomes beyond David Jones' operational control
4 Protect the welfare of animals.

All of our suppliers are subject to the Code.

(Source: David Jones website, 'Ethical sourcing'.)

Figure 11.20 David Jones has a strict code of conduct for its suppliers.



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CASE STUDY 11.4 continued

Analysis

1 Summarise the key principles of the David Jones policy outlined above.
2 Define the 'stakeholder's expectations' referred to in the first paragraph.
3 Outline the effect this policy is likely to have on:
   a David Jones's costs
   b David Jones's suppliers
   c the reputation of David Jones
   d David Jones's levels of competitiveness.
4 Design a table outlining the potential costs and benefits of the adoption of this policy for David Jones Ltd.
5 Go to the David Jones website and view this policy in more detail. Summarise what the policy says in regard to:
   a the ethical sourcing team and what its role is
   b the United Nations Global Compact
   c packaging
   d harmful substances.
6 Research the ethical sourcing policy of one of the following:
   a Cotton On
   b Coles
   c Woolworths.

11.4 Technological and global issues

Planning considerations

In order for a business to succeed and flourish, information technology is a key resource that should be utilised to its full potential. Planning and decision making should ensure:

- the system (internal and external) is user friendly and easy to navigate
- maintenance scheduling is proactive rather than reactive with respect to technological issues
- technology is a key component in strategic planning
- cyber security procedures and remedies are put in place to ensure data protection
- the ability to track trends and data to inform the business
- information and records are stored in a digital environment that is able to be accessed when required
- hardware and software requirements of the business are thoroughly audited in a timely manner.

Technology has raised customer requirements, and customer experience and expectations are of a high standard. Websites that do not allow for online purchasing or have information that is difficult to navigate are no longer 'par for the course' or acceptable to consumers. Recently published studies emphasise a growing divide between the customer and the retailer. Careful planning and research of customer needs and wants should be conducted by businesses to reduce this gap.

While customers understand that they are required to pay and wait for delivery from overseas outlets, many expect that Australian outlets will offer a 24-hour service and the option to pick up the purchase if they desire. It is important that these systems are set in place, whether they be technological or a resource requirement.

Technology has enhanced information gathering for retailers, who are now able to track consumer preferences and buying habits. Data can be collated and used to plan for future products and services. Digital marketing is now key to many retailers' success and considerations such as smartphone apps and compatibility of websites for phones and computers is a key component of a successful retailer's considerations.

Many retailers have invested in apps that eliminate the need for consumers to search online for their store or product. Downloading the app gives the consumer direct access and gives the retailer confidence that the consumer is not going to stray to a competitor. Technology has also had to advance in the area of cyber security, as financial details are transferred from the customer to the retailer.

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Figure 11.21 Technology allows businesses to track and gather data on what customers are purchasing.

Customer data bases

Amendments to the Commonwealth *Privacy Amendment Act 2012* came into force on 12 March 2014. These amendments replaced the National Privacy Principles and Information Privacy Principles with a new set of 13 Australian Privacy Principles. These principles are in place to protect people's privacy and, among other things, set out to ensure that data collected on **customer data bases** cannot be used without a customer's consent. This data protection and maintenance is also often handled and managed by technology. Many existing businesses have had to incorporate retraining of staff for the management and storage of customer data, and new businesses need to consider data maintenance as a key element of their planning. Data management also assists businesses with product placement and is a key consideration in attracting new customers.

customer data base the collection of information gathered from each customer. A data base may include contact information, as well as details about past purchases and future needs.

CASE STUDY 11.5

Dick Smith customers receive 'opt-out' offer before Kogan deal

Dick Smith customers have been given a week to unsubscribe from the retailer's database and avoid being bombarded with offers from Kogan, the new owner of Dick Smith's online stores.

Dick Smith's receivers and managers at Ferrier Hodgson sent emails to Dick Smith's customers and subscribers in Australia and New Zealand, offering them the opportunity to unsubscribe from the Dick Smith database.

'Unless you elect otherwise, you will continue to receive commercial messages from the new owners of the Dick Smith online business,' the email said.

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CASE STUDY 11.5 continued

The email to customers was sent following widespread concerns about the privacy implications of selling the Dick Smith database, which includes the names of about one million loyalty program customers.

Some consumers who received the email feared it was a 'phishing' exercise aimed at obtaining their personal information. One customer stated he was on the Dick Smith mailing list although he had never signed up for their mailing list or loyalty program.

Ferrier Hodgson partner James Stewart said the receivers had liaised with the Privacy Commission in Australia and New Zealand to make sure customer privacy was protected.

Mr Kogan, an online retailer, acquired Dick Smith's intellectual property, including the Dick Smith brand and trademarks, online businesses in Australia and New Zealand, customer databases and domain names.

DickSmith.com.au would continue to sell branded and private-label consumer electronics and appliances, but prices could be cheaper as Dick Smith and Kogan pooled resources to secure more favourable trading terms with suppliers, he said.

Kogan, which has sales of about $250 million and is estimated to account for one per cent of the consumer electronics market, will be able to tap the one million existing members in Dick Smith's customer loyalty database to boost sales at both sites.

(Source: S Mitchell, 'Dick Smith customers receive "opt-out" offer before Kogan deal', *Sydney Morning Herald*, 15 March 2016.)

Analysis

1. Explain why it is important for a business to develop and keep a data base of customers.
2. Describe some of the strategies a business might develop to maintain and build a data base.
3. Provide reasons why Ferrier Hodgson had to notify Dick Smith customers of Kogan's purchase of intellectual property.

Establishing contacts with overseas suppliers and retailers

As Australia has a relatively small population, Australian businesses may find it necessary to explore opportunities to trade overseas if they want to expand. A business can look to grow by investigating opportunities to develop supply chains in other countries and sell its products and services in foreign markets, either through offshore retail outlets or online stores.

Austrade is a federal government body that provides support for businesses exploring offshore trading opportunities. Registering is free, and support includes promotion of the business to overseas buyers through the Australian Suppliers Directory.

Free trade agreements are another way that the Australian government tries to support Australian businesses looking to trade overseas. A free trade agreement is a legally binding agreement between two or more countries which establishes an area of trading that removes tariffs and other trading restrictions. Free trade agreements aim to increase the competitiveness of Australian businesses, provide better access to lucrative offshore markets, reduce trading costs for Australian businesses and promote two-way investment opportunities (allowing offshore businesses to explore trading opportunities in Australia). Currently, Australia has six free trade agreements in place and eight more are under negotiation.

In general, a business that is looking to import goods from overseas or sell in foreign markets needs to keep in mind that tax is calculated on worldwide income, that tax obligations may vary

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from country to country, and that there are legal and ethical considerations involved in setting up factories, workshops or retail outlets in other countries.

Businesses that attempt to achieve financial gain through practices that involve mistreatment of overseas workers and unsafe working conditions face enormous fines. As such, it is imperative for a business operating overseas to have in place a comprehensive compliance process and to adhere to it, and ensure that suppliers and third-party manufacturers are frequently audited.

ACTIVITY 11.6

1. Explain why Australian businesses have been looking at expanding into global markets.
2. Perform some online research about skateboards, surf and streetwear group Globe International. Outline how Globe has been a successful retailer in the global market.
3. Discuss the costs and benefits associated with working with overseas suppliers and retailers.

See the Interactive Textbook edition for a further case study on a business that is successfully operating overseas.



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Chapter summary

- All businesses need to plan and develop policies and procedures to ensure compliance and consistency.
- Businesses have to comply with federal, state and local government laws.
- Anti-discrimination and equal opportunity legislation has to be followed.
- Customer service policies allow a business to comply with legal practices.
- Food handling policies are important for businesses in the hospitality area.
- All businesses, regardless of size, should have a separate bank account.
- It is important to establish financial controls over all aspects of the business.
- Businesses need a range of documents as evidence of transactions.
- Small businesses often find it difficult to keep records and monitor financial information.
- There are a range of financial records that should be kept by a business.
- In order to become and remain competitive, it is important for businesses to establish and maintain good relationships with suppliers who are reliable and provide high-quality inputs.
- A procurement or purchasing policy states the principles and guidelines for selection of and dealing with suppliers.
- The criteria that should be applied in a procurement policy for selection of suppliers are price, reliability, quality and the levels of social responsibility exhibited by the supplier.
- A good supplier brings advantage to a business in terms of quality, timeliness, competitiveness, innovation and possibly credit.
- Selection of suppliers based on social and environmental credentials will often increase the competitiveness and reputation of a business. There may be disadvantages in terms of costs and quality at times.
- It is important for businesses to take into account technological needs as part of their business planning.
- Customers expect businesses to integrate technology into their operations.
- Many customers use technology to shop online.
- Businesses need to develop and maintain data bases.
- Businesses in Australia are working at establishing contacts and relationships with overseas suppliers and retailers.

Chapter summary questions

1 Explain why a business should develop policies.

2 Outline some of the policies a business might need.

3 Provide reasons why business owners should open a separate bank account.

4 Describe why it is important for a business to establish and use internal financial controls.

5 Explain three internal financial controls a business might use.

6 Explain the reasons why a business should complete and use financial statements.

7 Define the term 'business supplier'. Give an example of a supplier for each of the following:

a a school

b a bakery

c a bank.

8 Outline the advantages of maintaining a good relationship with a group of reliable suppliers of high-quality inputs for a business.

9 Define:

a corporate social responsibility

b procurement policy.

10 Discuss the implications of adopting corporate social responsibility principles as key criteria in selection of suppliers.

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11 Analyse the potential effects of basing a procurement policy on principles of corporate social responsibility on:

- **a** business costs
- **b** business reputation
- **c** attracting business investment
- **d** business competitiveness.

12 Describe why a business should consider technology when in the planning phase.

13 Explain why a business should develop and maintain a customer data base.

14 Describe the issues a business would need to consider when establishing contacts with overseas suppliers and retailers.

Extension question

Jonah and Delores operate the Harbourside Boutique, which specialises in unusual handcrafted gifts. The business has been in operation for five years and both are pleased with the sales and performance of the business.

Six months ago a new administrative clerk, Barney, was employed. While Jonah and Delores are pleased with his work, there are a number of concerns that have arisen.

Their accountant has noticed a number of issues including:

- credit sales have not been collected
- some petty cash money is missing
- some deposits have not been recorded in the bank account
- cash register records have been mislaid.

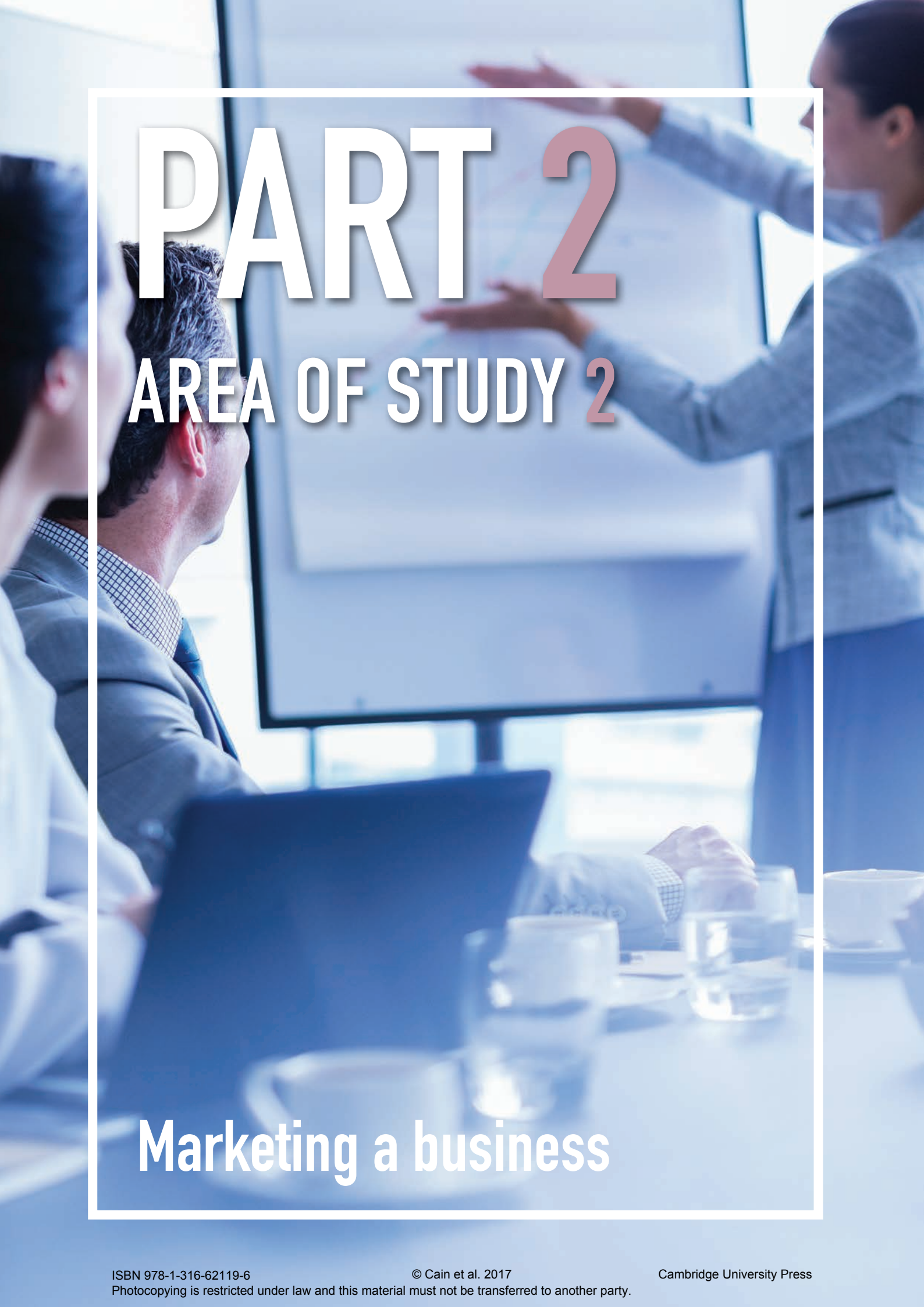
Questions

1 Explain why a business needs to keep accurate financial records.

2 Identify three possible issues Jonah and Delores might have with the business.

3 Describe one possible process or idea that might assist in overcoming one of the issues you have identified.

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PART 2

AREA OF STUDY 2

Marketing a business

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CHAPTER 12
Marketing the business

Overview

In this chapter the relationship between marketing and establishing a customer base and business objectives will be explained. In addition, factors from the external (macro and operating) and internal environments that can affect how a business establishes its customer base and brand identity will be addressed. For any business, undertaking market research is a vital ingredient of successful marketing, as well as gaining knowledge of the attributes of target markets.

Key knowledge

In this chapter students will learn about:

- The relationship between marketing, establishing a customer base and business objectives
- External (macro and operating) and internal environment factors affecting the establishment of a customer base and brand identity
- Market research practices such as data collection techniques, analysis and interpretation
- Target market attributes such as market dimensions, segments, consumer trends and behaviour.

Key terms

- brand
- causal research
- consumer behaviour
- customer base
- descriptive research
- exploratory research
- focus group
- generic market
- market positioning
- market segment
- market segmentation
- marketing
- marketing concept
- marketing consultant
- marketing mix
- market-oriented approach
- mass marketing
- niche market
- Pareto Principle
- population
- primary data
- product market
- qualitative research
- quantitative research
- questionnaire
- sample
- secondary data
- target market

What's ahead

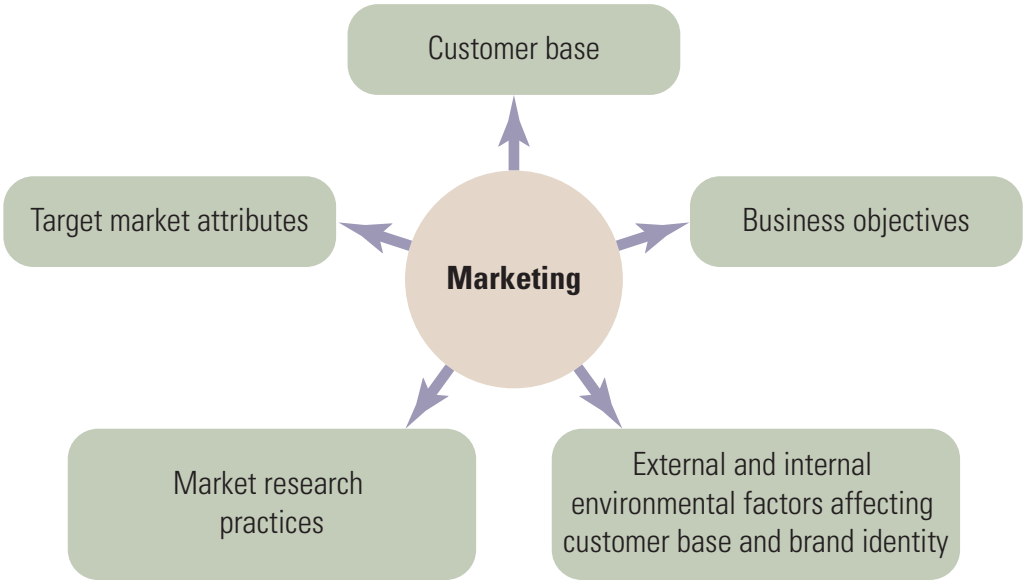


Figure 12.1 Marketing

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12.1 Marketing – what is it?

Marketing is the process that provides the link between the producers or providers of goods and services, and the consumers. It involves the relationship whereby producers/providers and consumers create, offer and freely exchange products and services of value to each other. Marketing extends to:

marketing the process that provides the link between producers or providers of goods and services, and the consumers of these

- goods – the tangible items that businesses wish to sell such as food, commodities, clothing and housing
- services – provided by hotels, car rental businesses, hairdressers, accountants, doctors, solicitors, engineers, management consultants, airlines
- experiences – a visit to the Melbourne Star, a museum, an art gallery
- events – the AFL for its games, Victorian Racing for the Spring Racing Carnival, rock concert organisers
- personalities – Nigella Lawson, Jamie Oliver and Curtis Stone, for example, all have their own marketing teams who work to create their image and **brand**.

brand a powerful business asset that is essentially a maker's mark; it creates and brings with it awareness, desirability and power

12.2 Relationship between marketing, establishing a customer base and business objectives

Most businesses would like to think they focus on the needs and wants of their customers (actual purchasers of the goods and services) and consumers, and therefore devote production and marketing resources to satisfy them. The **marketing concept** developed when the focus of businesses changed from just selling a product or service to actually satisfying the needs of customers and consumers.

marketing concept the business focuses on satisfying the needs of the customer/consumer rather than just selling a product or service

The concept is based on the belief that the best results are achieved through using an integrated approach to marketing. The marketing concept sits within the **market-oriented approach**, which means the business's efforts are aimed in a coordinated and integrated manner towards simultaneously achieving its business objectives and satisfying its customers. Using this approach lowers the risk of a newly developed product or service failing in the market because effective market research will have been undertaken prior to the manufacture of the product or provision of the service. There are four essential elements to the marketing concept:

market-oriented approach a business strategy that focuses on the needs and wants of consumers and develops products to meet them

1 Customer satisfaction is important.
2 A totally integrated effort is required by the business.
3 Business objectives must be set; for example, establishing a **customer base**, increasing market share.
4 Key performance indicators (KPIs) show whether the business objectives have been achieved.

If a business is to be fully committed to the marketing

customer base the group of customers who repeatedly purchase the goods or services of a business and are the main source of revenue for the business



Figure 12.2 The marketing concept and its four essential elements

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concept approach, it must focus on the customer and adopt the philosophy 'the customer comes first'. To be successful, the business must understand its customers and align the performance of the business, its evaluation and rewards systems so that the business objectives are met. For the small business owner, good customer relationships developed through good customer service and customer satisfaction become very powerful marketing tools, and lead to customer loyalty and repeat business. Good customer relationships are also cost-effective to the business, because they do not require an expensive marketing campaign to attract customers. Businesses that are larger and more complex in their organisational structures, policies and procedures can redesign their organisational charts to represent the importance of the customer to their business.



Figure 12.3 Repeat customers are important to establishing the customer base of a business.

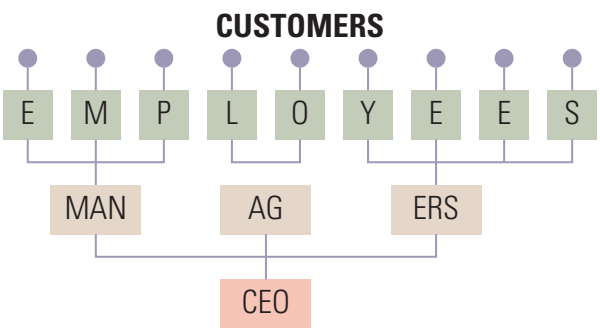


Figure 12.4 Customer-oriented organisation chart

It is very important that businesses recognise that approximately 80 per cent of their business is actually generated by approximately 20 per cent of their customer base. This is referred to as the **Pareto Principle** (i.e. the 80/20 rule). Marketing strategies may get the customer through the door initially, but it is essential for the business to 'do the right thing' to convert those customers into repeat customers, thereby establishing a reliable and consistent customer base.

Pareto Principle referred to as the 80/20 rule – approximately 80 per cent of the business revenue is generated by approximately 20 per cent of the customer base

By reversing the traditional organisation chart, customers are now at the top of the 'chain of command'. In this model, it is the purpose of management (senior and middle) to help employees take care of the customers, as they are the ones providing the main source of revenue to the business.

12.3 Factors affecting the establishment of a customer base and brand identity

Factors drawn from all levels of the business environment, namely macro, operating and internal, can affect how a business establishes its customer base and brand identity. As previously mentioned, a well-established customer base provides an important revenue stream for a business.

Establishing a brand identity is one of the key elements to building a relationship with customers.



Figure 12.5 Building a brand identity

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A brand for a business is far more than simply designing an easily recognisable symbol or choosing a good name. It also involves determining:

- the attributes of the product or service to be sold or offered to the customer
- the positioning of the brand
- a desirable benefit and strong belief in its value.

To protect the brand and name for the future, a business should register the symbol as a trademark. Following creating the brand identity, decisions will need to be made as to whether the products will be launched as a manufacturer's brand, a private brand (store brand or distributor brand) or a licensed brand.

Technology

Technological developments have had a large impact on businesses with regard to their customer base and brand identity. They have allowed for the customised manufacturing of products to meet the growing appetite of customers for personalised products, previously only available for luxury items. A prime example of this was noted by major retailer, Myer, when at Christmas 2015 its top-selling item at the store was personalised jars of Nutella. For start-up business Shoes of Prey, modern technology and logistics have assisted it to become a world leader in the customised manufacturing of shoes. The technology used by this business allows customers to design their own shoes down to the last detail including colour, materials and heel height. The time taken from designing a customised shoe to delivery is four weeks (visit the Shoes of Prey website for more information).



Figure 12.6 Personalised products – tailoring and Nutella

CASE STUDY 12.1

eBay customers' access to Myer

With shoppers having access to the web and many more products than they previously had access to, stores are coming up with innovative ways of luring prospective buyers. Digital marketing strategies are key to retaining customers as well sourcing new customers. One idea is that an eBay store would grant Myer contact with a wider range of people and enable it to have access to new shoppers who may not be shopping on its myer.com e-commerce site. eBay is an extremely popular site and this strategy opens the potential for customers to click through to the Myer store when hunting for a bargain or conducting general online shopping.

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Analysis

1 Myer is a long-established department store generally located in major shopping centres. Identify the types of products that are sold at Myer stores.

2 Myer is hoping to expand its customer base by establishing an online marketplace. How effective do you think this strategy will be for Myer? Justify your opinion.

Social media can affect customer base and brand identity in a variety of ways. A positive aspect is that it successfully provides customers unprecedented access to information about businesses, their products and services and also what customers/consumers think of them. However, with social media at 'our finger tips' a business can be negatively impacted within a very short time by 'customer regulation' resulting from a bad review.

Legislation and regulators

Legislation (both federal and state) protects customers and consumers in the event of businesses misleading them. Regulatory bodies, such as the Australian Securities and Investments Commission (ASIC), act as corporate watchdogs to protect consumers from being misled by statements made by businesses when advertising their products or services. For example, in March 2016 ASIC directed iSelect, an insurance comparison website, to remove some misleading statements about it being 'independent' from its advertising and promotional material because it was, in fact, taking commissions from insurance companies (see Cambridge weblinks: http://cambridge.edu.au/redirect/?id=7003). The *Corporations Act* prohibits the use of words like 'independent, impartial and unbiased' being used by businesses receiving commissions, volume-based payments, gifts or other benefits through sales or referrals. It would be interesting to note what impact, if any, this direction by ASIC has had on the customer base and brand of iSelect.

Customers

Businesses should be aware that there are now four generations of people in the workforce who have earned money to spend on goods and services. It is therefore important that a business does not adopt a 'one size fits all' approach to marketing, as it will then not be reaching all of its potential customer base and may even be alienating an important customer demographic.

As mentioned above, customers' appetite for customised products continues to be a huge trend in retail. As many consumers now have more disposable income than in previous decades, they want to have a personal connection with the products they buy. One entrepreneur who understood this trend was Gary Elphick, founder of Disrupt Sports. He recognised the desire people have for wanting to design goods, but who lack the means to do it. This Australian business based in Bondi, Sydney has been so successful in designing and manufacturing personalised surfboards that it has now expanded its range of products to include skateboards and yoga mats. The business is now opening an office in the United States in the hope of increasing its customer base.

Mistreating customers can have a detrimental effect on businesses. In 2015 the Commonwealth Bank's reputation and brand identity was tarnished by two scandals. The first related to mistreatment of clients associated with its financial planning business.

DISRUPT SPORTS



Figure 12.7 Disrupt Sports: recognising the needs of surfers

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The second related to the mistreatment of policy holders (customers) of its life insurance business, CommInsure. These two actions were widely reported in the media and caused concern to many customers who had either used the bank's financial planning services or were insured with CommInsure.

Competitors

Establishing a customer base has proven to be a constant battle for the major supermarket chains. Recently, retailers Woolworths, Coles and Metcash's IGA have been cutting shelf prices and increasing the depth and frequency of their promotions. The strategy of reducing everyday shelf prices on products that draw customers into the store is aimed at building the confidence in their customer base in the prices that are charged by those stores.

The arrival of ALDI into the marketplace and the successful strategies it has used to establish its customer base and brand identity have also impacted on the major supermarket chains. According to Roy Morgan Research, ALDI has captured 11.8 per cent of the Australian supermarket market. While this share of the market is still not anywhere close to those of its two main competitors, it is increasing on an annual basis.



Figure 12.8 Establishing a customer base has proven to be a constant battle for the major supermarket chains.

CASE STUDY 12.2

Woolworths puts Homebrand label out to pasture

After spending 33 years turning its Homebrand range into one of Australia's biggest-selling generic brands, Woolworths is renaming almost 1000 Homebrand products 'Essentials' to fight perceptions that customers can get better quality at ALDI.

Launched in 1983, Homebrand is one of the biggest private label brands in Australia, with annual sales of about $1.4 billion and more than 950 product lines, ranging from pantry staples such as pasta, sugar and cereal to soft drinks, insect spray and painkillers.

While Homebrand's prices are generally as cheap or cheaper than similar entry-level private label goods at ALDI and Coles, consumers perceive the quality of Homebrand products to be inferior to that at other chains.

'The issue with Homebrand is not so much price but a perception built around the product branding and packaging,' Credit Suisse analyst Grant Saligari said.

'What they're trying to address is the weakness in the brand itself, not so much the price points,' he said. 'If [the new strategy] lifts brand quality and maintains price, that should be positive.'

Woolworths' chief executive Brad Banducci flagged a shake-up of the retailer's private label grocery strategy last May, acknowledging that Homebrand, with its no-nonsense red and white logo, had a 'perception problem'.

'The issue we've got with ALDI is providing the same value experience in our store as you would in an ALDI, which requires us to rethink and re-engineer some of our entry level products,' Mr Banducci said at the time.

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Over the past 10 months Woolworths has reduced the prices of both Homebrand and the midmarket Select label, narrowing the price gap with ALDI.

It is now starting to re-engineer and repackage Homebrand products, reintroducing products category by category, rather than in one fell swoop, under the lesser known red and yellow Essentials label.

'We have been reviewing the products in all of our own brand ranges to ensure we deliver even greater quality and value for our customers,' a Woolworths spokesman told Fairfax Media.

'Part of this review will see our current value ranges, Homebrand and Essentials, consolidated into one improved value range called Essentials.'

Essentials is a much smaller brand than Homebrand and is currently used on a range of non-food products such as paper plates, disposable cutlery and rubbish bags.

'When customers see each product move to the new Essentials packaging, they can be assured the product will offer market-leading value for money,' the Woolworths spokesman said.

Woolworths is investing at least $600 million into reducing grocery prices and improving service in stores in an attempt to reinvigorate same-store sales growth in supermarkets, which has been falling for three consecutive quarters, and to regain market share lost to ALDI and Coles.

According to a report by Morgan Stanley last month, Woolworths has reduced private label prices by about 4.6 per cent since May last year. At the same time, Coles has reduced prices by 4.6 per cent and ALDI has trimmed prices by 1.2 per cent. 'So little has changed in relative terms,' Morgan Stanley retail analyst Tom Kierath said.

(Source: S Mitchell, 'Woolworths puts Homebrand label out to pasture', *The Age*, 29 March 2016.)

Analysis

1. Describe the major reason behind Woolworths renaming its Homebrand products.
2. Outline how important the private label is to Woolworths.
3. What other strategies has Woolworths used in its quest to narrow the price gap with ALDI?
4. Outline the future strategies being planned by Woolworths for its Homebrand products.
5. Identify the message that Woolworths hopes will result from the change to Essentials packaging.

Culture of business

The internal culture of a business is at the heart of how the business and its staff behave. Successful businesses seek and value customer feedback, putting customers at the heart of the business. If the corporate culture of a business fails to live up to community and customer expectations, it potentially can become a large threat to both the customer base and brand of that business. A business that conducts itself well can reap the rewards and get its message to the community very quickly via social media and the 24-hour news cycle. On the other hand, these same communication tools can turn on a business if the actions of the business are bad or unethical.

12.4 Market research practices

Market research is a systematic procedure used to develop and analyse new and existing information. This analysis helps businesses to make decisions relating to the marketplace and to satisfy the needs of both potential and existing customers.

Market research assists a business to:

- reduce the level of risk or uncertainty attached to introducing a new product or service
- assess current products, advertisements and forms of packaging, and determine whether changes need to be made

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- predict future changes or trends in a product or service.

Should it be decided that there is an inadequate amount of information available for a good decision to be made, it may be necessary to arrange for additional market research to be undertaken. In small businesses, funds for market research are normally limited. It is therefore important to determine whether the benefit gained from research will outweigh the cost involved in conducting the research. It is possible to find informal, low-cost alternatives of information gathering, such as customer feedback surveys, keeping an eye on the competition and industry trends, and making sure internal record keeping is accurate. Larger businesses can allocate more funds to undertake market research and will often adopt a more formal approach, possibly engaging a **marketing consultant** to gather the data, carry out an analysis and interpret the results.

marketing consultant
a professional (specialist) who provides advice on marketing-related issues

Any business that does undertake market research must ensure the information gained is used in an ethical manner and does not infringe on the privacy of the person giving the information. It is unethical for a business to contact consumers under the pretence of undertaking research when the real purpose is to actually sell something. A Code of Marketing Research Standards has been adopted by the Marketing Research Association (MRA) to protect research credibility in the eyes of the public.

Market research can be used to find answers to questions about:

- market size
- consumer likes and dislikes
- product positives and negatives
- promotion effectiveness
- packaging effectiveness
- degree of threat from competitors
- distribution – how customers like to get the product.

An objective and systematic approach must be adopted to undertake effective market research. 'Objective' means that the research must be conducted in an impartial and unbiased manner, often by a professional marketing consultant. 'Systematic' means the adoption of a formal method or approach, such as using a process similar to the steps shown in Figure 12.9.

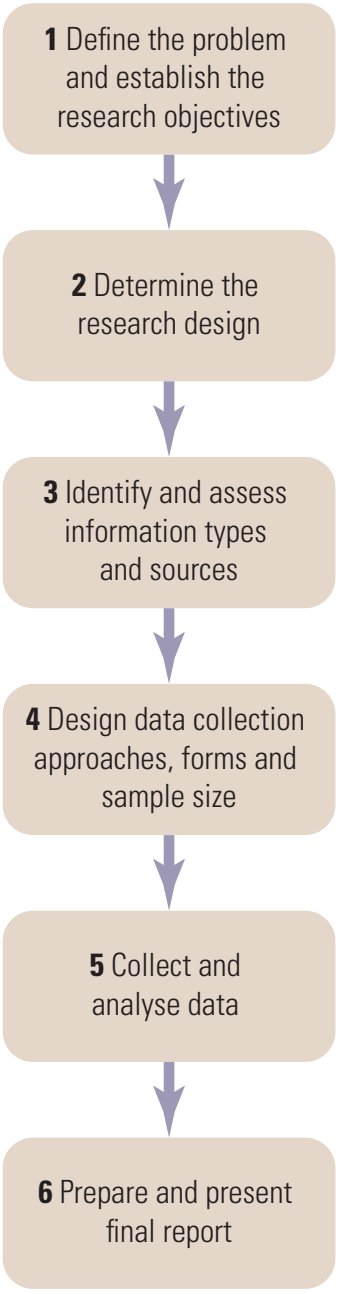


Figure 12.9 A systematic approach to market research

A systematic approach to market research

The following six steps constitute a systematic approach to market research.

Step 1: Define the problem and establish the research objectives

Problem definition is possibly the most important step of the process. By accurately defining the problem and establishing the objectives, a business is then able to gather the relevant information to assist with decision making. The information needed is dependent on the type of business being operated.

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Generally, market research objectives relate to the potential demand for a product or service, the marketing environment or a business's competition.

Step 2: Determine the research design

There are three basic types of research design.

- **Exploratory research** involves collecting information in an unstructured and informal manner. This could mean reading a magazine or article, using a particular product or service, and gaining an impression and feeling about the product or service.
- **Descriptive research** incorporates such things as consumers' attitudes, intentions and behaviour. It can be related to the 'image' of the product or service being researched. Information can be gathered through observation of consumers' behaviour.
- **Causal research** aims to find the cause and effect of certain actions. One variable, such as the price of a product, could be changed to study what impact this has on the volume of product sales.

exploratory research collecting information in an unstructured and informal manner

descriptive research research that incorporates consumers' attitudes, intentions and behaviour

causal research research that involves finding the cause and effect of certain actions

Step 3: Identify and assess information types and sources

There are two basic types of information available: primary data and secondary data.

- **Primary data** refers to information that has been gathered by the business owners or market researchers themselves, specifically to service the current research objectives.
- **Secondary data** refers to information that has been previously collected. This information can come from internal records of the business or sources external to the business.

primary data information gathered firsthand by the business

secondary data information that has been previously collected

Primary data sources	Secondary data sources
• Surveys/questionnaires – both telephone and direct mail • Interviews – door-to-door or shopping centre • Direct observation – personal or electronic • Small group discussions; e.g. focus groups • Experiments – laboratory tests, field tests • Online bulletin boards • Email blasts – mass emails to family, friends, business associates	• Company records • Financial statements • Annual reports • Periodicals and trade/professional magazines • Internet searches • Computerised databases • Index services • Libraries • Advertising agencies • Newspapers • Magazines • Yellow Pages and White Pages • Trade associations • Government agencies. Both the federal and state governments publish data on many subjects; e.g. the Australian Bureau of Statistics (ABS) provides periodic statistics relating to Australia's population. • Private market research firms; e.g. AC Nielsen, Roy Morgan Research Centre • Radio and television stations



Table 12.1 Primary and secondary data sources

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ACTIVITY 12.1

1 Explain the basic difference between primary and secondary classification of data.

2 Classify the following forms of data as being either primary or secondary:

- **a** survey
- **b** focus group
- **c** internet search
- **d** electoral roll
- **e** magazine
- **f** exit poll
- **g** direct mail out
- **h** field tests
- **i** shopping centre interviews
- **j** computerised data bases.

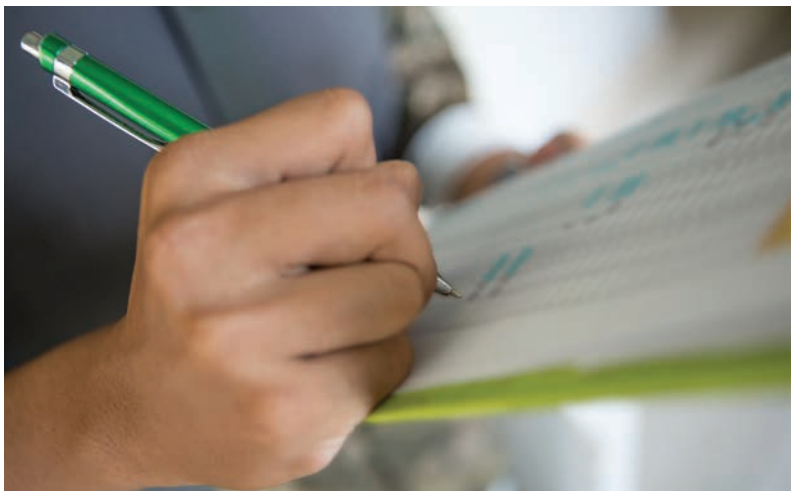


Figure 12.10 There are various types of survey questions.

Step 4: Design data collection approaches, forms and sample size

sample a proportion or subset of the total population being studied

population entire group under study as defined by the research objectives

target market the market at which a product or service is primarily aimed

It would be an impossible task for a market researcher to collect information firsthand from the entire population. It is therefore necessary to study a **sample**, which will be a small proportion of the **population** of interest or **target market**. The group may be randomly selected to provide a broad range of opinions or interests.

There are several methods of conducting primary research, such as questionnaires, observations and focus groups.

- A **questionnaire** is the standard form of survey used to gather data. A structured questionnaire lists questions and provides pre-described answers (similar to a multiple choice format). It is regarded as a form of **quantitative research**. Answers are given by ticking or placing an 'X' in a box. Some questions will require rating the answer by indicating a number in a predetermined range; for example, '1 to 10'. Unstructured questionnaires have open-ended questions. While a questionnaire looks simple to create, care must be taken in its design to gain objective information from the respondent. It is important not to provide any ambiguous or leading questions. It is also important to trial the use of a questionnaire to make sure that it actually gathers the information required to meet previously determined objectives.

questionnaire form of survey where questions are asked of respondents

quantitative research market research based on structured, closed questions that aim to gather responses that can be summarised in figures

- Observation is a process that recognises and takes note of people's actions and behaviour, rather than directly asking them for information. The introduction of electronic scanning of product codes at supermarkets or using other codes, such as postcodes, has assisted enormously in determining consumer demographics and shopping habits. Businesses also use video cameras to record shopper numbers, time spent in the store, the areas of the store that attracted foot traffic and interaction between customers and salespeople.



Figure 12.11 Customer observation is a primary research method.

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Figure 12.12 Focus group being observed by interested stakeholders

- **Focus groups** are a popular way of collecting **qualitative research** and consumer-related information. The group size is usually between six and 12 participants and is conducted in an informal setting. A facilitator, often an experienced market researcher or even a psychologist, aims to generate group interaction in order to stimulate immediate thinking on a topic. A session may last between one and two hours, with the participants usually being paid a small fee. It is often videotaped for later review, or observed through a glass partition by interested parties.

focus group between six and 12 participants gathered together in an informal setting to give their opinion on a product or service

qualitative research research based on in-depth, open-ended responses that focus on emotional or motivational aspects of consumer behaviour

- Experiments can be conducted in the field or in a laboratory. This method involves removing all variables except for the one being tested. For example, blind taste tests remove variables such as brand, packaging and price, and leave only the taste to be tested.

Step 5: Collect and analyse data

Often the data is collected by trained interviewers working for a market research company and asking a series of questions, or leaving a questionnaire for a person to complete in their own time. Many interviews are now conducted over the telephone with the interviewer reading set questions from the computer screen and entering responses directly into the computer. Television viewing habits are electronically collected through attaching black monitoring boxes (peoplemeters) to televisions that track not only the programs being watched, but also which member or members of the family are viewing the programs.



Figure 12.13 Example of a market research analysis report

Once collected, the raw data needs to be tabulated, tested and analysed to form meaningful information. Computer software, such as Statistical Package for Social Sciences (SPSS), is used by marketing professionals to tabulate and perform statistical tests, which include means, frequencies, correlations and trend analysis. There are many other software packages, such as SurveyMonkey, SurveyGizmo and QuestionPro, that businesses may use to collect and analyse data.

Step 6: Prepare and present final report

The last step in the market research process is to prepare and present the findings. These findings must be communicated to the business owner in the form of a report, which includes comments on how the data was collected. To enhance the information visually, computer graphics are usually added. Graphs and charts, such as bar or line graphs and pie charts, are invaluable communication tools to show patterns or trends at a glance. Market research companies will often make an oral and visual presentation, generally using a computer software presentation package.

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12.5 Market attributes

market the group of potential customers with similar needs who are willing to exchange something of value with sellers offering various need-satisfying goods or services

A **market** is a group of potential customers with similar needs who are willing to exchange something of value with sellers offering various need-satisfying goods or services.

Four basic types of markets are recognised:

- *Consumers* – involves businesses selling mass consumer goods; for example, soft drinks, food and household products to consumers.
- *Businesses* – where the purchasers are other business personnel who are often well-trained and well-informed professional buyers.
- *Global* – businesses that decide to export their product.
- *Not-for-profit and government markets* – organisations that are formed to provide assistance to, or infrastructure for, society.

Market dimensions

One of the first questions that need to be addressed when a business is working out its marketing strategies relates to what they anticipate will be the size of the market for their product or service. This will impact on the approach they will need to adopt. If a business markets its product or service to an entire market, this is referred to as **mass marketing**. Adopting this strategy can be costly and does not usually work well since it is unlikely that every individual customer or consumer will have the same needs. For instance, subscription TV providers such as Netflix, Presto and Stan have been mass marketing their services. By using this strategy, they are incurring high costs for mass media exposure without necessarily getting 'buy in' from consumers. Optus also uses mass marketing with the inclusion of separate pieces of marketing material into daily newspapers. It raises the question – is this the most effective way for them to market their product and service?

mass marketing an attempt to appeal to an entire market with one basic marketing strategy utilising mass distribution and mass media; also called undifferentiated marketing

For marketing to be more effective, the mass market needs to be broken into segments, using the four forms of segmentation and their variables. Once the segments have been determined, a business can review them and select its target market. Within the target market it is possible to identify whether there is a **niche market** whose needs can be more precisely met. The final step in this process is to differentiate the product or service of the business from its competitors within that **market segment**. This strategy is referred to as **market positioning**.

niche marketing concentrating all marketing efforts on a small but specific and well-defined segment of the population

market segment relatively similar (homogeneous) group of customers who are likely to respond in similar ways

market positioning a product is placed within a market with regards to its image, price and age of the target market

Market segmentation

It is rare for a business to be able to satisfy the needs and wants of everyone; therefore, **market segmentation** is carried out in an effort to improve a business's precision marketing. Not everyone likes the same drinks, food, clothes, hotels and movies. Marketers try to identify and profile distinct groups of buyers who might prefer or require varying products and **marketing mix**. A market segment should ultimately be a relatively similar (homogeneous) group of customers who are likely to respond in similar ways. Segmentation then allows management to concentrate its efforts on allocating its scarce resources more effectively in order to achieve its business objectives. Segmentation is an approach that is midway between mass marketing and individual marketing. Consumer markets are typically segmented by the four bases or dimensions shown in Table 12.2.

market segmentation an approach that is midway between mass marketing and individual marketing; the approach defines and subdivides a large homogeneous market into clearly identifiable segments having similar needs, wants or demand characteristics

marketing mix the seven variables that are used when undertaking marketing strategies: product, price, place, promotion, people, physical evidence and process

The greater the number of variables that can be identified when defining a market, the closer a business comes to developing the profile of its customers. For example, Dulux sees its customers as people who:

- are building a new home, renovating or redecorating

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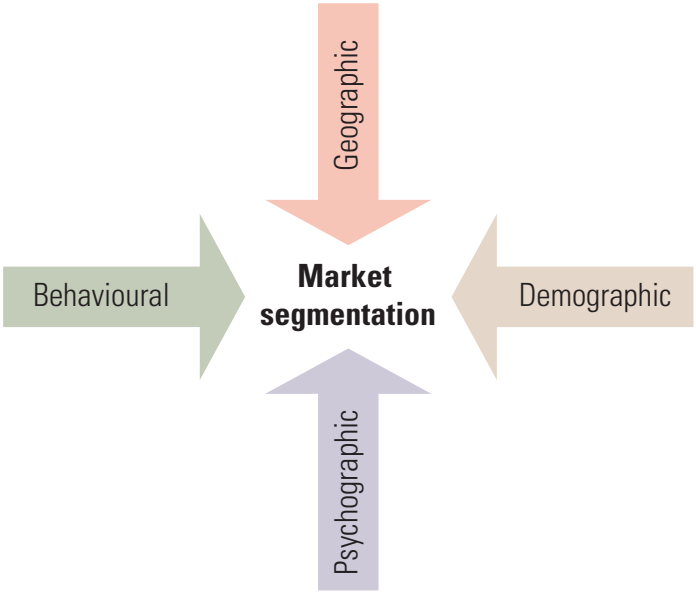


Figure 12.14 Four forms of market segmentation



Figure 12.15 A market segment should ultimately be a relatively similar (homogeneous) group of customers who are likely to respond in similar ways.

- place importance on using a reputable and trusted brand
- are willing to pay a premium price for a quality product
- are looking for innovative paint ideas in both colour range and finishes (textures)
- are comfortable accessing its website for information and assistance
- purchase products through major hardware chains.

ACTIVITY 12.2

Provide a customer profile for two of the following products/businesses:

1. Cotton On
2. Subway
3. Boost Juice
4. David Jones
5. electric car made by Tesla Motors
6. Metro Trains.

Geographic	Demographic	Psychographic	Behavioural
Where the customers live or work: • Region – world or country • Size of city; i.e. number of residents • Suburban or rural • Climate – hot, cold or temperate	Where the market is divided according to: • Age • Gender • Income level • Education level • Family size • Family life cycle • Occupation • Nationality/race	Where the market is divided according to: • Social class – upper, middle, lower middle • Personality – compulsive, gregarious, ambitious, aggressive, extroverted, introverted • Lifestyle – achiever, socially aware, conservative, optimist	Where the market is divided according to: • Needs – economic, functional, physiological, psychological or social • Benefits sought – quality, service, economy, speed • Loyalty status • Kind of shopping – convenience, comparison, speciality • Purchasing frequency

Table 12.2 Forms of segmentation and their variables

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Target market

Once they have reviewed the forms of segmentation and their variables, businesses need to select which market segment they wish to pursue. This requires the identification of their actual target market.

Identifying a specific target market requires a 'narrowing-down' process from a broad or **generic market** to focus on the specific type of customer. For example, the entire drinks market is seen as satisfying people's thirst; it is therefore seen as being part of the generic marketplace. When the consumer is specifically looking for a particular type of drink (e.g. a sports drink) that target market changes to the **product market**. Similarly, the entire car market is seen as satisfying a potential customer's need for private transport. It is when that potential customer narrows down their choice to an expensive car that Mercedes, BMW or Lexus may enter as players in a specific product market (i.e. expensive cars). The current desire by consumers for smaller and more fuel-efficient cars has produced another specific product market. In the future, consumers may desire an electric or driverless car, so creating another product market.

generic market a market where broadly similar needs of customers are met by sellers offering a variety and often diverse range of products

product market when a consumer is looking for a particular item; for example, a particular type of drink or car

Creating or identifying a niche market within the target market of a business is a good marketing strategy because it allows the business to position its marketing efforts on a clearly defined and less competitive market. This more narrowly defined group often does not have its current needs met. The ideal niche market has the following attributes:

- The customers have a distinct set of needs.
- The customer will often pay a premium to the business that satisfies their need.
- The business usually has no competitors.
- It permits a degree of specialisation in the product or service required.
- It is generally one that will allow for profit and market growth.

Operating in a niche market can be attractive to businesses due to their reduced competition and positioning. In the airline industry in Australia, there are airlines (Jetstar and Virgin) in the domestic air travel market that advertise cheap airline tickets on some routes and particular days and times. In 2007, Tigerair Australia found its niche as a 'true' budget airline, consistently offering cheap no-frills flights to a limited number of destinations. Tigerair became popular with travellers who have a limited capacity to pay for travel. Virgin Australia perceived that Tigerair was meeting a previously unmet need, and in February 2015 the Virgin Australia Group acquired this budget airline, rather than establishing its own budget airline to compete for those customers.

Consumer behaviour

Businesses need to know about **consumer behaviour** when trying to anticipate how their customers will respond to their marketing strategies. It is therefore important for businesses to understand influences on customer purchasing decisions. If customers are individuals or household members, it is recognised that the following five factors will influence their behaviour:

consumer behaviour the study of individuals and groups, and the processes they use to select, secure, use and dispose of products, services, experiences or ideas to satisfy their needs

- *Cultural factors* – inherent values and beliefs are developed through parental and environmental influences, such as nationality, religion or ethnic background or even the social grouping to which people belong.
- *Social factors* – people are influenced in their actions and beliefs by those with whom they associate. Associates may come from family, peers, sporting, church or other community groups.
- *Personal factors* – these are differences due to age, stage of life (single, newly married, married with dependent children, single parent, divorced



Figure 12.16 Influences on consumer behaviour

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with dependent children, widowed), occupation, economic situation, lifestyle and personality.

- *Psychological factors* – this incorporates the notion of what is motivating a consumer to purchase this particular product or service. Trying to work out what is in a consumer's mind before, during and after purchasing a product is a very difficult exercise.
- *Situational factors* – it is important to know *when*, *where* and *how* consumers make their purchases.
  - When: is there a particular time of day, week or season? For instance, we are increasingly seeing seasonal products such as Easter eggs and Christmas-related products entering stores earlier and earlier in an attempt to extend the buying season. No sooner have supermarkets packed away the Christmas items or put them in the mark-down bins, but hot cross buns are being stocked. Studies have shown that family food purchases are made towards the end of the week; accordingly, food advertising and specials are often provided earlier in the week to try to improve sales in the earlier days of the week. Many customers are perceived to be 'time-poor' or have time constraints imposed upon them. The introduction of telephone and internet banking has extended trading hours and assisted consumers to save time.
  - Where: this relates to where the actual buying decision is made and where the actual purchase occurs. Has the purchase been planned or is it one that occurred as a result of an impulsive decision based on various marketing techniques used to influence the decision, such as music, lighting and placement of products?
  - How: this relates to behavioural issues such as the consumer's preference to buy the product as a single item or in multiple packs; for example, yoghurt, food and snack items, socks and underwear.

While marketers understand what factors can influence the purchasing decisions of consumers, it is not always easy to predict what the actual deciding factor was for buying a particular item. It could have been based on satisfying a practical need, an emotional or impulsive action, a logical (rational) or irrational (foolish) reason, or as a result of recommendations made in research reports.



Figure 12.17 It is not easy to predict what the deciding factor will be for buying an item.

ACTIVITY 12.3

ALDI has adopted a 'special buys' promotional strategy of offering heavily discounted general merchandise twice a week in its stores.

1. Do you or any of your family shop at ALDI? If so, identify the reasons why you or your family shop there.
2. Have you purchased any items that are listed as 'special buys'?
3. If you have purchased any 'special buy' items, describe the factors or influences that caused you to make the purchase.
4. Do you believe this strategy is working to attract customers to ALDI stores?
5. What characteristic of consumer behaviour is ALDI using in this marketing strategy?

Consumer trends

Keeping up with current consumer trends is important to the financial success of a business. It is important that the marketing function supports the business by understanding current and changing consumer trends. Some examples of these trends are:

- Buying online: Australian shoppers are increasingly using digital devices to review products online at home and then using their smartphones to make

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the purchase. Market research company Nielsen estimates that 96 per cent of Australians who have an online presence have made an online purchase. The most prevalent categories are fashion, books, music and travel. To keep up with this trend, retailers are now using a combination of online and offline strategies to help customers make more informed decisions while also providing customers with a 'value-add' to their shopping experience.

- Buying consumables (meat, fruit and vegetables): when purchasing consumables, in-store shopping is favoured over online grocery shopping, as customers are providing feedback that they still want to be able to inspect the products to determine their quality and value. This trend is supported by the increasing number of farmers' markets across both metropolitan and regional areas. Customers are willing to pay a 'price premium' for the satisfaction of purchasing their fruit and vegetables directly from the producer and being able to develop a personal relationship with the grower and get additional information about how the product was grown. Visiting a farmers' market also seems to be meeting a social need of consumers, and provides a destination/event experience. The consumer trend of wanting to buy 'greener food' and reduce 'food miles' is also satisfied by shopping at farmers' markets.
- One-stop shopping: this trend has encouraged retailers to add related and unrelated items of merchandise to their core products. For example, banks now offer insurance and many retail businesses now include a coffee shop within their store, capitalising on the trend of being part of a 'café society'.
- Ready-to-eat (gourmet) meals: consumers have been able to buy ready-to-heat and eat food for the past 20 years. The current trend is that consumers – often busy professionals – are now looking to buy 'gourmet' meals, not just the normal offerings of spaghetti bolognaise. Businesses such as dish'd are responding to this trend by offering a wide variety of gourmet entrees, main courses and desserts at relatively affordable prices. The important factors for businesses wanting to respond to this trend are that they meet the customers' need of being able to buy good-quality, tasty food.
- E-commerce: many consumers have changed their preferred method of payment for goods and services. Cheques are virtually nonexistent and have been replaced by online payment or payment by apps on the consumer's smartphone. Credit cards and use of EFTPOS have become acceptable as a replacement for cash. Advances in technology have allowed banks to respond to this trend with contactless payment technology, so making it easier and quicker to make an in-store purchase; for example, Visa introduced payWave and MasterCard has PayPass.
- Consumers have now become 24/7 in their purchasing. They look for retailers who can provide fast and convenient service at any time on any day, particularly of goods and services that will ultimately save them time in their busy lives. This has also led to an increase in internet purchasing where the consumer orders online with the goods being delivered to their designated address. Consumers are also using online services to book airline tickets or holidays.
- Many consumers are now looking to be treated as individuals in their purchasing decisions. They are tired of the mass marketing approach and want to be listened to and treated as special. For example, handbags or laptop bags produced by The Daily Edited are monogrammed with the initials of the customer.
- Consumers are more health conscious, nutritionally informed, environmentally aware and socially concerned. They engage in consumption behaviour that will support their diet, fitness and ideal lifestyle. Businesses have responded to this trend by providing information on their packaging relating to nutrition, fair trade, etc.
- The nostalgia factor is evident in consumers of different age groups. Older consumers are reaching back towards long-gone simpler days to replace their growing anxiety about ageing and our stressful society, while young consumers are adopting and updating or reinventing products from the past; for example, retro look radios (on the outside they have old styling, inside the latest technology).
- The emergence of a consumer group known as 'tweens' – no longer little kids, but not quite teenagers – has formed a new market. This consumer group has become more empowered and seeks products and experiences that previously appealed to teenagers. Businesses operating in the streetwear, cosmetics (beauty) and entertainment industries are beneficiaries of this new consumer group. They are, however, posing issues for traditional toy manufacturers.

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Chapter summary

- Marketing is more than just selling a product; marketing influences the majority of activities undertaken in people's lives. It aims to help consumers make informed and accurate decisions relating to the purchase of a product or use of a service.
- Marketing extends to the following entities: goods, services, experiences, events and personalities.
- Marketing is an important consideration when establishing a customer base and business objectives.
- The marketing concept has developed to support the change in focus from selling a product or service to actually satisfying the needs and recognising the importance of customers.
- There are a range of external and internal factors that can affect the establishment of a customer base and brand identity of a business, such as technology, social media, customers, competitors and corporate culture.
- Market research is undertaken to help businesses make informed decisions.
- Market research needs to be undertaken in a systematic manner, with consideration given to minimising any form of bias in the data-gathering process.
- Marketing data can be obtained from two main sources: primary and secondary.
- Common methods of obtaining primary data are telephone surveys, mail surveys, door-to-door personal interviews, shopping centre interviews, direct observation and small group discussions and experiments.
- Common methods of obtaining secondary data are company records, periodicals, computerised data bases, libraries, newspapers, magazines, Yellow Pages and White Pages, government agencies and trade associations.
- Market research aids the success of businesses, but it does not guarantee it.
- The research process involves a number of steps, with problem definition being one of the most difficult steps. Systematic approach steps include the following:
  - Define the problem and establish research objectives.
  - Determine the research design.
  - Identify and assess information types and sources.
  - Design data-collection approaches, forms and sample size.
  - Collect and analyse data.
  - Prepare and present the final report.
- Market researchers should strive to provide unbiased and honest results. The presentation of research findings using graphical representation aids both interpretation and analysis.
- Secondary data is useful in establishing market size and trends, but is not as useful for providing specific data about individual business products.
- Determining the attributes of the target market is important for effective marketing.
- Segmentation requires identifying market segments based on behavioural, geographic, demographic and psychographic variables. Once the segment is determined, a decision can be made as to which segment is more favourable for a particular business to target.
- The importance of the Pareto Principle (80/20 rule) needs to be recognised, whereby 80 per cent of sales are said to be attributed to only 20 per cent of customers.
- An important consideration of marketing is whether to market to a mass or niche market.
- It is important to understand the influences on a consumer's purchasing behaviour and to develop a customer profile.
- For businesses to prosper, they must be aware of the current consumer trends and make sure they take these into account when marketing their products.

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Chapter summary questions

1 Define the following terms and then use each in a sentence to demonstrate your understanding:
   - **a** customer profile
   - **b** niche market
   - **c** market segment
   - **d** qualitative research
   - **e** product market
   - **f** population
   - **g** focus group
   - **h** primary data
   - **i** brand
   - **j** market research.

2 Describe the Pareto Principle and explain its relevance to marketing.

3 Describe the factors that influence consumer behaviour.

4 Identify three ways a fruit and vegetable shop could use market research.

5 'Why undertake market research, it is a waste of time and money.' Discuss whether you agree or disagree with this comment.

6 Identify and describe three factors that can affect the customer base of a business.

7 Identify and describe three factors that can affect the brand identity of a business.

Extension question

Evaluate the costs and benefits to a business of establishing a customer base.

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CHAPTER 13

Extended marketing mix, related marketing strategies and corporate social responsibility issues

Overview

In this chapter students will continue to develop their understanding of how marketing, using the extended marketing mix, covers both the marketing of products that are services and not just physical things. The 7Ps extend to considerations on price, product features and packaging, promotion, place, people, physical evidence and processes. Students will also gain an understanding of the life cycle of a product and the marketing strategies appropriate to each stage of this cycle. Customer relations strategies such as quality customer service and loyalty programs will also be examined. When establishing a customer base, it is also important to consider corporate social responsibility issues such as green marketing.

Key knowledge

In this chapter students will learn about:

- The 7Ps model of marketing: product, price, place, promotion, people, physical evidence and process
- Product life cycle: introduction, growth, maturity, decline, extension and the relationship between each of these stages and the choice of marketing strategy
- The features and value of customer relations strategies such as providing quality customer service and establishing customer loyalty programs
- Corporate social responsibility management issues with regards to establishing a customer base, such as green marketing.

Key terms

- advertising
- brand leader
- brand loyalty
- brand stretching
- complementary pricing
- consumer profile
- customer relationship marketing (CRM)
- direct distribution channel
- generic brand
- going rate
- green marketing
- indirect distribution channel
- informative advertising
- label
- leverage
- loyalty program
- market saturation
- mark-up
- maturity
- penetration pricing
- personal selling
- persuasive advertising
- place
- price
- price elastic
- price inelastic
- price leadership
- product
- product development
- product differentiation
- product life cycle
- product line
- product mix
- product placement
- promotion
- psychological pricing
- publicity
- sales promotion
- skimming pricing



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What's ahead



Figure 13.1 The 7Ps of the marketing mix

13.1 The 7Ps of marketing

P1 – Product

Product is the first component of the 7Ps of the marketing mix. A **product** is anything that can be offered to a market to satisfy a need or want. It can include physical goods, services, experiences, events, persons, places, properties, organisations, information and ideas. Consumer and business goods and services can be classified on the basis of their characteristics relating to purchasing habits. The **consumer profile** will then have an effect on the form of marketing best suited to that category of product.

product the end result of the production process; can be either a good or a service; one of the 7Ps of the marketing mix

consumer profile a statistical picture of the typical consumer of a product based on demographic data; for example, income, age, gender, occupation

Business goods

Business goods and services can also be classified according to their characteristics, ensuring that the appropriate marketing strategies can be applied. These may include:

- raw materials (e.g. minerals and agricultural products) and manufactured materials and parts (e.g. component parts)
- capital items, such as buildings, equipment, computers and office equipment
- supplies, such as paint, petroleum products, paper and cleaning materials
- services, such as engineering, surveying, maintenance, accounting and legal.

Consumer goods

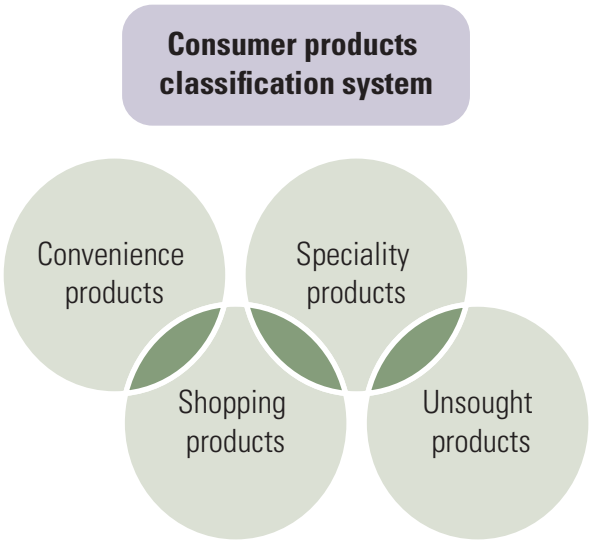


Figure 13.2 Consumer products classification system

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Product classification	Groups	Marketing strategies
Convenience goods (purchased frequently and without much effort)	*Staples* are items bought on a regular basis; e.g. newspapers, bread, milk, toothpaste, shampoo, food items *Impulse* are items bought with no planning; e.g. chocolate bar, chewing gum, magazines *Emergency* items are purchased when the need is urgent and price is not important; e.g. umbrella during a rainstorm, shopping bags	Strategies that allow for wide exposure of the product; e.g. television advertisements Prominent display such as checkout counters; e.g. colourful displays Prominent display near checkout counters; e.g. product display positioning
Shopping goods (a comparison is made based on suitability, quality, price, style; research is undertaken prior to purchasing the item)	Examples are clothes, shoes, furniture, household appliances, new and used cars	Broad range of strategies required to cater for varying purchasing styles; salespeople need to have good product knowledge and selling techniques
Speciality goods (have unique characteristics or brand identification; brand and product quality are the main considerations rather than price)	Examples are new cars (luxury), photographic equipment, computers	Exclusive distribution rights and limited production allow for marketing to be specifically targeted
Unsought goods (those goods not regularly purchased)	Examples are smoke detectors, life insurance, encyclopaedias, prepaid funerals, financial planning	Marketing needs to be specific and advise of benefits of products/services; personal selling and direct marketing are important for product promotion

Table 13.1 Types of consumer goods, their classification and impact on marketing strategies

ACTIVITY 13.1

Classify each of the following consumer products according to its classification and group. Explain why you have chosen this category.

1. Jewellery
2. Sunglasses
3. Fashion clothing
4. Smartphone
5. Sports shoes
6. Lounge suite
7. Car insurance
8. Shampoo
9. Mars bar
10. Lawnmower



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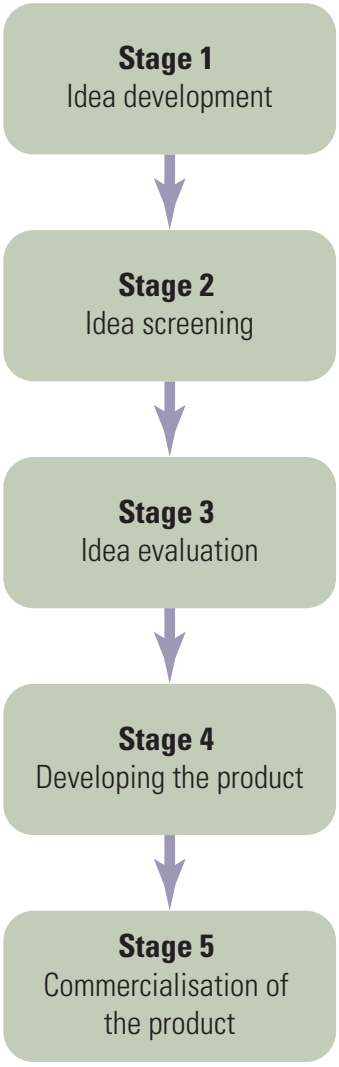


Figure 13.3 Stages in the new product development process

Developing the product

It is very important for businesses to keep their product range appealing to the marketplace. It would appear there are a number of important factors that contribute to the success of a product. Commitment on the manufacturer's part to continuously develop a unique and superior product is one key to success. Manufacturers also need to consider changes in consumer tastes, new competitors and technological advances. Failure can occur due to the market segment being too small, poor choice of marketing strategies, changes in consumer tastes or forecasting errors.



There are five stages involved in **product development** – that is, in getting a new product developed and out to the market.

product development the design and development of new or existing products

Stage 1: Idea development

Ideas can be generated from input from both staff and customers or by carrying out market research. A business will then be able to find out what needs are not currently being met, or how the current product could be modified, enhanced (innovated) or extended. A competitor's product could be analysed to see how to improve on the concept. Product ideas may also come from perceptions of current consumer trends, as outlined in Chapter 12.

Stage 2: Idea screening

Business owners need to consider how attractive these ideas are to their business and how well they fit with the business objectives and profile. Consideration should also be given to the current product range as to whether the new idea will totally change the range, or become an extension of a current range.

Stage 3: Idea evaluation

Idea evaluation involves the testing of the concept with market analysis to determine demand and gain the reactions of customers, identifying target markets, working out the cost of producing the product and forecasting sales and profits.

Stage 4: Developing the product

The actual product now needs to be produced and market-tested, and marketing strategies need to be determined. Alterations may still be made to the final product, depending on feedback from market testing.

Stage 5: Commercialisation of the product

Once developed, the product enters the marketplace through a product launch and its accompanying marketing campaign. The success of the product is judged against the forecasts made during the idea evaluation stage.

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13.2 Product life cycle

Business success would be guaranteed if it were possible to determine the exact time to launch a new product or update an existing product. What is known, however, is that all products go through a life cycle. An awareness of this can help businesses gain an advantage over their competitors. The **product life cycle** is divided into four stages, as described here.

product life cycle the stages through which all products pass: launch (introduction), growth, maturity, decline or extension



Figure 13.4 The product life cycle

Stage 1: Introduction

This stage commences with the launch of the product into the marketplace, after its product development and testing stages. Sales at this stage are low (increasing at a slow pace), profits are nonexistent or very small, and competition is scarce.

Stage 2: Growth

Due to effective promotion of the product and acceptance by consumers, sales will be growing fast, with profits rising, then flattening out and starting to fall over a period of time. At this point, competitors may have now entered the market.

Stage 3: Maturity or saturation

The level of sales has stabilised and competition for the product is strong. Profit can start to decline. The initial consumer demand for the product has been satisfied and the product as yet does not need to be replaced. Prior to launching a brand-new product, extension strategies may be introduced to extend the old product's **maturity** stage; for example, a re-launch that involves new packaging and advertising of the product.

maturity the stage of the product life cycle where sales peak (saturation point); mature products either decline or are extended to lengthen their life cycle

Stage 4: Decline or extension

This stage involves a steady decline in sales as newer competitors' products are more popular. When the product becomes unprofitable or a new product is ready, the original product will be withdrawn from the market. An extension strategy, such as exporting, may be adopted in the maturity stage as a way to boost sales.

The marketing strategies of a product need to change during the various stages of a product's life cycle as customers' attitudes to the product will change. In addition, the target market may need to change and there may be an increase in competition for the product. Table 13.2 sets out the relationship between the marketing mix and the four phases of the product life cycle.

ACTIVITY 13.2

1 Provide three reasons why an understanding of the product life cycle is so important to business success.

2 Identify what stage in the product life cycle the following products have reached at the current time. For example, vinyl records declined in the original product cycle. Interestingly, they are now becoming trendy due to quality of sound compared to digital recording methods.

- **a** Robocalls
- **b** Electric cars
- **c** Hybrid cars
- **d** Drones
- **e** Skateboards
- **f** Energy drinks
- **g** Digital cameras
- **h** Smartphones

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Product life cycle phases	Product	Price	Place	Promotion
Introduction	New model or product	**Market penetration** pricing (low) or skimming policy (high)	Limited number of outlets, with possibility of expansion	**Informative advertising** to make consumers aware of product, its price and features Free samples, trial periods Trade incentive/s to stock the product
Growth	Product improvements need to be planned to maintain appeal to customers	If **penetration pricing** policy is a success, prices may now be increased	Increased number of outlets	Reinforcement and **persuasive advertising** to encourage consumers to repeat purchase Sales promotions to encourage repeat purchases and establish and maintain **brand loyalty**
Maturity or **market saturation**	Extension strategies needed; e.g. new models, colour range, packaging	Competitive pricing	Large number of outlets, with possibility of new and different types of outlets	Importance of brand image, with advertising emphasising the difference between your product and that of your competitor
Decline	Sell off existing stock ready for withdrawal from product range and market	Discount or lowering of pricing	Reduce number of outlets to those that are profitable	No active promotion or advertising Possibly, price reduction information

Table 13.2 Product life cycle relationship to the first 4Ps of the marketing mix

market penetration a pricing strategy that aims to set low prices initially to gain high market share quickly

informative advertising advertising that gives consumers factual information about a product rather than creating a product image

penetration pricing a pricing strategy where the product's price is set lower than a competitor's price; also used when introducing a new product to the market

persuasive advertising attempts to create an emotionally positive feeling about a product's image to encourage consumers to buy it

brand loyalty when consumers continue to purchase the same product, even though rival products may exist

market saturation occurs when most consumers already own the product and the market is not growing; any sales that occur are replacement sales

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What is the product mix?

Many businesses offer more than one product for sale. The **product mix** is the full set of all products being sold by a company. The mix has two main elements or dimensions:

- breadth – measured by the number of product lines carried
- depth – determined by the variety of sizes, colours and models offered within each product line.

product mix a full set of all products being sold by a business

product line a broad group of products that are intended for similar uses and have similar physical features

A **product line** is a broad group of products intended for basically similar uses, and having reasonably similar physical characteristics. For instance, in an electrical retail store the product mix would include items such as refrigerators, freezers, washing machines, dryers, microwaves and dishwashers, referred to as 'white goods'. An example of one product line would be refrigerators. Within that product category, its breadth can be determined by the number of different brands a store is selling and the depth by the number of different models of that particular product that are available.

The role of branding

A brand is the distinguishing name, term, symbol or design that is used to identify one manufacturer's product and differentiate it from another manufacturer's product. Branding is very influential in marketing, creating either a positive or negative image in the mind of the consumer. Products are developed and advertised to make them appear different to others on the market (**product differentiation**).

The business with the largest share of the market is known as the market leader (or **brand leader**). It is estimated that a successful brand is a powerful asset to a business and may account for between 50 and 70 per cent of the total value of a business.

product differentiation products are developed and advertised to make them appear different from others on the market

brand leader the brand in the market with the highest market share

What is it that makes a brand connect with the consumer? Is it emotion, market leadership, high quality or being judged as value for money? For the past 14 years, the Reader's Digest Trusted Brands survey has investigated which brands in Australia have the best reputation among consumers.

ACTIVITY 13.3

MOST TRUSTED BRANDS

Visit the Reader's Digest Trusted Brands website and answer the following questions.

1. Which brands are identified as 'iconic'? Why are they identified as such?
2. Choose five of the other most trusted brands and describe the features that you believe each of these brands possesses to make it 'most trusted'. For example: Barbecues – a Weber barbecue is described as 'the cornerstone of outdoor cooking since late 1970s', producing outstanding meals, a quality and durable product, variety of designs, and good customer service ranging from technical help to recipe planning.
3. What do you believe makes a brand connect with the consumer?



Figure 13.5 A brand is a powerful business asset that is essentially a maker's mark.

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Importance of brand

A brand can convey a range of meanings: attributes, benefits, values, culture, personality and type of user. Taking the example of a luxury car such as a BMW, it is possible to analyse these brand meanings:

- Attributes of the product – a BMW suggests an expensive, well-built, well-engineered, long-lasting, high-prestige automobile.
- Benefits – both functional and social status. A BMW will last for a long time and can make some people feel important and admired for having this product.
- Values – this car says something about the manufacturer's values; BMW stands for high performance, safety and prestige.
- Culture – the brand may represent a certain culture. BMW represents German cultural traits of organisation, efficiency and high quality.
- Personality – a BMW projects a certain personality: high status and interested in on-road performance.
- Type of user – who would we expect to see behind the wheel of a BMW?





Figure 13.6 Luxury brands – BMW and Aston Martin

The importance of branding is recognised by luxury car manufacturers, such as Ferrari, Porsche and Aston Martin. These manufacturers know the value of cashing in on their highly regarded brand. They **leverage** this to market and sell branded clothing, key chains or other trinkets. These branded goods provide a profitable product line for such premium, low-volume car producers. Their growing non-car product lines underscore the power of their brands, but also the harsh realities of the car business: selling baseball caps and luggage can be more profitable than selling cars. This practice is known as **brand stretching** and occurs where a central logo is used as an umbrella for a range of products.

leverage using (something) to maximum advantage

brand stretching using an established brand name in order to introduce unrelated products

Another example of brand distinguishing a product is in the very large and competitive paint industry. The brand Dulux, with its motto (created in the 1970s) 'Worth doing, worth Dulux', conveys the image of quality attached to any paint product from its range. As part of its brand recognition, the company features an English sheepdog. The Dulux dog is seen as a powerful trademarked symbol of the Dulux brand for consumers. Research confirms that the inclusion of the Dulux dog in any promotional material increases the memorability and branding for the consumer.

ACTIVITY 13.4

1 Identify two luxury brands where the business is 'cashing in' on the brand name to gain an additional revenue stream; for example, Harrods department store in London.

2 Create a list of at least five products where the brand name has become accepted as the 'common name' for the product; for example, Karcher (water pressure cleaner).

3 Outline two different products and describe the range of meanings attached to those products in terms of: attributes, values, culture, personality and types of user.

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Figure 13.7 The importance of branding and brand recognition

Businesses that adopt a brand ownership strategy must ensure the strategy adequately promotes the brand, while also maintaining its quality. It is possible to register a brand name to protect its use. Over time, some brand names have become accepted in our common language as the generic name for a type of product. For example, plastic cling wrap is commonly referred to as 'gladwrap', a felt-tip pen as a 'texta', and a portable car fridge as an 'esky'. This kind of product recognition is a marketing advantage.

Businesses also now want to monopolise the colour they use in their brands. This has become an increasingly contested issue, with Red Bull winning a court case in 2002 against a soft drink distributor whose can used the same red, blue and silver combination with the same 'diagonal thrust' as the Red Bull can. In January 2006, Clark Rubber won an injunction against Oasis Foam and Rubber, which had painted its stores with blue and red on a yellow background, similar to the Clark Rubber colour scheme. In more recent times, BP wanted to register the colour 'green' under the *Trade Marks Act 1995* (Commonwealth), which can then protect its brand. This was opposed by Woolworths, which also uses this colour in its branding. Meanwhile, Cadbury and Darrel Lea fought a five-year legal battle in Australia's Federal Court over the right to use the colour purple in packaging and advertising. Cadbury wanted to gain sole rights to this colour. Cadbury was told by the Federal Court that it does not 'own' the colour purple for all its products, and its attempt to sue Darrel Lea was rejected.

A success story in the power of debranding resulted from the Australian government's requirement that from January 2012 all cigarettes be sold in plain packaging, with the boxes all being the same colour. The Australian Bureau of Statistics (ABS) reported that in the first year of the ban, tobacco sales fell by 3.4 per cent in 2013 from 2012. This legislative requirement is now being adopted by other countries, including Ireland, Britain, New Zealand and the Cook Islands.



Figure 13.8 Cadbury and Darrell Lea contested the ownership of the colour purple.

ACTIVITY 13.5

Name the colour you associate with the following brands:

1. John West
2. Commonwealth Bank
3. Toyota
4. Sara Lee
5. Domino's Pizza
6. Westpac
7. Coles
8. Swisse
9. Australia Post
10. Metro trains.

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An advertiser wants its product to be in front of people's eyes, wherever those eyes might be. **Product placement** has become very popular in television programs and movies. When you are next watching television or at the movies, take some time to count how many products are strategically placed in the show to subconsciously catch the eye. You may also want to count how many times an individual product appears or is mentioned during a television show that the business has sponsored.

product placement a method used to gain prominence of a product in the consumer's mind; for example, in television, movies or the internet

The internet has become part of the branding strategy of many businesses. The website for a business becomes a brand portal offering site visitors more than just straight product information. It offers opportunities to participate in activities such as games, puzzles, message boards, live chat, email, surveys and e-commerce. It aims to gain commitment from visitors to the website by building a virtual community around that brand of product.

For small business operators, deciding to stock branded products is a sound strategy as these products carry their own consumer recognition and brand loyalty. This will cut down on the amount of marketing a business will need to undertake.

Some large supermarkets offer products that have **generic brand** names, such as 'No Frills', 'No Name' or 'Essentials' brand. The brand attaches to the supermarket chain, rather than the various manufacturers of the product. These brands are produced by a variety of unacknowledged manufacturers, packaged plainly and therefore more cheaply. They do not receive a lot of promotion. These savings are then passed on to the consumer by way of lower prices for the product. In comparison, ALDI has its own 'brands', though not what consumers traditionally refer to as 'home brands'. A close look at the ALDI range of products will reveal that the colours used for its brands use the same colour palate as the well-known brands stocked by its competitors.

generic brand a brand that attributes its identity to the retailer rather than the manufacturer

The choice of the right packaging

The packaging of a product is very important and should not be overlooked. It has a multitude of purposes, including:

- acting as an advertisement, attracting attention and new customers
- building image, brand recognition and positioning the product in the marketplace
- differentiating the product from that of its competitors
- protecting the product – primary wrapper, secondary and transportation packaging
- tamper-proofing the product
- providing consumer information – ingredients, manufacturer and country of origin.

One of the most important considerations when designing packaging is colour. For instance, consumers associate certain colours with certain feelings and products: white (purity) with milk; red (warmth, passion and sensuality) with Coca-Cola; blue (professionalism) with IBM computers; purple (luxury) with Cadbury chocolates.

Labels can be used to provide information about the product, the manufacturer or retailer. Often the trademark of the business is displayed on the label. Labels can be part of the packaging of a product or attached directly to the product. Packaging, while very important from a marketing sense, has also come under greater consumer scrutiny and criticism, mainly due to environmental issues. The use of reusable packaging such as glass or recycled cardboard has helped overcome some of this criticism. Customers also choose products based on the convenience of the packaging. For example, Heinz moved from selling glass bottles of tomato sauce to also selling plastic, squeezable containers. White Wings flour is

label placed on a product to inform the customer/consumer with information such as manufacturer, ingredients and use-by date

ACTIVITY 13.6

Choose four products and analyse their packaging based on the following criteria:

1. design – use of colour, placement of logo or business name
2. consumer information; for example, ingredients, name of manufacturer, country of origin
3. level of packaging – primary or secondary
4. brand recognition
5. environmental friendliness.

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now available in a screw-top plastic jar as well as a paper packet. Producers should also think about portion sizes when designing their packaging. Not all households are large and therefore individual pre-packaged portions of items may lead to more sales.

P2 – Price

Price is the second component of the 7Ps of the marketing mix. The **price** is the amount of money paid by customers for a product or service. It is the customer who will ultimately determine whether the business-set price is correct. Pricing levels greatly influence the revenue and profit made by a business, helping to determine its financial success or failure.

price the amount for which something is sold

Correct pricing decisions are therefore some of the most important issues facing marketing managers. Businesses often apply different pricing methods to their portfolio of products, depending on costs of production, stage in product life cycle and competitive conditions within the market.

Pricing a product for the market is dependent upon a range of factors. When a business determines its pricing strategy, it must ensure that it covers the base price for the product, then takes into account the range of price adjustment strategies available. Outlined below are various factors that must be considered when determining the price of a product or service.



Figure 13.9 Price is the second component of the 7Ps of the marketing mix.

There are three main ways that the pricing of a product or service is determined.

1 Cost-based methods

A business will want to recover the total costs (both fixed and variable) associated with actually getting the product to the point of being ready for the marketplace. This requires the business to calculate its break-even point. Costs are normally calculated on a 'cost-per-unit' basis. A standard percentage **mark-up** (representing the desired profit margin) is then added to the unit cost to arrive at the sale price.

mark-up pricing determined by adding gross profit to the direct cost per unit; usually expressed as a percentage

2 Competition-based methods

It is normal for a customer to compare prices and quality between items being offered by a business and that of its competition. To be competitive in the marketplace, it is therefore very important to price products in a similar price range to competitors. This is referred to as establishing the **going rate**. While price is important, businesses need also to focus on other aspects of the business, such as customer service and **loyalty programs** to entice customers. If a business wants to be the market leader, it will have to adopt a **price leadership** strategy, thus setting the prices for other competitors in that industry.

going rate setting a price for a product or service using the prevailing market price as a basis

loyalty program a rewards program offered by a business to customers who frequently make purchases. It may give a customer advanced access to new products, special sales coupons or free merchandise.

price leadership a business that through its dominant market position is able to set prices that other businesses adopt

3 Marketing strategy methods

The pricing strategy will differ based on whether a business is introducing a new product or its product or service is already established in the marketplace.

When introducing a new product, a business may adopt one of the following strategies:

- Penetration pricing is where the price is set lower than that of competitors or the normal price for such a product. Its purpose is to get customers to try the product and then to create a long-term

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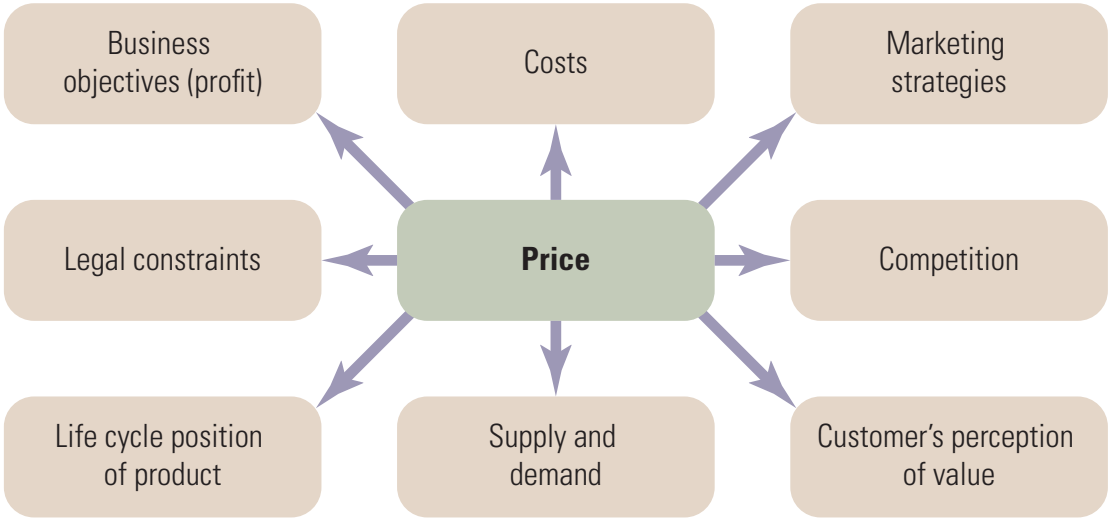


Figure 13.10 Factors that determine price of a product or service

relationship with those customers. It is hoped that these customers will still remain when prices increase to the level of normal competitive pricing for that product. Other forms of penetration pricing are introductory price discounts ('two for the price of one') and sampling.

- **Skimming pricing** is used for products that are of high quality and have an 'image' attached to them. The market is usually small and not seen as having potential to grow in size. The price charged is high relative to competitors, and is skimming off the 'cream' of the market.

skimming pricing a strategy where high prices are set to ensure high profits before marketing advantage is lost

If the product or service is established in the market there are a range of pricing strategies that may be used, namely:

- identifying one product as a loss leader where the price set on this product is set low in order to attract customers to buy other products in the range that have a higher profit margin
- adopting **psychological pricing** – used by manufacturers and retailers to make the price appear lower than it actually is. The price of $1999 appears lower than $2001; similarly, $0.99 instead of $1.01. Consumers also assume that some products, because of their image and quality, are going to be expensive. While the cost of producing perfume and cosmetics is not all that high, a large proportion of the cost is actually associated with the packaging to make the product look exclusive.

psychological pricing pricing strategy whereby the price is set in accordance with the value consumers place on the product

- using **complementary pricing** – where the price is set low on one item and high on another item that would normally go together; for example, suit, shirt and tie, coat and scarf.

complementary pricing where the price is set low on one item and high on another item that would normally go together

There are other factors that can affect the pricing of a product or service. Some products, such as fresh fruit and vegetables, are highly dependent on the level of supply, either directly from the growers or the wholesale market due to seasonal factors. When the marketplace is oversupplied with a product, the price will usually fall in the hope of attracting consumers to buy additional quantities. Just think of the price comparison between strawberries, mangoes and watermelons in summer and winter.

Demand is slightly more complicated in its relationship to price. Some products may have a price increase with little or no impact on the demand for the product. These products are referred to as being **price inelastic**, and generally tend to be essential items such as milk, bread and eggs. Products that have a large drop-off in demand due to a price increase are referred to as being **price elastic**, and generally tend to be non-essential items, such as movie tickets, leisure travel and restaurant prices.

price inelastic a fall or rise in price of a product does not impact on the demand for that product

price elastic the degree to which demand for a good or service varies with its price

The government may periodically regulate or control the maximum prices for certain products. It is often those items that are considered to be staples, such as milk, bread, eggs and petrol. The government

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Figure 13.11 Demand is slightly more complicated in its relationship to price.

also regulates prices through the provisions of the *Competition and Consumer Act 2010* (CCA), and in some instances prohibits certain pricing practices, such as:

- price fixing, which is when suppliers formally arrange with competitor suppliers to fix the same price for a product
- resale price maintenance, which prohibits product suppliers specifying a minimum price below which retailers must not resell or advertise their goods or services
- misuse of market power, which is when a supplier, having a substantial degree of market power, tries to eliminate or damage a competitor, prevent a person entering the market or deter a competitor from undertaking competitive practices.

P3 – Place

Place is the third component of the 7Ps of the marketing mix. It is very important that businesses place their product correctly so that it is accessible to the end user (consumer) when and where they want it. **Place** therefore involves making decisions to ensure that the right quantity of a product is in the right location, at the right time. It also means ways of displaying products to consumer groups. This could be in a shop window, but it could also be online.

place encompasses the distribution channels used to market products to customers; one of the 7Ps of the marketing mix

Distribution channels are used to provide the link between the manufacturer and the customer. There are two main types of distribution channels: direct and indirect.

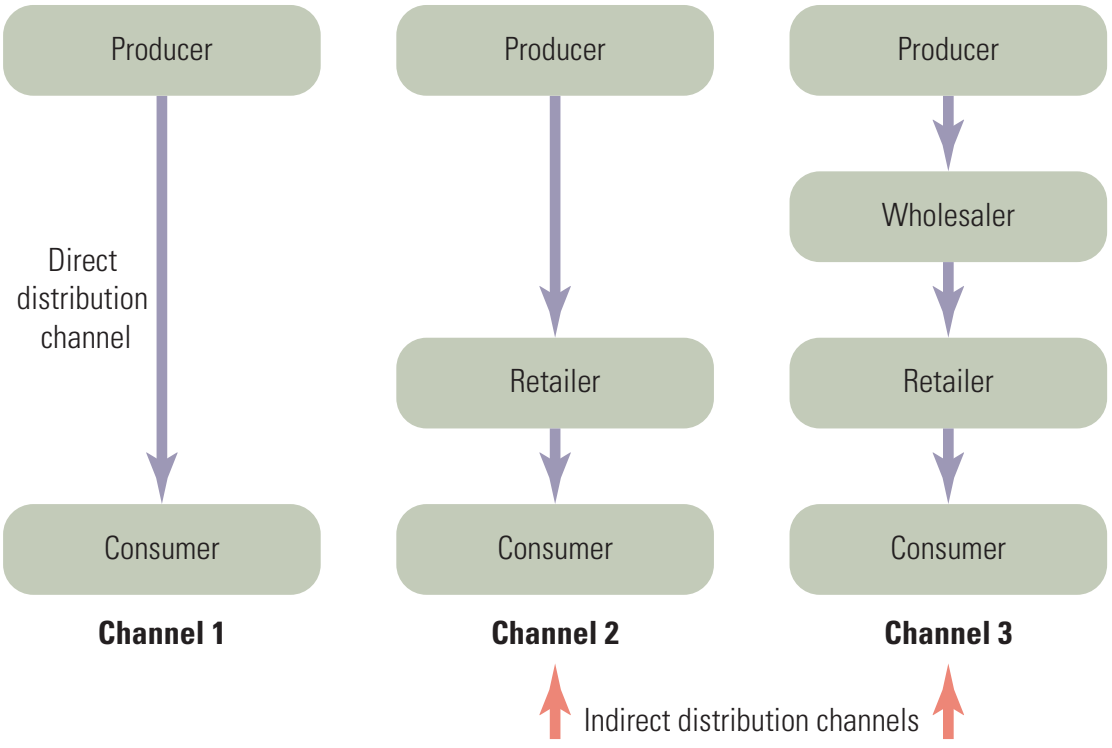


Figure 13.12 Direct and indirect distribution channels

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Direct distribution channel

A **direct distribution channel** enables the manufacturer or producer to sell their product directly to the customer. This method usually requires the business to invest in facilities and staff to sell their product; however, it allows them complete control of the marketing function. The internet has added to the popularity of this distribution channel, especially for services such as insurance and banking.

direct distribution channel a manufacturer sells the product directly to the customer

Indirect distribution channel

Traditionally, an **indirect distribution channel** involves the use of a retail outlet, where products are stored and displayed. It is a popular distribution channel for occasions when consumers want to purchase an assortment of items, the value of purchasing transactions is low and the market is fragmented and dispersed. In recent times, the concept of an online department store has evolved. Kogan.com is Australia's premier online shopping destination, running a 24-hour, seven-days-a-week operation offering TVs, phones, tablets, computers, audio, homewares, appliances, travel and pantry items. Another innovation is Aussie Farmers Direct, which is a free home delivery service supplying Australian grown and produced products, such as milk, cream, cheese, bread, eggs, bacon, orange juice and spring water, directly to the consumer.

indirect distribution channel a manufacturer sells their product to a wholesaler and/or retailer (intermediary) who then sells it to the customer

Often businesses will have a combination of both direct and indirect channels, as they have their own retail outlet where they employ their own sales staff as well as placing the product for sale through distributors. Industrial products are more likely to be sold directly with fewer intermediaries than consumer goods.

Logistics covers decisions relating to transportation, warehousing and storage of goods. Having an efficient logistics operation can provide a business with a strong competitive advantage.

Advantages of direct distribution	Disadvantages of direct distribution
• Cuts out the profit margins of the 'middleman' (retail intermediary) • Pricing and marketing of the product/service are under the full control of the manufacturer/ producer	• Manufacturer/ producer needs to warehouse the stock, adding to storage costs • Product is not on display in a retail outlet for the consumer to browse and make comparisons to other products

Table 13.3 Direct distribution to the customer

Advantages of indirect distribution	Disadvantages of indirect distribution
• Manufacturer/ producer has passed on the cost of holding and storing stock to a retailer • Manufacturer/ producer is given more freedom to focus on producing a product rather than also having to concentrate on selling the product	• Customers can view a wider range of items and make price comparisons • Marketing decisions relating to price are now out of the control of the manufacturer/ producer and are made by the retailer

Table 13.4 Indirect distribution to the customer

ACTIVITY 13.7

1 Visit the Kogan online department store website and describe how it undertakes the distribution of the products it sells.

2 Undertake an internet search to find which major retail stores have established an online store. Explain why you believe these businesses may have adopted this strategy.

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P4 – Promotion

Promotion is the fourth component of the 7Ps of the marketing mix. **Promotion** involves the business communicating with its actual or potential customers. Promotion is the element of the marketing mix that informs customers of the business's product or service while also convincing them of that product's ability to satisfy their individual needs or wants.

promotion the use of advertising, branding, sales promotion and public relations to inform and persuade consumers; one of the 7Ps of the marketing mix

For promotion to be effective, either short-term or long-term objectives must be established. A short-term objective may be to promote an end-of-season sale, while a long-term objective may be to change the whole image of the business. Other examples of some promotional objectives include:

- raising consumer awareness of a new or existing product
- reminding consumers of the existence of a particular product or service
- promoting distinctive features or superior quality of a product or service over those of its competitors
- creating and reinforcing brand image or personality
- correcting misleading reports about a product or service or reassuring the public after a crisis or accident relating to the product.

Once the promotional objectives have been set, it is time to decide what will be the appropriate promotional mix. This refers to the combination of promotional techniques that will be used to sell the particular product or service, or range of products or services.



Figure 13.13 Yates products are advertised at gardening supply stores.

Promotional techniques

Advertising

Advertising is a powerful medium of mass communication that is designed to:

- *inform* by giving information to potential customers about the technical details, product use, key features, price and where the product may be purchased. It is important to use this form of advertising when introducing new products. For example: The latest innovation in soluble fertiliser that offers no fuss feeding for your whole garden. Yates Thrive Easy Pods™ are easy-to-use premeasured pods of Thrive fertiliser that require no handling and make no mess! Read more at: http://www.yates.com.au/products/fertilising/water-soluble/thrive-easy-pods-all-purpose-soluble-fertiliser.
- *compare and persuade* by creating a distinct image or brand identity for the product. An advertisement can be used to persuade consumers to buy a product and not a competitor's, when there is really little difference between the products. It is the role of the marketer to build up the image of quality and difference between the products in the mind of the consumer. Larger, established brands use this strategy to try to get consumers to switch. For example, ALDI has been running comparative advertisements on its products, which highlight the price difference between well-known brands stocked by its competitors and its 'product of Australia' homebrand. One recent advertisement run by ALDI related to toilet rolls in an attempt to gain a slice of the market, currently dominated by three brands (Sorbent, Kleenex and Quilton), which is estimated to be worth $2 billion. Market research has shown that the main criteria for choosing this essential product is 'softness'. Both these criteria are noted on the packaging of ALDI's toilet paper 'Confidence'.

advertising informing potential buyers about a product

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Figure 13.14 ALDI has been running comparative advertisements for several of its products, including promoting its toilet paper over that of more famous competitors.

- *remind and reinforce* – when products are well established in the market, advertising is undertaken to remind consumers of the product's presence and reinforce what the product has to offer to consumers, so that a switch in preference is not made to the competition's product.

Forms of advertising media

After choosing the style of advertisement to be used, it is then the role of the marketer to select the most appropriate media for the advertisement that will best target the particular market segment they want to attract. For example, it would be a waste of money to advertise ladies fashion, jewellery and perfume in a computer magazine. Set out below are the most common forms of media used by marketers.

- Newspapers allow for large amounts of detailed information to be provided in advertisements, which can vary greatly in size, from full-page to very small. Small businesses would be more attracted to placing a small advertisement in a local newspaper, as a full-page colour advertisement in *The Age* could cost approximately $60 000 including GST for Monday to Friday, going up to $90 000 for Saturday. As newspapers generally run special-interest sections, it is possible to aim the marketing at particular market segments; for example, the 'Travel' section in a Saturday newspaper will have numerous promotions, special offers and advertisements for local and overseas holidays. Newspaper publishers, while still offering a print version of their newspapers, also operate multi-media platforms that extend to desktop, mobile and tablet coverage.
- Television is a very expensive medium that can provide high impact, as it relies on a combination of visual, movement, sound and special effects to communicate the message. It lends itself best to simple messages delivered in 30-second time frames. Products can be demonstrated as well. With the popularity of channel surfing using remote controls, and time shifting using a digital video recorder, potential audiences can easily miss or skip over the advertisement.
- Radio has a wide reach and the ability to target market segments, particularly those based on age, music styles and areas of interest. As radios are often in the background when people are working,



Figure 13.15 Dulux Paints always includes an image of an Old English Sheepdog to remind or reinforce the market of its iconic brand image and name.



Figure 13.16 The masthead of *The Age*

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studying or driving, it means that attention can in fact be at a low level.

- Magazines are appealing due to the high quality of their print and colour. They are ideal for marketing fashion items, food and anything associated with glamour. Magazines are usually read in a leisurely manner and passed on to multiple readers, so they extend the longevity of the advertisement's time frame.
- The internet is regarded as the fastest-developing advertising medium. It allows a business the opportunity to advertise its products to both a local and global market. The number of retail outlets in Australia adopting an online presence increased by 7 per cent in 2015, with an estimated worth of $22.1 billion. This medium can provide consumers with easy access to details of products and their prices and allow them to make comparisons. The consumer can then decide whether to make a purchase online or go into a bricks and mortar store. The advertisements may appear as part of the website of a business or as a 'pop-up' window on another site. Due to their annoyance factor, these pop-up advertisements can actually be counter-productive.
- Social media platform – Instagram. Many Australian businesses have adopted this social media platform. For example, Tourism Queensland has entered into a marketing campaign to attract overseas travellers, where holiday and happy snaps are being used to promote destinations in Queensland (see Cambridge weblinks: http://cambridge.edu.au/redirect/?id=7004). Other brands such as Vegemite, Philadelphia Cream Cheese, Ben & Jerry's ice-cream, Flight Centre, Toyota, Audi and McDonald's are also advertising on Instagram. SnapChat is another social media tool that has the potential to provide advertising opportunities. It is not widely used yet by marketers, but it is predicted that once it is adopted by the millennials, followed by the baby boomers, it will become a powerful advertising medium.
- Direct mail is the most personal and selective of all advertising media. Lists of names and addresses can be purchased, which have already undergone sorting based on various demographic or target segmenting characteristics. Costs can arise due to printing and postage fees, but there is less waste circulation.
- Outdoor advertising occurs using a wide range of techniques, such as billboards, neon signs, bus and tram shelters, railway stations, backs of taxis and sides of buses. It can reach a large percentage of the population, but is only appropriate for very simple or reminder messages.
- Yellow Pages is available both in print and electronic format. It is still a popular, low-cost medium used by small- and medium-sized businesses.



Figure 13.17 Outdoor advertising opportunity

ACTIVITY 13.8

Create a chart and provide an example of an advertisement based on each of the nine advertising styles listed above.

Advantages of advertising	Disadvantages of advertising
• Reaches a broad or mass market • Acts to persuade if creative techniques are used • Able to target market segments through directed media (e.g. teenage girls through *Girlfriend* magazine) • Able to create powerful brand image and product recognition	• Expensive and difficult to gauge effect • Impersonal • Inflexible or not as compelling as a salesperson • Consumer is able to tune out

Table 13.5 Advantages and disadvantages of advertising

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Direct marketing/selling

If a business wishes to develop a closer relationship with its customer (target market), direct marketing is a way to do this. The marketing tools used are: direct mail, directed catalogues, mail-outs, phone calls, personal visits or emails. Technology has seen the expansion of direct selling into the area of telemarketing, where sales staff is employed to sell products over the telephone, instead of face to face. Telemarketing saves a business money and time by not requiring salespeople to travel or sell on a door-to-door basis with no guarantee of a sale. Using the telephone, sales personnel are able to work through a far larger portion of the target market in a smaller time, arranging both payment and delivery details at the same time. It can also be cost-efficient, as all sales staff are located at one central call centre and do not need to be provided with transport. As many sales staff earn commission on the value of sales received, this form of promotional payment acts as a motivator to increase their sales performance.

Advantages of direct marketing/selling	Disadvantages of direct marketing/selling
• Allows for one-to-one personalised communication with targeted market • Increases opportunity for customer loyalty and higher frequency • Flexible	• Could be seen as invasion of privacy, as customer questions where/how you gained their personal details • Negative image of direct mail and unwanted phone calls (particularly at meal times) • Relatively expensive due to high costs of making direct contact rather than the broad approach of advertising

Table 13.6 Advantages and disadvantages of direct marketing/selling

Sales promotion

The **sales promotion** technique is used to entice a customer into purchasing a product in the belief that they are gaining some economic advantage. The incentives to purchase may be immediate; for example, a product being offered as a bonus pack or free samples attached to the regular product. Alternatively, the incentive may be delayed, where a customer needs to send in a coupon or save up points in order to gain a reward. The promotional objective must be clearly defined by the business as to whether it wants a short-term increase in sales or a long-term relationship with the customer.

sales promotion use of incentives to encourage increased sales; for example, free gifts, competitions, 'buy one, get one free'

For instance, a marketing campaign can offer discounted accommodation packages to entice travellers to stay at a new resort opening in a highly competitive marketplace or to increase occupancy rates in off-peak periods. Using this marketing strategy has two outcomes: namely, a higher occupancy rate (i.e. more guests) while in overall financial terms it may not be judged as successful. This is due to the costs the hotel has to bear to ensure all its facilities are fully operational while only gaining a smaller revenue increase, due to the heavily discounted marketing offer.

Advantages of sales promotion	Disadvantages of sales promotion
• Provides additional support (reinforcement) to an advertising campaign • Offers short-term incentives to increase sales, without long-term pricing implications • Provides opportunity for immediate feedback on effectiveness of the technique	• A technique that can be easily copied and improved upon by competitors • Short-term solution to product promotion, but does not generally lead to long-term improvement in product sales

Table 13.7 Advantages and disadvantages of sales promotion

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Figure 13.18 This advertisement uses the sales promotion technique to promote a quality accommodation package at a bargain price.

Sales promotion techniques are used on both consumers and those in the trade (retailers). The economic advantage for the retail outlet may come in the form of buying allowances, cooperative advertising and point-of-sale material, trade shows and training to motivate staff to improve sales performance.

Personal selling

Personal selling can be the largest single operating expense of a business. To make this expense cost-effective, it is therefore important that sales personnel are adequately trained in their product knowledge and interpersonal skills. The days of the stereotypical 'loud mouth salesman' are hopefully gone, replaced with a professionally trained problem-solver who has something to contribute to the business and its customers. A salesperson should be someone customers can trust for accurate product advice and ethical behaviour. This helps form the basis of relationship marketing.

personal selling product is sold by a salesperson, preferably trained



Figure 13.19 Bunnings prides itself on employing qualified tradespeople as its sales staff.

Advantages of personal selling	Disadvantages of personal selling
• In person (customer is actually dealing with a salesperson who has product knowledge) • Immediate answers to questions posed by customer • Ability to ask and answer questions • Immediate feedback – not left to wonder what the answer will be; can gain a response even by body language or facial expression	• Business needs to make sure sales staff are trained and adequate staffing levels are maintained to satisfy needs of customers • Largest single operating expense of a business and costly on a per-customer basis • Unless a large sales force is used, it may only be possible to reach a limited number of customers

Table 13.8 Advantages and disadvantages of personal selling

Internet marketing (website)

The website of a business is often the customer's first experience of the business, so it is important to make a good impression. This promotion technique involves all online marketing activities used to promote and sell the goods and services of one business to another business (B2B) or a business selling to the consumer market (B2C). It is important that the web address of the business is included in other forms of promotional activities and communication such as advertisements, sales brochures, product specification sheets, letterheads, business cards and even delivery and service vehicles.

When adopting this form of promotion, there are some considerations that need to be analysed by the business:

- Do the goods or services have online promotional potential, and how can that potential be used? For example, goods or services that require a firsthand experience or demonstration in order to appreciate their benefits would be more difficult to sell online. Similarly, if the product is currently

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Figure 13.20 The website of a business is often the customer's first experience of the business.

widely available from a retail outlet, such as grocery items, there must be some additional incentive to using this promotional strategy as a purchasing method.

- What type of website does it need – one that, while simple and easy for customers to use, adequately reflects its corporate brand and image?
- How does it get customers to visit its website? Promotional strategies will only be successful if sufficient visitors are attracted to the website.
- How should the goods or service be advertised on the internet? Should banner advertising be used to draw customers to the site? (Banners are the headline advertisements seen on the top of popular websites.)
- Can it be registered through a search engine so that customer product or service enquiries are directed to the website?
- Can it get referrals by using links to other websites?

Mobile marketing

As there are now more mobile phones than people in Australia, it is hardly surprising that the mobile phone is becoming a means to market products and services. With the advent of smartphones and other sophisticated handsets, some businesses are now making use of the location-based services (GPS function) on phones for target marketing to people in a geographic area.

Publicity and public relations

Publicity is a 'free' form of mass communication that is different from advertising, which attracts a cost. The role of a publicist is to attract favourable attention to the business and what it offers without having to pay media costs. The common tools used by publicists are press releases, product launches, special events, lobbying and sponsorships. Public relations activities involve communication aimed at developing a favourable corporate and product or service image. The communication can take the forms of advertising and/or publicity and acts to support other marketing strategies.

publicity a 'free' form of mass communication with the aim of attracting favourable attention to a business

ACTIVITY 13.9

Visit four of the following websites and answer the questions below.

- Myer
- Nike
- Australian Football League
- Virgin Australia
- Cadbury
- Melbourne Victory Football Club
- Triple J

1. Identify the aim of the website.
2. What gender and age do you think is the target market for the products or service of the business?
3. Identify and describe strategies used on the site to gain further commitment and brand loyalty.
4. Estimate how long you spent browsing the site. Would you visit it again?

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Advantages of publicity and public relations	Disadvantages of publicity and public relations
• Low cost, as the business generates the communication • High credibility • Allows the business to build a positive brand image	• Difficult to be in total control of the publicity a business receives • Can be negative as well as positive

Table 13.9 Advantages and disadvantages of publicity and public relations

ACTIVITY 13.10

For the products and services listed below, identify which form(s) of promotional technique you recommend would be best to market that product or service. Justify your choice.

1. Car
2. Local restaurant
3. Home cleaning service
4. Solar heating
5. A school
6. Bank
7. House builder
8. Gymnasium/fitness centre
9. Accountant
10. Tutoring service

CASE STUDY 13.1

Metro Trains – a creative way to market a service

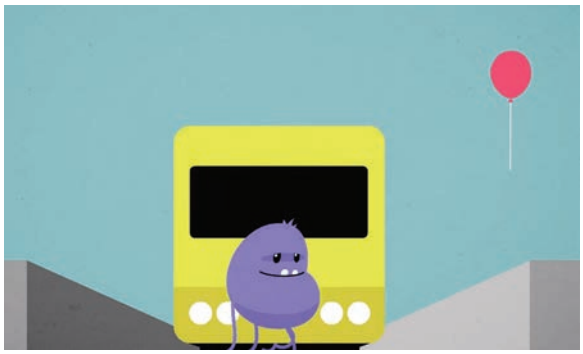


Figure 13.21 'Dumb Ways to Die'

Metro Trains Melbourne (Metro) is owned by a consortium of rail and construction businesses, namely Hong Kong's MTR Corporation (60 per cent shareholding), John Holland (20 per cent shareholding) and UGL Rail (20 per cent shareholding). All three businesses have a long and successful history of working together, bringing their expertise to both local and international rail industry projects. In 2009, Metro took over operating the metropolitan train network in Melbourne. Metro now employs more than 4600 staff in areas such as customer services, train services, head office, engineering and maintenance and projects. Its operations around metropolitan Melbourne involve:

- running 210 six carriage trains across 869 kilometres of rail track
- operating and maintaining 15 lines with 218 stations
- transporting 415 000 customers each day, with rail patronage of 227.5 million trips per year
- providing seven days a week service.

Metro states that it is strongly committed to providing the Melbourne community and its visitors with a comfortable, safe and reliable train network as part of an interconnected public transport service. In order to achieve this aim it has established a training academy for staff to improve their skills, improved the performance and reliability of its rolling stock (i.e. trains), developed 'greenfield' timetables (i.e. thrown out old timetables and established new ones), systematically tackled any

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CASE STUDY 13.1 continued

industrial relations issues and established an 'every minute counts' philosophy throughout the organisation.

Brand development is important to Metro, and in recognition of this it has introduced initiatives such as new uniforms and improved communication using newspaper advertisements to advise changes in scheduled train services. Additionally, it interacts with customers by making announcements at the stations accompanied by screen displays.

A marketing campaign about train travel aimed at highlighting the significance of safety to youth with a message that they could relate to without alarming them was extremely successful. It was titled 'Dumb Ways to Die' and was the highest awarded campaign in the history of Cannes. The real success of the marketing campaign is that it was reported that 127 million people have affirmed they would be safer around trains due to it. The 'Dumb Ways to Die' song reached the top 10 chart of iTunes and the associated video accumulated close to 100 million views. Do a search via your preferred browser for more information on this campaign.

(Source: Based on author interview with Leah Waymark, Chief Corporate Relations and Business Development Officer/CEO of 'Dumb Ways to Die'; and Metro Trains website.)

Analysis

1. Briefly describe the operations of Metro Trains.
2. Identify what Metro Trains believes is important when endeavouring to provide good customer service.
3. Describe the strategies Metro Trains used to improve its approach to communicating with its stakeholders.
4. Outline the ways that Metro went about developing and improving its brand.
5. Describe the novel approach to marketing adopted by Metro in its quest to improve train safety for its passengers.
6. Evaluate the effectiveness of this marketing campaign.

P5 – People

Every person in a business who has contact with a customer makes an impression. Often customers find it difficult to separate the product or service being offered from the staff member who provides it. Staff therefore can have a profound effect – positive or negative – on the level of customer satisfaction.

Staff must be appropriately trained, motivated, have the right attitude and be suited to their role. If a customer is happy with their treatment they become a powerful advocate for the business and its brand. In addition to pre-sales support and advice, if a business can provide the same manner of service post-sale, this can often become more important to a customer than the price paid for the product.

A company that believes in this approach to marketing is DuluxGroup. In support of its excellent brand image, it has established a training academy where its qualified and experienced trainers provide courses on the DuluxGroup range of products. The courses are provided to retailers of its products. They are designed with both theory and practical components and are held at different levels; for example, induction, intermediate, advanced and refresher. The aim is that trainees will progress through these levels and use this knowledge to provide better customer service and sales support at their retail outlet.



Figure 13.22 A company that believes in the 'people' approach to marketing is DuluxGroup.

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Figure 13.23 Cotton On logo

The Cotton On Group is another business that believes that 'its people' are at the heart of everything it does. Cotton On is an extremely successful Australian company established in 1991, whose offerings through its eight branded stores include womenswear, menswear and accessories. Its aim is to deliver value fashion and quality basics designed to exceed its customers' expectations. Cotton On believes in providing education opportunities to its people and has created an educational platform called COG Uni. The courses delivered are regarded as world class and cover both personal and professional development qualifications for employees.

P6 – Physical evidence

Physical evidence can take a variety of forms:

- It can refer to the evidence that shows a service was performed. This acts to remind or reassure the consumer that the service took place, regardless of whether it was a positive or negative experience. Almost all services include some physical elements even if the bulk of what the consumer is paying for is intangible. For example, a hair salon provides its client with a completed hairdo. Not only does the hair salon keep contact details for the client, it also records what treatment was provided; for example, foils and colour of dye. In addition, the salon would be expected to provide a pleasant waiting area, reading materials, access to coffee and tea for its customers. An insurance company would provide its customers with some form of printed advertising material and then follow up with more formal printed material, such as a quote.
- The physical environment in which the consumer experiences the service; for example, when flying this would be the type of aircraft, its ambient conditions, seating layout and any directional signs. Ambient conditions relate to temperature, smell, sound, colour, music and noise and these can impact both positively and negatively on consumers as they experience the service. Marketers need to match the ambience to the service being delivered; for example, bakery smells wafting through a supermarket, relaxing and calming music in a health spa, loud noise and bright lights at a pop concert.



Figure 13.24 The AFL and the MCG

ACTIVITY 13.11

MARKETING YOUR SCHOOL

Each year your school will undertake a marketing campaign to attract student enrolments for the following or subsequent years.

1. Identify the ways that your school markets itself to the community.
2. Walk around your school and note down the physical evidence that relates to the marketing of the school. Compare your observations with other class members.
3. Propose some improvements that would better market your school to the community.

- The signs and symbols of the business that supports its image and identity; for example, the building, office or shop where the business is located and how it is furnished. Is it prestigious, purely functional or minimalistic? Other areas where the physical evidence is apparent is in the brochures, packaging, web pages, signage, business cards and paperwork (e.g. invoices, tickets). When you go to an AFL match you will observe numerous examples of physical evidence; for example, your tickets with the team's logo printed on them, players wearing their team colours and clothing. The MCG itself has its own physical presence and atmosphere.

P7 – Process

Customer satisfaction is becoming increasingly more important to marketing success. The process

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through which a customer finds out about a business, researches its products, chooses and purchases the product, the actual delivery of the product or service, and the behaviour of those involved in the delivery process are all factors crucial to customer satisfaction.

First impressions are always important to consumers – was it gained offline by coming into a shop or office or online via the website? Either way, a business must strive to make the impression 'good'. The processes within the business should be designed for the customer's benefit; this means:

- keeping customers fully informed either personally or via electronic media
- keeping wait times to a minimum, either face-to-face or via the business's website
- staff being knowledgeable, courteous and helpful
- providing efficient customer service.

13.3 Features and value of customer relations strategies

Every business needs to 'acquire, retain and grow' relationships with its target customers and market. For a business to achieve this, it must adopt strategies and activities that work on developing relationships with its clients, gaining customer loyalty and bringing value to its brand. This is referred to as **customer relationship marketing (CRM)**.

customer relationship marketing (CRM) a business process which uses marketing strategies and activities to develop relationships with clients, gain customer loyalty and bring value to the brand



Figure 13.25 The valued repeat customer

When selling any product, knowing who your buyer is (i.e. your target market) is imperative if you intend to be successful. For example, if you have a meat business you would probably not target a marketing campaign to a vegetarian society.

In September 2015 the Myer department store chain decided to launch a new marketing strategy and changed its product range. The strategy included an aspiration to improve the customer experience. Myer's strategy was now concentrated on appealing to and maintaining 'high value' customers. Customer relations was essential to its success.

After an analysis of market research was completed the results disclosed that 60 per cent of 'high value' customers were more inclined to shop at Myer than others. These customers surveyed currently did 7 per cent of their shopping at Myer. The results revealed that gender or age was not a factor in the responses. What the market research did show, however, was that customers were sincerely interested in brands and fashion. These customers are 'high value' because their interests were not necessarily catering to specific needs but more to specific wants.

Quality service

Providing excellent customer service gives value to a business and also acts as a way of differentiating that business from its competitors. We all have our favourite shops and places to eat – but why do we keep going back to them? Is it because of quality customer service or something else? The quality of customer service of the business can be judged by:

- the actions of the employees; for example, how they deal with customers, whether they have good product knowledge
- providing prompt service to customers both pre- and post-sale
- being responsive, accessible, available and willing to help your customers whenever they have a problem
- establishing a policy for dealing with customer complaints or return of goods.

Providing good quality customer service can bring many benefits to a business, namely:

- reducing marketing and in particular paid advertising costs due to favourable 'word-of-mouth' advertising
- stronger customer loyalty
- gaining a competitive advantage
- staff gaining pride in and satisfaction with their work.

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Figure 13.26 Good customer relations are invaluable.



Figure 13.27 Some customer rewards cards from different businesses

Customer loyalty programs

The use of loyalty programs is extensive and can take the form of earning points, getting special offers, freebies and discounts. Using loyalty programs, particularly in retail, gives customers an incentive to keep coming back to that store.

A recent market survey published in *Choice Magazine* (March 2016) found 'that four in five shoppers tend to buy more from businesses whose cards they hold, and 55% said that when choosing between two similar companies they'll usually pick one with a loyalty scheme'. The research also found that these programs did not actually build an emotional attachment to the brand.

Loyalty schemes for a business can be very expensive; however, this doesn't stop their use. It is estimated that the Woolworths Rewards program costs it approximately $500 million annually to run. Businesses do, however, gain a lot of information about consumers through the use of loyalty cards. Every time the card is used, the transaction is recorded against the consumer's account. Over time the business is able to create a profile of the consumer's habits: what and when they buy, how they spend and how they pay. Retailers use this information as a way of getting to know the 'real you' as a consumer so they may promote their goods and services in a way of most interest to that consumer. This strategy is referred to as target marketing.

Woolworths also sees great worth in adopting the innovative practice of using 'big data'. While it already collects and uses data about its customers from its loyalty program Woolworths Rewards, it wants to be able to better analyse the shopping habits not only of its own customers but all shoppers. One interesting result that has already been identified by Woolworths when it combined its accident data from its insurance policies with data from its loyalty scheme is that customers who drink lots of milk and eats lots of red meat are very good insurance risks versus those who eat lots of rice, fill up their petrol at night and drink spirits. To assist Woolworths adopt this innovative practice of using 'big data' in May 2013 it bought for $20 million a 50 per cent stake in data analytics firm Quantium. Spending this amount of money confirms that using 'big data' is certainly an approach that businesses believe will enhance their results.

(Source: B Connolly, 'Quantium helps Woolworths get personal with customers, CEO says', CMO website, August 2014.)

Loyalty reward schemes are big business for the airlines, such as Virgin and Qantas. Virgin Australia Holdings earned more than half of its domestic profits from its loyalty program, Velocity, in the first half of the 2015 financial year. Velocity currently has 4.8 million members, and has set itself a target of increasing that figure to 7 million members by 2017. Its rival, Qantas, has 10.3 million members in its frequent flyer program.

Many small businesses also use customer loyalty programs as a method of boosting their revenue through the support of repeat customers. Research has shown that retaining customers is less costly than acquiring new ones. The program provides the business with a way of saying thank you to its

ACTIVITY 13.12

CUSTOMER LOYALTY CARDS

In your class conduct research with your class members to determine:

- How many students have customer loyalty cards?
- Which shops/business are they for?
- Have they gained any benefits/rewards from these cards?

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customers who then often work as unpaid advertisers for the business due to their 'word-of-mouth' comments. A small coffee shop can use its loyalty program and quality customer service as a way of competing with the big-brand coffee chains.

Corporate social responsibility issues to consider when establishing a customer base

Corporate social responsibility (CSR) is an important way to increase the competitive advantage of a business. For its customers, CSR can raise brand awareness and build trust, which are two very important factors when wanting to establish a customer base. A positive approach to social responsibility improves the public image of a business as well as its relationship with its customers.

Differentiating a product or service from a competitor is one strategy used by businesses when seeking to establish their customer bases. The strategy of sourcing raw materials from sustainable sources is one way a business can be judged as having strong ethics and being socially responsible in its business practices. The unique attributes of sourcing raw materials from sustainable sources is often valued by customers who are then willing to pay a premium price for the product. The business hopes that the higher price will more than cover the extra costs incurred in offering this unique product.

Green marketing is the marketing of products that are presumed to be environmentally preferable to others. Thus, green marketing incorporates a broad range of activities, including product modification, changes to the production process, sustainable packaging, as well as modifying advertising.

green marketing the marketing of products that are presumed to be environmentally preferable to others

Businesses are increasingly using environmental claims as they realise these can be a powerful marketing tool while also being a way to differentiate themselves and their products from their competitors. Environmental claims are now relevant to a larger product range, from small household items such as nappies, toilet paper, cleaners and detergents to major white goods and appliances. Many consumers consider environmental claims, such as energy efficiency, to be a major factor when evaluating products such as refrigerators, freezers, washing machines, clothes dryers and dishwashers prior to purchase. The Water Efficiency Labels and Standards (WELS) scheme provides water efficiency information based on a one-to-six-star rating – the more stars the more water efficient the product. The following products are covered by the WELS scheme: showers, taps, toilets, washing machines and dishwashers.



Figure 13.28 Water and energy ratings

ACTIVITY 13.13

RATINGS ON APPLIANCES

Check your appliances at home to see which ones have rating stickers attached to them.

1. What is the rating (either energy or water) on the appliance?
2. Was the rating an important consideration when purchasing this product?
3. Would the rating (water and/or energy) be an important consideration for you when buying products in the future?

Claims commonly made by business when marketing their products are:

- This product is environmentally sustainable.
- Made from recycled materials.
- Energy and water efficient product.
- No animal testing used.
- Does not affect the natural environment.
- Carbon neutral.

The Australian Competition and Consumer Commission (ACCC) has published a checklist to help businesses and marketers making environmental claims on products or advertising these products, so they do not contravene *Australian Consumer Law* (ACL). Businesses found guilty of misleading or deceiving consumers in any way can attract serious penalties of up to $1 million for companies and up

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to $220 000 for individuals as well as injunctions, adverse publicity orders, corrective advertising orders, community service orders and disqualification orders.

The ACCC states that when making environmental claims on products, businesses should:

- Avoid using terms like 'safe' and 'friendly' and unqualified pictures or graphics.
- Spell out exactly what is beneficial about a product in plain language that consumers can understand.
- Link the environmental benefit to a specific part of the product or its production process, such as extraction, transportation, manufacturer, use, packaging or disposal.
- Make sure claims made about the product can be substantiated, e.g. What scientific authority could be used to justify the claim?
- Explain how the product's characteristic is beneficial to the environment, e.g. phosphate-free product is less damaging in river systems because phosphate promotes algal growth, which can clog up rivers.
- Avoid giving the impression that the product is completely environmentally benign if it is not.
- Use the claim only in an appropriate context or setting, e.g. do not claim a product is not tested on animals if it is a product that would never be tested on animals anyway.

(Source: ACCC, 2011, *Green Marketing and the Australian Consumer Law*.)

ACTIVITY 13.14

YOU BE THE JUDGE

Read the statements below and suggest what additional information the marketers should provide to ensure that these claims are not misleading to the consumer.

1. A can of tuna has a picture of a dolphin as a symbol to mean the tuna has been fished in a manner that does not harm dolphins.
2. A company has advertised its energy as 'green' with no indication of the percentage of energy it has obtained from renewable sources.
3. A business is claiming its products are 'carbon neutral'.
4. This product is 'environmentally safe'.

Figure 13.29 Businesses found guilty of misleading consumers may face serious penalties.



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Chapter summary

- The marketing mix recognises 7Ps – product, price, place, promotion, people, physical evidence and process.
- Products can be classified as business or consumer items (convenience, shopping, speciality or unsought).
- Products go through a five-stage development process.
- Products experience a product life cycle (introduction, growth, maturity, decline/extension) and marketing strategies differ throughout the life cycle of the product.
- A brand acts to identify and differentiate one manufacturer's product from another manufacturer's product.
- Packaging of a product has a multitude of purposes with labels providing important information.
- Price and its level greatly influence the revenue and profit made by a business.
- There are a variety of methods used to set prices: cost-based, competition-based, mark-up and marketing strategies such as penetration and skimming.
- Place involves decisions that relate to having the right quantity of product in the right location at the right time. Distribution channels can be direct or indirect.
- Promotion is how the business communicates or connects with its customers.
- There are a variety of promotional techniques, including:
  - advertising using media such as: newspapers, television, radio, magazines, internet, social media, direct mail, outdoor advertising and Yellow Pages
  - direct marketing/selling
  - sales promotion
  - personal selling
  - internet (websites)
  - mobile marketing
  - publicity and public relations.
- People are often the first point of contact to make an impression. Staff must be trained, motivated and suited to their role.
- Physical evidence can demonstrate that a service was provided or create an environment where the consumer experiences a service. It also covers signs and symbols that support image and identity.
- Process covers how a customer finds out about a product, researches that product, chooses and then makes the purchase. It is also how the product is delivered and the behaviour of those involved in the delivery process.
- Customer service is fundamental to acquiring, retaining and growing the target market of the business. Providing quality service and loyalty programs form an important part of this.
- Corporate social responsibility provides a business with a way to increase its competitive advantage.
- Green marketing involves the marketing of products presumed to be environmentally preferable to others. If businesses mislead their customers, they can face serious penalties.

Chapter summary questions

1 Define the following terms and then use each in a sentence to demonstrate your understanding:

a brand
b retail
c distribution
d promotion
e psychological pricing
f product line
g B2C website
h product placement
i penetration pricing
j green marketing.

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2 What pricing policy would you recommend the following businesses adopt:
   - **a** a school cafeteria
   - **b** a ladies clothing (fashion) boutique at the start of the summer season
   - **c** a ladies clothing (fashion) boutique at the end of the summer season
   - **d** a greengrocer in a local shopping strip
   - **e** a local hardware store located near a store of a very large hardware chain.
3 Direct-to-consumer and factory outlets have become a very popular shopping alternative. From the point of view of both the manufacturer and the consumer, explain why they are successful.
4 List and explain which would be the best promotional techniques for the following products and services. Provide more than one technique for each product or service.
   - **a** Deodorant
   - **b** Hair care products
   - **c** Books
   - **d** Weight loss programs
   - **e** Cars
   - **f** Paint
   - **g** Gardening products
   - **h** Sporting equipment
   - **i** Legal services
   - **j** Restaurant
5 What physical evidence of marketing would you expect to receive when attending a pop concert?

Extension questions

1 Choose one product that would be classified as a staple convenience good (i.e. purchased frequently and without much effort), such as toilet paper or toothpaste.
2 Choose one product that would be classified as a shopping good (i.e. a comparison is made between goods based on certain criteria), such as furniture or household appliances.
3 Analyse the purchase of both the above products based on which of the following factors were important when making the purchasing decision.
   - **a** Product – where did it fit in the product life cycle?
   - **b** Packaging – attractive, appealing to the eye, amount of information it contained about the product.
   - **c** Price – what pricing policy do you believe was adopted for this product? Was it on a mark-down table, how did it compare to the price of a competitor's product, etc.?
   - **d** Promotion – what techniques were used to attract you to the product?
   - **e** People – were the salespeople good at their job and did they convince you to buy the product?
   - **f** Physical evidence – will you receive a keepsake from buying this product?
   - **g** Process – was the purchasing and after-sales service good?
   - **h** Green – were environmental attributes a factor in clinching the deal?

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CHAPTER 14
Public relations

Key terms

- crisis
- crisis management
- media release
- public
- public relations
- sponsorship

Overview

In a business environment where legal action against businesses is increasing, many businesses are turning their attention to how they can protect one of the most valuable assets they have – their business reputation. While unfavourable judgements can be challenged in a court of law, public opinion is more difficult to change – the reputation of a business can be permanently tarnished by negative perceptions of it. It is important that a business has public relations strategies to create and maintain a positive image and that this is managed at the strategic level. Furthermore, businesses need to ensure that planned and crisis management strategies are in place to protect the business's reputation. There are significant implications if a business fails to do so.

Key knowledge

In this chapter students will learn about:

- An overview of public relations and its relationship to business objectives
- Public relations strategies such as planned and crisis public relations, the importance of maintaining a positive relationship with the customer base and the implications if this relationship is not maintained.

What's ahead

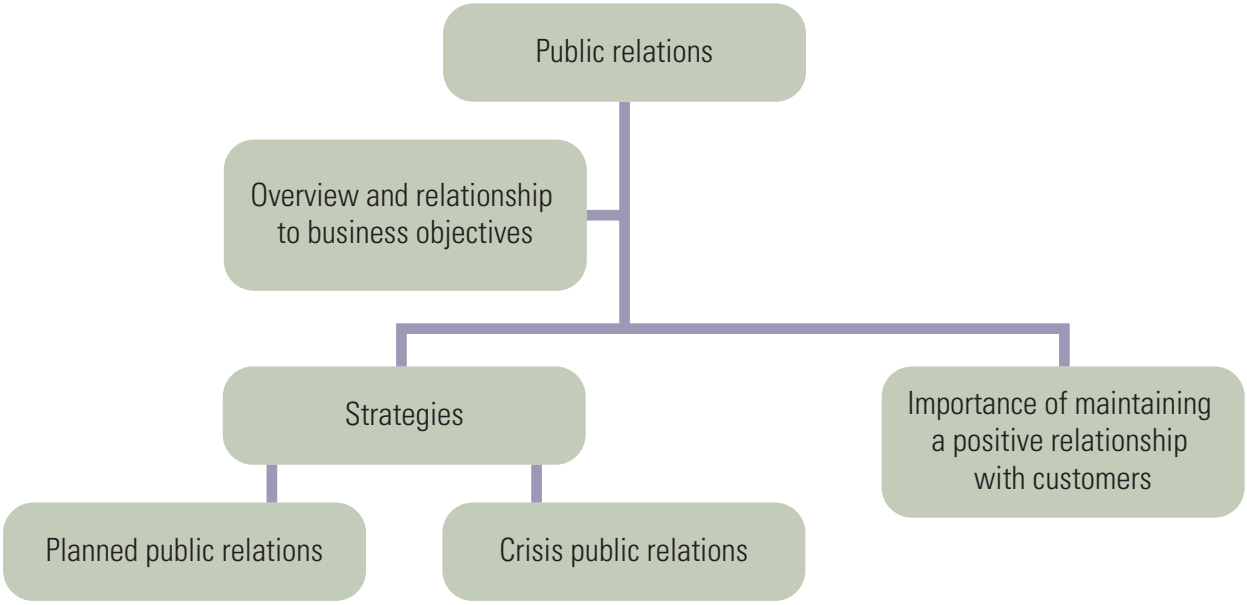


Figure 14.1 Public relations and its role in business



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14.1 Public relations and its relationship to business objectives

The role of **public relations** (PR) is vital – businesses that develop effective networks and PR strategies will often find their exposure to the public increased, usually at little cost to the business itself. Businesses can build a reputation by pursuing free media publicity through events, community involvement and social and other media. Some businesses also engage in charitable activities to convey a positive image. A large proportion of media stories develop from PR leads, so businesses need to tap into this resource to enhance their profile, which can flow into increased sales and market share.

public relations the way businesses communicate with the public and media with an aim to create and maintain a positive image and create a strong relationship with their audience

What is public relations?

There are a number of definitions of public relations, including:

- Public relations is the practice of promoting goodwill among the public to present a favourable image.
- Public relations is primarily concerned with the image of the business portrayed to the public.
- The British-based Chartered Institute of Public Relations has defined public relations as 'a deliberate, planned and sustained effort to establish a relationship between a business and its public'.

While public relations is parallel to the marketing function and shares its communication techniques, it has a different role for the business. Both functions aim to increase the reputation and recognition of the organisation in the public arena. Public relations, however, is usually not product specific. Public relations is generally a long-term investment in building a company's reputation and goodwill, but it may also occur as a result of strategies developed by the business to be implemented in the event of a crisis.

Public relations and business objectives

It is important for any business, regardless of its size, to have a business plan and some strategic or long-term objectives. The long-term objectives of the business are likely to include increased market share, growth, and perhaps diversification of products and the customer base. A planned public relations strategy should be used to increase public recognition of the business and prepare public opinion to accept the business brand and its product range.

Well-planned public relations campaigns will contribute to the achievement of business objectives such as:

- increasing the customer base
- increasing demand for products or services
- gaining a competitive edge
- enhancing credibility
- creating goodwill within the community.

A major aspect of the role performed by the public relations professional is to increase the goodwill of the business in the community and also contribute to maintaining and building customer relationships.

A business needs to ensure it is clear about who its 'public' and customers are if it is to be successful. It can be said that 'image is everything' and it is important that this image is carefully created and maintained. Successful businesses and their owners/managers will usually have a strong public relations strategy.

Public relations aims to present positive information and to reduce the negative by using an assortment of strategies. These strategies ensure that the messages and images the business wishes to present to the public are implemented in line with its wide-ranging business goals.



Figure 14.2 Public relations can contribute to business objectives.

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The goals of public relations may be defined as:

- developing relationships with the community
- providing information to the public
- managing issues and crises
- gaining free publicity
- promoting the business.

When a business sets its public relations objectives, they should ensure that they are:

- clear – employees may not be aware of what they have to achieve if the objectives are confusing
- realistic – objectives should be achievable but should also challenge or extend the employees
- forward looking – building on the past, and taking the reality of the present into consideration, the objectives should be about what is to be achieved in the future
- actionable – everyone should contribute to the achievement of the objectives; they must be the responsibility of the whole team or department
- communicated – objectives need to be shared with everyone in the team and the business
- agreed – if everyone in the team or business agrees on the objectives, they are more likely to be achieved.

(Source: Firefly Communications website, 'Writing great PR objectives', August 2015.)

CASE STUDY 14.1

Guidelines for managing the reputation of your business

In any industry, reputation is the key to whether a business will be successful or not. A good reputation can not only enhance customer interaction and sales but can also increase overall revenue and profit. A bad reputation, however, can have a cascading effect, and can damage a business in many ways. It is essential for a business to manage its reputation and maintain integrity with customers and potential clients.

Reputation management isn't about promotion or advertising, it's about the way a business can influence potential customers on their perception of the business.



Figure 14.3 In any industry, reputation is the key to whether a business will be successful.

Reputation management statistics

- 85% of potential customers use the internet to research a business before they decide to make a purchase.
- 79% of potential customers value personal and online recommendations in their search for a reputable company.

For small businesses, having a good reputation is important to compete against larger competitors, especially with the increase in online activity. With the introduction of the Internet, many small businesses have to compete harder to maintain their position with their customers. For a small business this means that managing their reputation both online and offline is extremely important. In order to support an online reputation, a business needs to build a web presence. This allows customers to compare it against others and provides a few advantages including:

- **Building customer trust** – Positive online reputation will increase customer trust overall. It helps develop authority, expertise and credibility in the eyes of customers.

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- **Brand exposure** – Building and managing a reputation can also help to promote brand exposure. The more people know about your business the more likely they will shop there.

When it comes to improving a business's reputation the following may help achieve this:

Local reputation management

- Sponsoring local fun runs, sporting events or other entertainment avenues to show the local public the business's commitment.
- Donating time, money or services to a charity event.
- Handling negative feedback and comments politely and constructively. Always offer a positive reply in return.

Online reputation management

- Creating a business profile on general search sites.
- Using social media to build and manage the business's reputation. Using posts to interact and engage with the customers by answering questions, asking questions, or replying to positive or negative comments.
- Monitoring what people are saying about the business online and responding where necessary.
- Responding to positive and negative reviews on different review websites. 90% of what people say will impact on the business and their buying decisions.

Managing a business's reputation is crucial to whether the business will be successful.

(Source: Based on Public Relations Institute of Australia, 'A guide to managing your business reputation', 21 March 2016.)

Analysis

1 Explain why it is important for a business to monitor and maintain its reputation online and offline.

2 Describe how public relations links to the objectives of a business.

14.2 Public relations strategies

It is crucial that all businesses, regardless of size, have policies and strategies in place to maintain positive relationships with their customers. The '**public**' of one business will be different from that of another. It is important that the business is clear about who its public is to ensure that it has the correct strategies in place and continues to develop relationships with existing and potential customers. When the federal or state governments bring in new laws or regulations, these will impact on all people, and therefore 'the public' of the business may also be affected.

public the internal or external stakeholders potentially affected by the actions of a business



Figure 14.4 It is crucial that all businesses have policies in place to maintain positive customer relationships.

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ACTIVITY 14.1

List the 'public' for each of the following businesses:

1 a coffee shop
2 Melbourne Storm
3 a local secondary school
4 a hospital.

The public may be internal or external stakeholders:

- Internal public may include employees, shareholders and management.
- External public might include the local community, suppliers, competitors and all tiers of government.

The public of a large retail store will be different from that of a small cabinet-making business. Public relations strategies must be targeted at the correct groups and in the most appropriate form, taking into account the business objectives and goals.

The public relations strategies of a business must include maintaining positive relationships with customers because losing a customer is one of the worst things that could happen to a business and it may reflect on its reputation. It is harder for small businesses to gain the same level of publicity as large businesses, so it is important for them to understand their customers and market. As part of a public relations strategy it is also vital that a business is honest and realistic about the services or products that it provides.

Businesses must ensure that they have developed and implemented public relations strategies that can support them through a planned or unplanned crisis situation. Ideally, a business should not ever have to deal with a crisis that is unexpected because it should have policies and action plans in place to avoid such a situation.

For numerous reasons, publicity is more effective than advertising. Cost-effectiveness is a major example; even if publicity is not free, commonly the only expenses are mailings and calls to the media. Second, publicity has more longevity than advertising. Articles, whether good or bad, are remembered for far longer than advertisements. Publicity also has a greater reach in terms of audience. In a global world, news travels far and wide, whereas advertising is mainly limited to a local audience. For this reason also, publicity has far greater credibility with media and the public than advertising, as readers trust that a third party feature – be it a newspaper or television report – means the business must be worthwhile in some way.

Public relations in planned business situations

Taking advantage of planned public relations situations means that a business can make the most of opportunities that it has control over by being clear about how publicity can be positive and increase its exposure with the public. There are many ways a business can communicate with its public. These involve the use of a range of media including television, radio, newspapers, company publications and the internet and social media.

Public relations communications sometimes attempt to persuade the public or change public opinion. For public relations to be effective, it is necessary to match the strategies and techniques to the situation and to choose the most appropriate channels. Many businesses and associations employ a public relations consultant, and larger businesses may have a public relations manager or a whole department to oversee these strategies.

Public relations can also be integrated into advertising and marketing activities in a number of ways and it is important to ensure that the following areas are covered.

- Public relations has to lead a product launch of a new product or service.
- The message is still important in public relations.
- Public relations–led activities need to encompass a range of audiences or stakeholders.



Figure 14.5 Publicity is often more effective than advertising.

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- Public relations is not always aimed at the customer or buyer.
- It may be necessary to include some extra information or research beyond product information.
- The brand manager and senior management may need to attend media events and launches.
- Public relations needs to be ongoing and continually building relationships with the media.

There are a number of methods or strategies an organisation can use for planned public relations. These include those outlined below.

Free publicity

This could include issuing a **media release**, informing the general public about a specific event or function. If the media runs a story, it allows the business to receive free publicity and lifts its profile. The opening of a new real estate agency in the local area may include a paid advertisement together with a story in the local community paper or magazine highlighting the new business and an employee profile.

media release an item of news prepared for and distributed to the media

Develop relationships with the community

To develop positive relationships with the wider community, a business may hold a public information session so that people can see what is happening within the business. For example, the Australian Football League (AFL) runs subsidised football clinics to develop football skills and increase interest in Australian Rules football.

Public information

Public information includes data and activities designed to benefit the public. The major freeways around Melbourne have information about the time it will take to get to the city or major arterial roads and what the traffic conditions are like. This provides both a service to motorists and also some positive publicity for the business.

Media releases

A media release is used by a business to inform the television, print or radio media of a new product release, or a major announcement or change. Public relations officers will release a statement to try to influence the media to write about the business or its product favourably, which will provide free publicity about the business in addition to getting its specific message out.



Figure 14.6 There are a number of methods or strategies an organisation can use for planned public relations, though presenting the correct image to the world is very important.

Brochures, pamphlets and newsletters

Although there is some cost involved, a newsletter or brochure provides a relatively inexpensive means of communicating with the public and other stakeholders. A newsletter may profile a staff member, or discuss changes in the business and upcoming events. A brochure distributed to the public may highlight a new product or service being offered.

Open days and tours

If a business opens its doors to the public, it presents an opportunity to improve or reinforce its image. An open day allows the public to see the business in action. In some circumstances, it may provide or strengthen an understanding of what the business



Figure 14.7 A newsletter or brochure provides a relatively inexpensive means of communicating.

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Figure 14.8 An open day allows the public to see the business in action.

does. Schools, TAFEs and universities have tours and open days to allow prospective students and their families to see them in operation.

Seminars and conferences

Conferences may be used to train staff and also to inform customers and potential customers about the business. Information can be presented visually, participants have the chance to ask questions and usually only interested parties will attend. In communication and marketing terms, conferences and seminars allow businesses to disseminate information quickly to a wide audience.



Figure 14.9 Conferences may be used to train staff and also to inform customers and potential customers about the organisation.

Sponsorship

A common strategy in creating positive public relations is **sponsorship**. The act of sponsoring creates an awareness and positive image of the business. The business may provide financial support in return for naming rights and merchandising. Common forms of sponsorship include:

sponsorship a business provides financial support to a team, charity or event in return for naming rights, merchandising or promoting the image for the organisation

- sporting events – sponsorship of the Australian Tennis Open or the AFL Grand Final
- the arts – sponsorship of Opera Australia or the Australian Ballet
- charities – Target T-shirts raising money for breast cancer research.

New technologies open up new communication channels – this means that businesses are in a changing



Figure 14.10 A common strategy in creating positive public relations is sponsorship.

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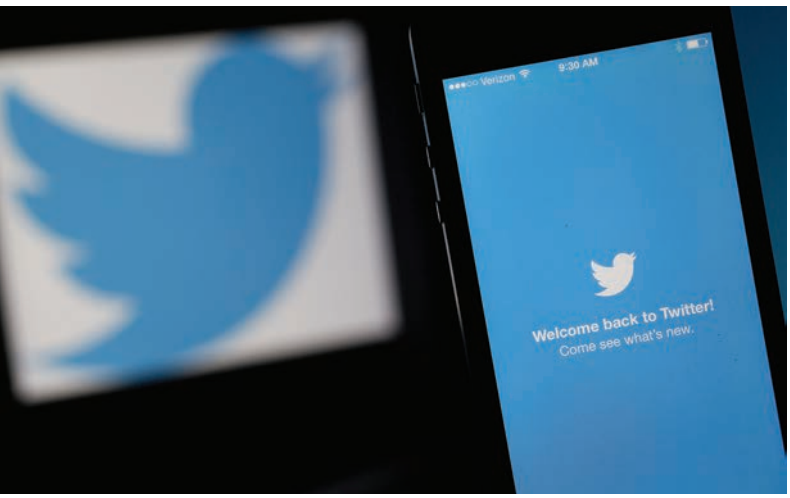


Figure 14.11 Businesses are in a changing environment when it comes to public relations.

environment when it comes to public relations. Listed below are some key trends in public relations:

- Senior management teams regard public relations as a growing priority and focus on controlling their brand and any content that goes out.
- Less importance is attached to press or media articles. There are other, more-effective methods to gain publicity, such as social media and superior images.
- The online reputation of a business is of the utmost importance – a business cannot afford to have an online presence that is not appropriate or contains misinformation.
- Policies and processes need to be in place and implemented by well-trained staff to avoid negative experiences.
- Businesses are constantly looking at different methods and ways to promote their products and services in a positive light.
- An essential strategy is to target individuals of 'noteworthy clout' (followers). Through these individuals a business can gain access to and promote its messages to contacts that they previously had no access to on social media.

ACTIVITY 14.2

1 List five sporting events, charities or campaigns supported by a business.
2 For each one describe a possible benefit of the sponsorship.
3 Analyse why businesses use social media as a form of public relations.

Crisis management in public relations

While public relations techniques and efforts form an integral part of the strategies of a business, there are times when it may have to move quickly to manage a crisis. A **crisis** is a situation or set of circumstances that puts an immediate public focus on the business. It is usually caused by an event or threat that can be related to something such as product recalls, equipment failure or accidents. Crises typically have a strong human aspect to them, which means they become the focus of media scrutiny. Having plans in place to manage the information that is given to the public and the media is called **crisis management**.

crisis a situation or set of circumstances that puts an immediate focus on the business

crisis management a technique used to manage an unplanned (crisis) situation

If a business is not able to manage a crisis in a quick, well-coordinated and honest way, then it is likely that the reputation of the business will be tarnished and it could have long-lasting implications for the business and its relationships with customers.

Importance of a crisis management plan

A crisis is often considered to be a threat to the operations of a business. An explosion could cripple production, a defective product can lead to a product recall, and sometimes production or a service ceases



Figure 14.12 Crisis management is essential.

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because of a natural disaster. All crises have a reputational element and often a crisis can have a negative impact on the reputation of a business.

A crisis is never good for a business. The risks to public safety, financial losses and reputational damage can see businesses destroyed completely, and in some cases have legal proceedings brought against them. Effective crisis management is essential in minimising the impacts of a crisis on a business, its customers and the wider public. In dealing with a crisis, the options a business has are to:

- prevent the crisis from happening in the first place
- resolve the crisis and address any issues before it escalates
- see the crisis as positive and seek new opportunities.

An effective crisis management plan considers these three options, and has steps to guide the business through each of them.

Preventing a crisis is easily the best way of dealing with potential problems. Businesses should analyse their operations and products regularly in order to identify any potential risks. Once identified, strategies should be developed that will minimise these risks, or avoid them altogether.

If crisis prevention fails, it is important the business does everything it can to minimise the impact of the crisis. The crisis management plan should contain key contacts, procedures, and any relevant documentation and forms. Keeping employees informed is also essential – this will reduce stress and allow them to handle any extra pressure better.

The highest priority of a business affected by a crisis is public safety. Once this has been addressed, focus can be placed on minimising financial and reputational damage. A business that raises an issue before the media does will likely control the situation better.

The crisis management plan of any business should:

- have names of key contacts, outline individuals' responsibilities and include relevant forms
- identify a team representing different sections of the business; for example, finance and human resources



Figure 14.13 There are many examples of businesses having dealt with a public relations crisis in a positive way, and examples of others that have not.

- identify the spokesperson who becomes the 'face' of the business for the duration of the crisis to ensure consistency in the message being sent to the public
- be detailed enough to act as a reference or a guide and enable the business to respond in a timely manner
- list strategies that can be used; for example, an apology, compensation to victims if relevant, reminder of previous good works and praise to those who assisted during the crisis.

Once the crisis has been addressed, the business has an opportunity to learn and develop. Assessing how and why the crisis occurred will help the business develop better plans and procedures. It might also be an opportunity to address deeper structural issues and improve the business more generally.

Not all businesses deal effectively with public relations crises. The way in which Volkswagen (VW) handled the issue of engine emission manipulations not only evoked fears that the crisis might have an impact on the German economy (i.e. a huge financial impact), but also potentially caused long-term brand damage as the company lost the trust of its customers.

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CASE STUDY 14.2

Tag Heuer breaks with Maria Sharapova after she fails drug test

Three of the world's premier brands – Nike, Porsche and TAG Heuer – have suspended ties with Maria Sharapova after she failed a drug test at the Australian Open. Sharapova said at a news conference that she had been taking meldonium for health reasons and had not noticed when it was banned by the World Anti-Doping Agency as of January 1 2016.

'We are saddened and surprised by the news about Maria Sharapova,' said Kejuan Wilkins, a spokesman for Nike, which has worked with the player for more than a decade.

'We have decided to suspend our relationship with Maria while the investigation continues. We will continue to monitor the situation.'



Figure 14.14 Maria Sharapova extended her sponsorship agreement to include a line of dresses designed by herself.

Sharapova extended her sponsorship agreement with the Beaverton, Oregon-based company in a deal that included a line of dresses designed by the player, according to a person with knowledge of the contract at that time.

Luxury carmaker Porsche, a division of Volkswagen, said it would suspend tennis player Sharapova as its brand ambassador in light of her admission that she failed a doping test.

'We regret the current news about Maria Sharapova. Until further details emerge and we are able to analyse the situation, we have decided to suspend planned activities,' Porsche said in a statement.

Just 23 per cent of her prize money came from tennis winnings – the other $23 million was earned from endorsements from companies including Avon Products Inc., Nike Inc., Tag Heuer International SA, and Evian.

(Source: T Panja, 'Nike, Porsche, Tag Heuer suspends ties with Maria Sharapova after she fails drug test', *The Age*, 8 March 2016.)

Analysis

1. Why would Maria Sharapova's sponsors suspend their relationships with her?
2. Discuss how this situation could be seen as a crisis management issue.
3. Analyse what the statement 'A brand name is worth nothing beyond the quality of the product it's printed on' means to a business in terms of its public reputation and image.



Figure 14.15 'A brand name is worth nothing beyond the quality of the product it's printed on'

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14.3 Maintaining a positive relationship with customers and possible implications

As outlined above, a business needs to ensure that it is clear about how important public relations is to the success and objectives of the business. Public relations strategies should be planned and it is important for a business to know how to deal with a crisis. If this is not done properly then the business may find it difficult to maintain a positive relationship with customers and the public in general. If a business does not deal with issues, it is likely to find that its reputation is tarnished and damaged, and this may take time to overcome.

CASE STUDY 14.3

Australia's top five PR disasters of 2015

According to the PR Disasters blog – an unofficial industry watchdog – these are 2015's top five public relations mistakes.

PR Disasters analyst and author Gerry McCusker said the firm has analysed the volume of mentions a company, person or issue gets in traditional and online media platforms to determine if content has a negative or positive sentiment surrounding it.

To be a disaster, the incident must have attracted ongoing negative media coverage.

While the data cannot differentiate between sarcasm and black humour, the companies and people on Mr McCusker's list were the ones who acquired the most media mentions (online and offline) with the most negative sentiment linked to them.

Topping the list of 2015's top five PR mistakes was:

1. Volkswagen – the company's emissions scandal. The Environmental Protection Agency (EPA) discovered 'defeat devices' in VW cars for sale, which was a software that detected testing and accordingly changed the car's performance to improve results. VW admitted to having cheated US emissions tests. The company has also revealed an internal investigation found that 800 000 more vehicles showed 'irregularities' on carbon emissions including petrol engines for the first time. The scandal has spread worldwide, as far as Australia, with class actions being filed, cars recalled and an inquiry launched.
2. Joe Hockey – the former Liberal treasurer told first-home buyers they just needed to 'get a good job that pays good money' if they wanted to buy a house in Sydney's ballooning property market. It attracted 7262 media mentions.
3. Belle Gibson – the Australian wellness blogger who made fraudulent claims about having a cancerous brain tumour. She insisted she was telling the truth about 'my reality'.

   'I've not been intentionally untruthful. I've been completely open when speaking about what was my reality and what is my reality now,' she said. Gibson said she believed she had cancer until earlier this year.

   She also took in over $1 million in profits from her cookbook and wellness app, The Whole Pantry. She also failed to donate $300 000 from the sales of the app to at least five charities as promised.
4. Bronwyn Bishop – her use of a taxpayer-funded 80km round-trip from Melbourne to Geelong for a Liberal party fundraiser. She was eventually forced to step down as Speaker of the House.
5. Australian Border Force – their plan to randomly check people's visas in Operation Fortitude on the streets of Melbourne sparked public protests and was abandoned.

But when comparing the worst PR disasters of the last decade in Australia, the data found the top spot was taken out by: Essendon's supplements scandal.

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In analysing media coverage, Mr McCusker said that sporting teams tended to become 'soft targets' for PR disasters because everyone gets 'passionate' about sport and everyone wants to have their say.

'A lot of stakeholders were involved in the issue … and it went on for a long time as well,' he said.

Other PR disasters over the past ten years included:

- Former Prime Minister Tony Abbott's wink and 'shirtfront' comments. Mr Abbott was caught on camera winking while talking to a woman called Gloria, who claimed to be an angry pensioner. Mr Abbott also said he would 'shirtfront' Russian president Vladimir Putin before they met at a G20 meeting in Brisbane.
- Qantas – the airline grounded its fleet in response to unions' industrial action in 2011. It also suffered a social media backlash after a competition inviting Twitter followers to win a pair of first class pyjamas by tweeting their idea of a luxury experience descended into angry customers sharing their gripes.

Mr McCusker said that while there was more choice in how people and companies can respond to a PR crisis, there are lessons that can be learnt from every incident.

He also said that many companies operate from 'older crisis management paradigms' that need to be updated.



Figure 14.16 Bronwyn Bishop took a taxpayer-funded 80km helicopter round-trip from Melbourne to Geelong.



Figure 14.17 Qantas – the airline grounded its fleet in response to unions' industrial action.

'Sometimes saying nothing is better, so not to inflame the issue,' he said.

'But if they know they've made a mistake they have to put their hand up early.

'Social media demands authenticity and in some cases, it is much better to fess up to a mistake. Organisations need to reconfigure their crisis plans to meet the demands of social media and online media. While some responses can save you in court, they cannot always save you in the court of public opinion.'

(Source: Based on S Rao, 'Australia's PR disasters of 2015', New Corp Australia Network, 14 December 2015.)

Analysis

1 Why would businesses and the public be interested in the results of an analysis like this?

2 Choose two of the examples from the article – how were they seen to be a PR disaster?

3 Explain why it is important for a business to manage public relations to maintain customer relationships.

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Chapter summary

- Public relations (PR) is aimed at presenting a favourable image.
- Public relations is vital for all businesses, regardless of size.
- Many news stories arise from public relations leads.
- Public relations and its relationship to business objectives is important and should be integrated at the strategic level.
- Well-planned public relations campaigns contribute to:
  - increasing the customer base
  - increased demand for products and services
  - gaining a competitive edge
  - enhancing credibility
  - creating goodwill.
- Public relations objectives should be forward looking, realistic, attainable, clear, agreed and communicated.
- Managing the reputation of the business is important.
- Different businesses have different 'publics'.
- Businesses generally develop strategies for planned public relations situations.
- There are a number of strategies for planned public relations, including:
  - free publicity
  - developing relationships with community
  - public information
  - sponsorship
  - media releases
  - brochures, newsletters and pamphlets
  - open days and tours
  - seminars and conferences.
- Public relations is becoming more important and businesses need to manage online messages and reputations.
- Businesses need to determine how to manage a public relations crisis.
- There are three ways to approach a crisis situation: avoid, quickly address the issue and seek ways to turn the event into an opportunity for the business.
- A crisis can impact on all aspects of a business, including:
  - public safety
  - financial loss
  - loss of reputation.
- The role of management is significant in a public relations crisis.

Chapter summary questions

1 Define the term 'public relations'.

2 Why is public relations important for a business?

3 Explain how public relations links to the objectives of a business.

4 Describe the role of a public relations professional.

5 What does the statement 'public relations aims to maximise good news and minimise bad news' mean?

6 Describe the 'public' of a plumbing supplies business.

7 Discuss the importance of public relations and its link to customer relationships.

8 Explain why a crisis management plan is important for all businesses.

9 Outline three ways a crisis can impact on a business.

10 Discuss the impact of a significant public relations issue, such as that of Volkswagen or the Samsung Note 7 batteries exploding, on a business.

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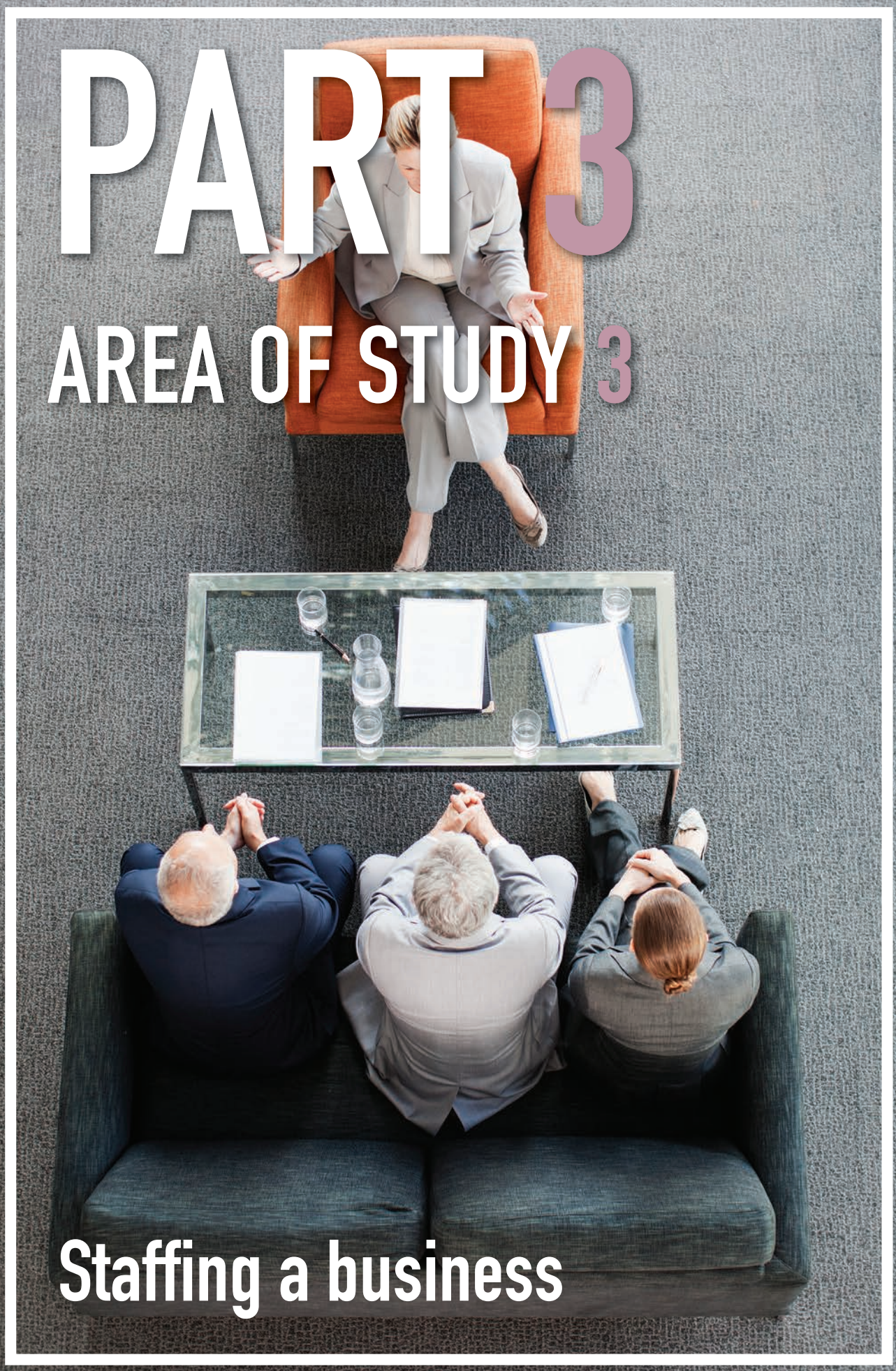


Figure 14.18 Businesses need to determine how to manage a PR crisis. Richard Branson has stressed the importance of good publicity to a successful business.

Extension question

Richard Branson, founder of the Virgin business empire, once stated that 'Publicity is absolutely critical. A good public relations story is infinitely more effective than a front page ad'. Discuss this statement.

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PART 3

AREA OF STUDY 3

Staffing a business

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CHAPTER 15
Staffing a business

Key terms

- employee
- human resource management (HRM)
- management by objectives (MBO)
- SMART
- staff
- stakeholder

Overview

Staff are one of the business's greatest assets and they must be considered when establishing a business. It is important for businesses to undertake workforce planning so they can determine the number and quality of the staff they require to assist in the achievement of business objectives. Technology is playing an increasingly important role for businesses. While providing an opportunity for increases in productivity, it has also had the effect of changing the nature of many jobs.

Key knowledge

In this chapter students will learn about:

- The relationship between the performance of staff and achieving business objectives
- Identification of the staffing needs of the business such as the knowledge, skills and ideas staff can contribute to the business
- The effects that developments in technology may have on staffing needs.

What's ahead



Figure 15.1 Main issues for staffing a business

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15.1 Relationship between the performance of staff and achieving business objectives

No matter what the size of a business, most will recognise that their success can be attributed to having properly managed their **staff**; this group is also referred to as **employees**. This involves balancing the objectives of the business with the goals and aspirations of its employees. A business will usually set goals and objectives which relate to its survival, gaining and growing market share, and being profitable. The staff of any business is one of its most important assets and plays a vital role in ensuring the business prospers; they are an essential input in the production process for either manufacturing a product or providing a service. Staff also provide the day-to-day management of the business's operations. If a business has a positive relationship with its employees, they will assist in the growth and success of that business.

staff a group of persons, as employees, charged with carrying out the work of a business

employee a person working for another person or a business for wages or a salary

Business objectives are the outcomes that a business sets out it wants to achieve. Business plans are then created, strategies determined and actions undertaken to achieve these objectives. The business objectives and plans must take into account the requirements of various **stakeholders** of the business. Stakeholders are those individuals or groups that are affected by and have a vested interest in how the business is run and what it achieves. While every business has a range of stakeholders, one stakeholder vital to the success of the business is its employees. It is therefore important that effective relationships are created between management and employees.

stakeholder an individual or group that has a direct or vested interest in the activities of a business

Employees are the biggest line item expense (cost) for any business as well as being its most valuable asset. For a business to achieve its objectives of being productive and profitable, it is imperative that its staff are performing to their full potential. Numerous studies have shown that, when a business sets and closely ties the goals or objectives of an individual employee to the objectives of the business and the strategies it needs to undertake, the performance of both the staff member and the business improve.



Figure 15.2 Staff – an important asset to any business

When establishing the individual objectives or goals for a staff member, it is important to ensure that these are established using the **SMART** principle and that the manager and staff member meet periodically to ensure outcomes are on track. Regular feedback provides opportunities for expectation clarification, adjusting the level of difficulty of the goal and gaining recognition. When the objectives are being set, the following criteria must be addressed:

SMART objectives or goals which are specific, measurable, attainable or achievable, relevant or realistic and timely or time-bound

- The objectives being set are **specific (S)** to the tasks being carried out by the job holder.
- The objectives and their outcomes are **measurable (M)**.
- The objectives, while difficult, are **achievable/attainable (A)** by the job holder.
- The objectives are understood and accepted by the job holder as **relevant (R)**.
- The objectives are **time-bound (T)**; that is, they have a time frame in which they are to be achieved.

The individual staff member's objectives should then link to those of their team, department and the business as a whole. This approach, when adopted business-wide, is referred to as **management by objectives (MBO)**, and

management by objectives (MBO) a process of setting goals, using the SMART principle, which relate to an employee's key areas of responsibility. It creates a sense of direction and provides a measure for assessing the work performance of the employee.

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Figure 15.3 Effective relationships between managers and staff members is one key to business success no matter what the size of the business.

was developed by Peter Drucker in 1954. Adopting this management system requires managers and their subordinates at every level within the business to set objectives relevant to their area of responsibility, and their performance (outcomes) to measure against these. MBO provides a way to focus the efforts of all members of the business to achieving both their personal objectives as well as those of the business. It creates a very close relationship between the way staff are being managed and the achievement of business objectives.

Staff members who have a clear understanding of their individual objectives and how they relate to the business become more engaged with their work as they feel they are making a direct contribution to its success. As staff members feel a greater sense of ownership in what the business is trying to achieve, they will then often make suggestions or share ideas with their manager on ways to improve processes that will result in productivity gains.

15.2 Identification of staffing needs of the business

> 'Getting the right people in the right place at the right time with the right skills'

This quote links directly to the concept of workplace planning. A business, regardless of its size, needs to undertake the planning process to ensure it has the right people, with the right skills, at the right time. This methodical process documents the directions in which the business is going and helps the business owner or management to make human resource (people) decisions to meet the current and future needs of the business. Any business, to operate effectively and efficiently, needs to have an adequate supply of competent and motivated people who are available to perform the duties and tasks required to meet the objectives of that business.

In a small business, the owner will be responsible for ensuring that the business is properly staffed. As the size of the business grows, more formal **human resource management (HRM)** policies, procedures and practices will be adopted. These will include recruitment and selection

human resource management (HRM) the management of a wide range of responsibilities relating to the human (employees) function within a business in order to increase the efficiency of both employees and the business

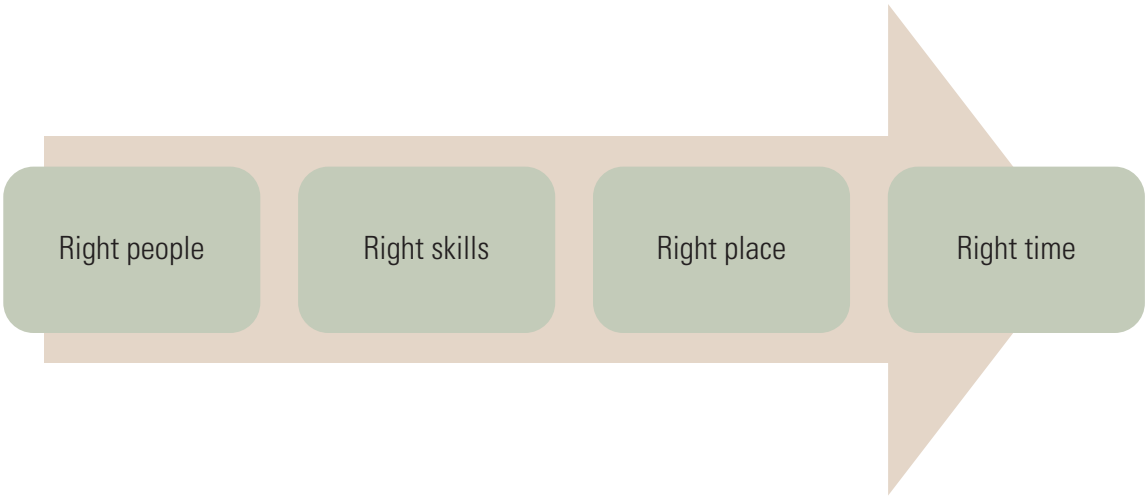


Figure 15.4 Aim of workforce planning

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procedures, written occupational health and safety (OH&S) guidelines, and performance management and evaluation practices.

The replacement cost associated with hiring the wrong person can be huge. Costs are associated with advertising, interviews, reference checking and induction. Added to this is the time taken to perform these tasks – it all adds up to being an expensive and time-consuming exercise.

For micro or small businesses, the decision to employ staff is a major one. Many are very cautious about hiring staff as they believe these employees may not have the same commitment to the business and its objectives as the owner does. For many small to medium businesses, as they continue to grow, employing more staff is a necessity and it is therefore vital that the 'right' person is employed. Larger businesses, however, are better placed as they usually have a human resource management department. This department is staffed by personnel who are responsible for ensuring the business is properly staffed.

Identifying the staffing needs of a business requires management to undertake planning. They need to determine the knowledge required by a person to fulfil the role they wish to fill and any skills that are specific to the job holder being able to perform that job. When undertaking this planning, they need to be aware of:

- the growing demand or emphasis by employees of having flexibility in their working arrangements; for example, flexible working hours, part-time or job-share arrangements and work–life balance
- changes in skills and education expectations – with more people seeking tertiary qualifications, obtaining workers skilled in trades may be more difficult
- generational change – awareness of the differences between the three generations, namely baby boomers, generation X and generation Y and their approach to work
- diversity in the workplace – having employees from a wide range of ethnic backgrounds, physical abilities, gender, sexual orientation and religious beliefs.

Businesses should also recognise that new and existing staff can contribute ideas and bring a fresh outlook to the way a business is operating. Employees, either through their experience at another business or through their training, may be able to provide insight into a better or more effective way of performing a task. When an employee leaves, either because they have retired or resigned, particularly one that has been with the business for a while, they are actually making way for the fresh ideas and insights of a new employee. While the contributions of long-term employees are extremely valuable to a business, their leaving provides an opportunity to bring in new perspectives.



Figure 15.5 Creative and innovative ideas from employees have helped this business to prosper.

Another benefit of bringing in new talent is that it can help to stimulate new thinking and creativity, which may act to challenge the way processes are currently undertaken at a business. Once the employee has been inducted, trained and is fully integrated into their new position, they should be encouraged to make suggestions on ways to improve processes. For instance, if the business was reliant on print media for its advertising, a younger tech-savvy employee may be able to suggest ways to introduce social media and social networking as a form of advertising and communication. Internet-based businesses, such as Google and Facebook, have acknowledged that the success of many of their projects can be attributed to the creativity and innovation of their employees.

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CASE STUDY 15.1

Coles supports a diverse workplace

Our team is vital to the ongoing growth and success of our business and we are committed to providing an environment where our team feel genuinely included and valued, regardless of background or experience.

[…] We appreciate all the differences that make our team unique, including (but not limited to):

- Age
- Gender
- Cultural background
- Physical ability
- Ethnicity
- Religion
- Family responsibilities
- Sexual orientation

Disability employment

At Coles we are committed to attracting and employing a team which is representative of the community we serve. As such we actively encourage and support the employment of people with disabilities.

We understand that some adjustments to the recruitment process or the workplace may be required, to ensure people with disability have the same opportunity to perform at their best.

We partner with Disability Works Australia to support us with the recruitment and employment of people with disabilities throughout Coles. We are also members of the Australian Network on Disability, to assist with the inclusion of people with disability in all aspects of our business; team members, customers and suppliers.

(Source: Coles website; 'Diversity & inclusion' and 'Disability employment' © Copyright Coles Supermarkets Australia Pty Ltd, reproduced with the permission of Coles.)

Analysis

1 Describe how diversity and inclusion would be an important consideration for Coles when undertaking its workplace planning.

2 Discuss whether you believe that employing an increased number of people with disabilities adequately satisfies the commitment that Coles states it has to providing diversity and inclusion in its workplace.

15.3 Developments in technology

Many businesses have felt the effect of developments in technology on their staffing needs. With the wide acceptance of automation, robotics and artificial intelligence, this has meant that some jobs have been transformed. On the positive side, ongoing technological innovation has created job opportunities and new industries. Using technology in a business can lead to an increase in productivity, while also reducing the cost of labour. Technology has allowed many small businesses to compete more effectively with their larger competitors as they are able to respond to change faster than a larger business.

Not all jobs can be replaced by automation, particularly those which require the job holder to be creative. For instance, staff employed at a wedding planning business would not be at risk of being automated because of the creativity, communication and multi-tasking required for that job. They would, however, find it to their advantage to use some information technology applications to assist them



Figure 15.6 A wedding planning business is unlikely to be automated.

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to record and store data, keep records of expenses, attract clients through their website and communicate with them via email.

Advances in technology have made communication a lot easier and faster. Previously, if a business wanted to communicate in writing with another business or a person the manager would need to dictate a letter to a typist or secretary, who would then type the letter and send it through the post. Today, information technology makes communication a far easier and quicker process. Communication via email does not require the writer to have secretarial skills. It also means that the response to the email can be very quick. In many businesses the role of a secretary has been made redundant and replaced with an employee performing a broader role as a personal assistant to a manager.

Technology has also provided businesses with the opportunity to create flexible workplaces. An employee with a laptop computer, tablet, or a mobile phone with internet connection does not need to be at their workplace to transact business. This saves the business the cost of providing a separate office space for that employee because they can use any desk available at the workplace. In the retail environment, the use of barcodes that are scanned to record sale of stock has resulted in many cashiers losing their job or being freed up to perform other duties. Businesses now have the ability to automate certain functions previously undertaken by an employee. For instance, bookkeeping tasks were once done manually, but these tasks can now be handled using applications such as Quicken and MYOB. These computer packages also generate financial reports, which previously would have required an employee with more knowledge to prepare.

CASE STUDY 15.2

Technology has created more jobs than it has destroyed, says 140 years of data

In the 1800s it was the Luddites smashing weaving machines. These days, retail staff worry about automatic checkouts. Sooner or later taxi drivers will be fretting over self-driving cars. The battle between man and machines goes back centuries. Are they taking our jobs? Or are they merely easing our workload?

A study by economists at the consultancy Deloitte seeks to shed new light on the relationship between jobs and the rise of technology by trawling through census data for England and Wales going back to 1871.

Their conclusion is unremittingly cheerful: rather than destroying jobs, technology has been a 'great job-creating machine'. Findings by Deloitte such as a fourfold rise in bar staff since the 1950s or a surge in the number of hairdressers this century suggest to the authors that technology has increased spending power, therefore creating new demand and new jobs.

Their study argues that the debate has been skewed towards the job-destroying effects of technological change, which are more easily observed than its creative aspects. The study found that 'the dominant trend is of contracting employment in agriculture and manufacturing being more offset by rapid growth in the caring, creative, technology and business services sector. Machines will take on more repetitive and laborious tasks, but seem no closer to eliminating the need for human labour than at any time in the last 150 years'.

The study found:

- Hard, dangerous and dull jobs have declined. While in some sectors technology has clearly cost jobs, the question is whether they are really jobs that we wanted to keep. Technology directly substitutes human muscle power and, in so doing, raises productivity and shrinks employment. One job that has drastically been affected is the washing of clothes, no longer is this done by hand in a commercial laundry. With the advent of indoor plumbing, electricity and technology advances making washing machines automatic this job is now performed at home.
- Caring jobs have risen. The report cites a 'profound shift' with labour switching from its historic role, as a source of raw power, to the care, education and provision of services to others. In the

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decades between 1992 and 2014 UK labour force statistics highlighted changes in the structure of the workforce:

- A 909% increase in nursing positions
- 580% increase in teaching and educational support assistants
- 183% increase in welfare, housing, youth and community workers
- 168% increase in care workers and home carers
- 79% decrease in weavers and knitters
- 57% drop in typists and secretaries
- Technology has boosted jobs in knowledge-intensive sectors – including medicine, education and professional services. Easy access to information and the accelerating pace of communication have revolutionised most knowledge-based industries. The report states that both employment and productivity has risen in these sectors.
- Technology has shifted consumption to more luxuries. Technological progress has cut the prices of essentials, such as food and the price of bigger household items such as TVs and kitchen appliances, and cars. That leaves more money to spend on leisure and creates new demand and new jobs. One example is the surge in the number of hairdressers and beauty therapists.



Figure 15.7 The battle between humans and machines goes back centuries.

(Source: Based on K Allen, 'Technology has created more jobs than it has destroyed, says 140 years of data', *The Guardian*, 18 August 2015.)

Analysis

1 This article was written based on employment statistics in England and Wales. Do you believe that the same observations could be made about the changes in the workplace in Australia or would they be different?

2 Identify three hard, dangerous and dull jobs for which technology has removed the need.

3 Caring jobs have risen. Identify and describe the various forms of technology that would assist the three categories of workers referred to in this section of the article when undertaking their jobs.

4 Knowledge-intensive sectors now have easy access to information. Identify and describe forms of communication and information-gathering resources available to doctors, teachers and other professional service workers due to technological advances; for example, accountants now have access to computer packages (Quicken, MYOB).

5 Our consumption habits have changed from only purchasing basic items to now purchasing more luxury items. Identify five jobs that have been created or where the size of the workforce in that sector has increased due to these changes in consumption habits.



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ACTIVITY 15.1

1 Identify which forms of technology have replaced or altered tasks forming part of the following jobs:

- Receptionists
- Clerical staff
- Newspaper reporters
- Telemarketers
- Travel agents
- Medical (e.g. doctors, nurses)
- Builders
- Live musicians
- Automotive mechanics
- Pilots
- Teachers
- Composers.

2 Identify which jobs have been replaced with these five examples of technology.



a Automated teller machine



b Self-check-in at airport



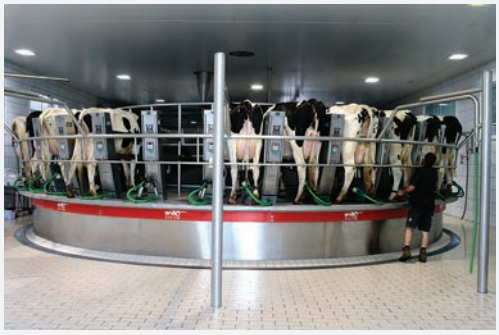
c Self-serve checkout at supermarket



d Myki system



e Call centre operations



f automated milking machine

3 Discuss whether the technology developments referred to in questions 1 and 2 have had a positive or negative effect on the job and the tasks of the job holder.

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Chapter summary

- Staff are one of the most important assets of a business.
- Business success comes from balancing the objectives of the business with the goals and aspirations of its staff (employees).
- Staff are a stakeholder in the business.
- The SMART principle is used to establish objectives for staff that align with the objectives of the business.
- Workforce planning is a process that aims to get the right people with the right skills, in the right place, at the right time.
- Human resource management is the management of a wide range of responsibilities that relate to the functioning of employees within a business.
- Businesses need to factor in the following considerations when making staffing decisions:
  - growing demand for flexibility in working arrangements
  - changes in skills and education expectations
  - generational change – there are three generations with different expectations currently in the workplace
  - diversity in the workplace.
- Employees can contribute fresh ideas and insights to improve the business.
- Technology has directly impacted on the staffing needs of businesses.
- Technology has caused some jobs to be removed while leading to the job content of others being enhanced.
- Technology has also led to the creation of some new jobs.

Chapter summary questions

1 Define the following terms and use them in a sentence to demonstrate your understanding of the term:
  - stakeholder
  - SMART
  - technology.

2 Describe the factors that need to be considered by a business when determining its staffing requirements.

3 Our current workforce is composed of three generations of workers. Identify the three generations and describe what qualities each of these generations can bring to a business.

4 'Businesses should embrace diversity in their workplace.' Explain what is meant by this statement and provide examples of ways a business can incorporate diversity into its workplace.

Extension question

'If a business does not adopt technology, it will find it very difficult to be competitive.'

Break the class into two groups to discuss this statement. One group is to take the negative side of the discussion, the other the positive side.

Following the group work, each group is to nominate a spokesperson to present their discussion points to the entire class.

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CHAPTER 16

Recruitment and selection of staff

Overview

In this chapter students will gain an understanding of the processes undertaken by a business with relation to the recruitment and selection of staff. These activities form part of the establishment phase of the employment relationship between a business and its employee (staff member).

For the prospective employee, the advertisement placed in the media is the commencement of the relationship. For the business, the phase commenced prior to that, when it undertook its workforce planning (outlined in the previous chapter). It is important that the business takes great care in ensuring the right person is ultimately selected, because to make the wrong choice could be extremely costly.

Key terms

- application
- application form
- aptitude test
- capabilities
- career advancement
- casual
- employment contract
- equal employment opportunity (EEO)
- external recruitment
- fixed-term contract
- internal recruitment
- interview
- intranet
- job
- job analysis
- job board
- job description
- job design
- job enlargement
- job enrichment
- job rotation
- job specification
- permanent full-time
- permanent part-time
- promotion
- quality circles
- recruitment
- selection
- social media
- team
- transfer
- word-of-mouth

Key knowledge

In this chapter students will learn about:

- Job analysis and its relationship to job design and related documentation, job descriptions and job specifications
- Recruitment methods and the advantages and disadvantages of each method:
  - Internal such as intranet and word-of-mouth
  - External such as websites, online recruitment agencies and social media
- Selection methods such as interview, psychological testing, work testing, online selection, and the advantages and disadvantages of each
- Employment arrangements such as full time, part time, contractual and casual.



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What's ahead

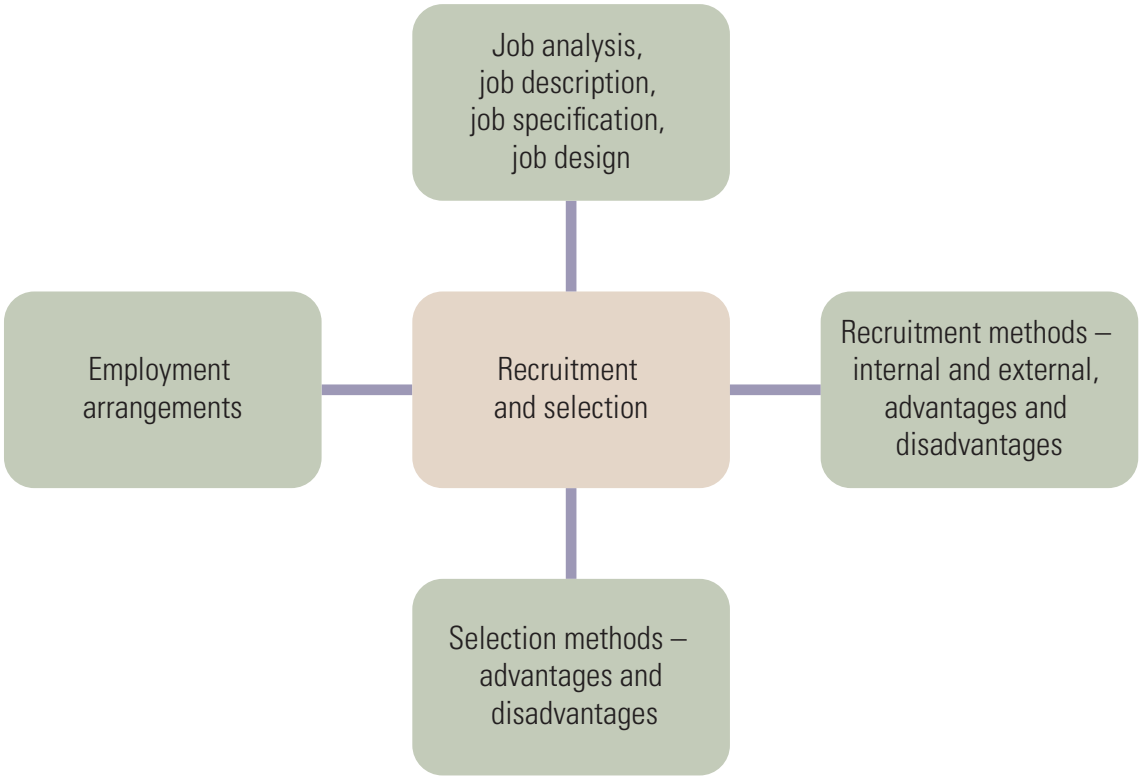


Figure 16.1 Staff recruitment and selection considerations

16.1 Job analysis

Job analysis is the systematic process of looking at a particular **job** to find out exactly what it entails, and what kind of skills and experience people should have to do the job effectively. Job analysis generates the source material for preparing the job description and job specification.

job analysis a process to identify and determine in detail the particular job duties and requirements and the relative importance of these duties for a given job

job a group of tasks performed by an employee

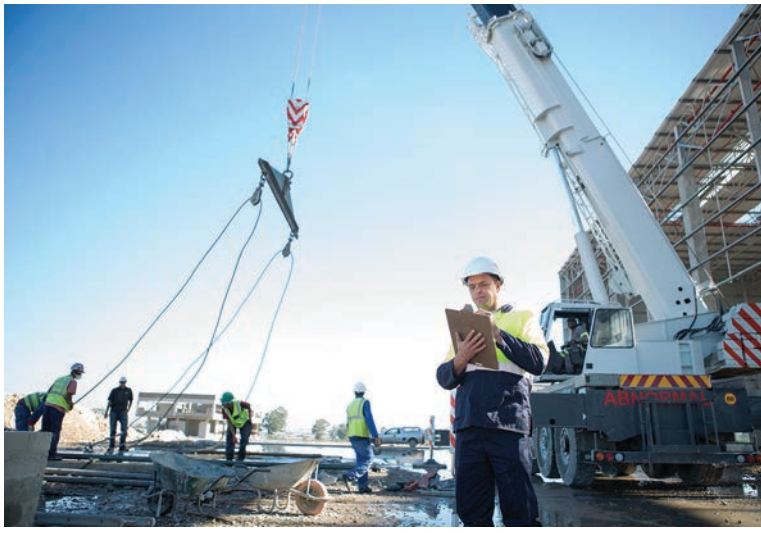


Figure 16.2 Job analysis is the systematic process of looking at a particular job to find out exactly what it entails.

Methods used to conduct job analysis

1 *Interview the present job holder* – while this method can be very time-consuming, it is probably the most widely used information collection method.

2 *Questionnaires* – the present job holder completes a detailed/structured questionnaire describing their job. It allows for information on a large number of jobs to be collected within a short period of time. The questionnaire can be written with both closed and open questions to allow for some additional input from the job holder.

3 *Observation* – the current job holder could be watched or a video made of them performing their job.

4 *Log books and daily work diaries* of activities may be completed by the job holder. This method is

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Figure 16.3 Job analysis is often performed by management.

particularly useful for analysing professional or senior management positions where observation and questioning would not give a true indication of the job.

5 *Supervisory reports* – details are provided by the supervisor of the job holder to give their perception of what the job entails. Reports can act to verify information gained from the job holder and provide additional information as to expectations of the task.

When undertaking a job analysis, it is recommended that the steps set out in Figure 16.4 are followed.

Job analysis generates the source material for preparing the job description and job specification.

A **job description** is a written statement of tasks performed, how they are done and why they are done. Typically it describes job title, job summary, responsibilities, duties and activities, relationships, where the position fits into the business, accountability, special circumstances and states key performance indicators.

job description a written description of a job's title, duties and responsibilities, including its location on the organisational chart

job specification detailed listing of the personal skills and characteristics required to perform a particular job

A **job specification** focuses on the person's experience, qualifications, skills, abilities, knowledge, personal qualities, remuneration and any special requirements of the person. This could include requirements such as a current driver's licence, forklift licence or ability to speak a foreign language.

Regular updating of both job descriptions and job specifications is essential, as jobs constantly change due to the introduction of technology, new procedures or creation of a new job. Both the job description and specification are used for recruitment purposes, particularly when designing job advertisements. They can also form background material for designing interview questions, assigning work, appraising employees, and for general planning purposes within a work area.

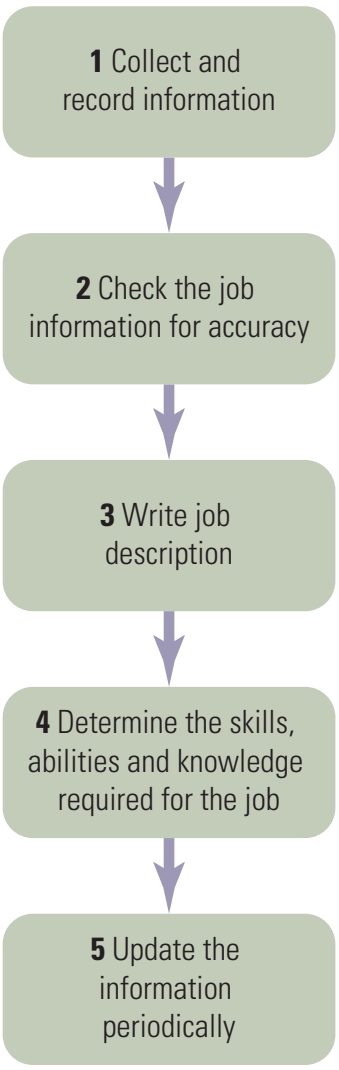


Figure 16.4 Flowchart of steps involved in a job analysis

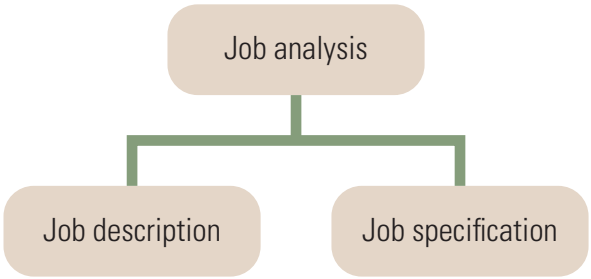


Figure 16.5 Job analysis provides information for preparation of a job description and job specification.

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ACTIVITY 16.1

Read the example job description and person specification below and answer the questions that follow.

MITCHELL YOUTH ARTS COUNCIL – nourishing artistic and cultural lives

Position: Marketing Assistant

Location: Mitchell Youth Arts Centre

Reports to: Marketing Manager

Job level: Level 2 salary range – $45,813 – $55,500

Position status: Full time

Job statement

Responsible to the Marketing Manager for all aspects of assisting with the marketing and promotion of the Mitchell Youth Arts Council programs, events and activities.

The Marketing Assistant is also encouraged to establish relationships with key stakeholders including media partners and other media representatives generally, local arts organisations, corporate partners and sponsors.



Figure 16.6 A job description shows a job's title, duties and responsibilities.

Key results areas and responsibilities

Marketing and promotion

- In consultation with the Marketing Manager, assist in the execution and monitoring of all marketing campaigns for the organisation and its strategic initiatives
- Assist in the liaison with all creative supplies for cost-effective production and delivery of campaigns
- Assist in the liaison with relevant staff on marketing and publicity matters relating to specific project campaigns
- Assist in the execution of digital marketing strategies
- Archival of all marketing and promotional documents
- Attend meetings as required

PR and communications

- Assist with the implementation of publicity and public relations strategies
- Assist in the implementation of all communication strategies
- Support the Marketing Manager to maintain relationships with key media representatives
- Assist in the development and writing of content for the organisation's website, e-news, online communications and media releases
- Assist in the archiving of photographic documentation of all strategic initiatives into the electronic library and hard copy archive
- Collate information for media kits

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ACTIVITY 16.1 continued

Funding and sponsorships

- Support Marketing Manager to maintain relationships with key stakeholders: industry, corporate sponsors, government departments and media
- Assist Marketing Manager in sponsorship servicing including delivery of all contractual obligations

Event management

- Assist Marketing Manager in the event management and coordination of VIP functions, industry events, media launches and fundraising events as required

Person specification

Essential requirements

- Knowledge of contemporary and digital marketing, communication and promotion principles and practices
- Understanding of the Victorian and wider Australian arts industry
- Ability to develop and maintain relationships with key stakeholders
- Experience with Microsoft Office, web-based Customer Relations Management software, website content management systems, web-based e-communications software
- Well-developed time-management, planning, prioritisation and problem-solving skills
- Excellent literacy, writing, editing and proofing skills with outstanding communication and interpersonal skills and the ability to build collaborative relationships across a diverse organisation
- Ability to think creatively and strategically
- A collaborative and flexible working style with a willingness to contribute to organisational culture and team wellbeing

Desirable knowledge/experience

- Completed or working towards completing tertiary qualifications in Marketing and/or Communication
- Understanding of brand marketing and sponsorship
- Understanding of state and national media networks

QUESTIONS

1. Do you think this is an entry level position (i.e. for someone who has not worked in marketing previously) or a position that would be more suitable to someone with a couple of years' experience working in either a marketing or communications role? Justify your opinion.
2. Comment on why it is important for the job holder to have the qualifications, specific knowledge and skills required for this position. Link your comments to the major result areas and responsibilities outlined in the job description.



Figure 16.7 A job statement includes desirable knowledge and experience.

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Job design

The purpose of job analysis is to look at and analyse the current jobs being performed at a workplace. It can be used as input into designing a job. **Job design** involves ensuring that the job an employee is undertaking contains an appropriate degree of variety and challenge for the job holder, while also building in an opportunity for personal development in the role. Additional motivation and job satisfaction can be provided to the job holder by widening the job scope, referred to as **job enlargement**. This involves making the job bigger or more challenging by combining various operations at a similar level (horizontal). Another way to increase the challenge of the job is to vertically expand the job by increasing its depth of content as well as the degree of control the job holder has over their work. This is referred to as **job enrichment**.

job design grouping together of tasks for a particular job, which should incorporate variety and challenge for the job holder

job enlargement making a job bigger or more challenging by combining various operations at a similar level (horizontal)

job enrichment making a job more challenging so workers are required to use their full capabilities and gain personal growth

Job rotation is a method that can be used to reduce boredom for a job holder while exposing them to more than one task. This acts to increase the skills of that employee and create a more flexible workforce. While not necessarily motivating the employee, it does make them a more valuable team member.

job rotation workers are moved between different jobs to increase variety of work and to create a more flexible workforce

Designing jobs to be part of a **team** is a growing practice in business. It provides the opportunity for the job holder to be part of a network of jobs, and feel part of a collaborative approach to achieving the business objectives, while also providing social interaction between team members. Creating **quality circles**/teams provides an excellent method for encouraging participation of all employees to accept challenging tasks and responsibilities. These teams of workers meet regularly to discuss quality and production issues and propose changes which can then be put forward to management.

team a group of employees with different tasks and skills working together on a common project, service or goal

quality circle a group of workers who meet regularly to discuss quality and production. Any proposed changes to production methods are then put forward to management.

16.2 Recruitment

Recruitment involves identifying, locating and attracting a pool of qualified applicants. More importantly, it needs to attract the 'right' potential candidates to the 'right' openings within a business. From this pool, those who most closely match the job specification should be selected for an interview.

recruitment the process of finding the best qualified pool of applicants

Recruitment is a two-way process; it involves information being given by the business and received from the applicant. Effective communication is therefore very important.

The recruitment process begins with:

- identifying human resource requirements
- determining where the qualified pool of applicants can be found (recruitment sources)
- choosing a specific means of attracting potential employees to the business (recruitment methods).

Identifying human resource requirements

It is the role of the person in the business responsible for human resources to ensure that the people recruited and ultimately selected have the unique skills and attributes required by the business to assist in achieving its business objectives. The strategies and culture of the business also determine whether the focus is on technical skills and formal qualifications, or personality, the ability to 'fit in' and the potential for personal and career development.



Figure 16.8 Recruitment is a two-way process.

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For example, Kathmandu (an outdoor clothing and equipment business) would be looking for applicants who are passionate about adventurous, outdoor-related activities and lifestyles and possibly have retail experience. In contrast, the major banks would place more emphasis on an applicant having strong banking and finance skills and formal qualifications in business or economics.

While smaller-sized businesses often do not have a formal recruitment policy they should still try to approach recruiting of staff in a consistent manner. Larger-sized businesses usually have a formal recruitment policy that provides the framework for a consistent approach to recruitment throughout the business. It will cover items such as:

- formalised recruitment and selection procedures; for example, use of job descriptions and job specifications to generate advertisements, where to advertise, creating a short list against established selection criteria, composition of interview panel and question types, testing procedures, reference checks, advising successful and unsuccessful applicants, negotiating terms and conditions of employment
- ensuring legal compliance relating to **equal employment opportunity (EEO)** and antidiscrimination in advertising jobs and interviewing applicants
- a positive approach to recruitment of people with disabilities, minority groups, women, older workers, and Aboriginal and Torres Strait Islanders
- recruitment methods – whether there is a preference to search first for applicants internally and then use external methods.



Figure 16.9 Larger businesses usually have a formal recruitment policy.

equal employment opportunity (EEO) providing people with a fair and equitable opportunity to succeed without any form of discrimination based on age, sex, race or nationality or physical or mental disability

Recruitment methods

Internal recruitment

As part of their recruitment policy, many businesses require that an open invitation is given to all current employees to apply for job vacancies (**internal recruitment**) before entering into the **external recruitment** process. This allows individuals within the business the opportunity for **career advancement** by either **transferring** or being **promoted**. One internal method is using the **intranet** of the business to publish and accept applications for the vacant position. A direct approach (**word-of-mouth**) or recommendation can also be made to an employee by a member of the human resources department or the employee's manager or supervisor. This will often occur when an employee has been recognised as having career advancement potential. A job description and job specification should be made available to potential applicants for them to judge whether they possess the necessary knowledge, skills and abilities, formal qualifications and personal requirements.

Internal applicants are then requested to submit a formal letter of **application**. The submission of a résumé (curriculum vitae) is not always requested because the business is already familiar with the accomplishments of the employee.

internal recruitment assessment of current available pool of applicants from existing staff who have the skills or qualifications to fill and perform the job vacancy

external recruitment the assessment of the current available pool of job candidates, other than existing staff, to ascertain if any are sufficiently skilled or qualified to fill and perform existing job vacancies

career advancement moving from a junior-level position to a more senior-level position in a business

transfer a sideways movement of employees within the same level, from one job to another

promotion the advancement in rank or position of an employee within a business related to their previous position or job tasks

intranet the internal or private network of a business based on internet technology

word-of-mouth an oral or written recommendation of someone

application the act of applying for a job or an advertised vacancy; the letter of communication used in expressing interest in a job or advertised vacancy

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Table 16.1 outlines some of the advantages and disadvantages of recruiting internally.

Advantages	Disadvantages
Quicker adjustment to the position; no induction needed	Employees may be promoted beyond competency level
Incentive for employees to gain career progression	No new ideas introduced, could stifle creativity and innovation
Acts as a motivator and morale booster	Rivalry, infighting and negative impact on morale for unsuccessful applicants
Business knows the applicant, applicant knows the business	Any poor work habits will remain and bureaucracy encouraged

Table 16.1 Advantages and disadvantages of internal recruitment

External recruitment

A variety of methods can be used to locate and attract external candidates. Most businesses would choose a couple of methods to reach the largest pool of potential applicants. Table 16.2 illustrates the various advantages and disadvantages associated with recruiting externally.

Advantages	Disadvantages
Larger pool of applicants	Attracting/selection of new employee is time-consuming and more difficult
New insights, skills and abilities brought into the business	Induction takes longer
Costs can be lower, as business does not have to fill two positions	Limits career advancement of existing employees
New approach to work, issues and problems	Greater element of risk, as new employee is an 'unknown' person
	Costly form of recruitment

Table 16.2 Advantages and disadvantages of external recruitment

The use of technology has brought big changes to the way that businesses now recruit new employees. In the past, a business that had job openings would place an advertisement in a local, state or national newspaper. For instance, the *Saturday Age* (Careers section) contained the most employment advertisements for jobs located in Melbourne and Victoria. *The Australian* was the choice of newspaper for jobs in other parts of Australia. If a business still wants to use this form of written media, then more senior positions will be advertised, using block advertisements, in the front section of the papers. Other positions will be found in the employment section, which is categorised by job type; for example, education, health, sales.

For an advertisement to be effective, it should contain an attention-grabbing headline and details that inform the potential applicant about the position (i.e. job title, salary, location, key roles, duties) and any relevant personal details, such as qualifications, knowledge, skills and abilities, required to perform the job. Finally, contact details and the application closing date need to be included. A small business may also choose to advertise by sticking a 'help wanted' sign on the door of their business. Some employers still use these methods; however, more are turning to a multifaceted approach to recruiting applicants such as online job boards, social networking sites and websites.

Websites

Many businesses have created a careers section on their own website where applicants can go to search online for current job vacancies. Using their corporate website gives the applicant an opportunity to carry out research into that business to see what the business actually does, the products it makes and/or sells or services it provides, and what are its mission and vision and the values it holds.

Using a website to publish a job advertisement is considerably cheaper since online recruiting is not bound by traditional print advertising's line or word costs. Also, the advertisements tend to be more detailed and comprehensive. After reading the advertisement applicants are requested to submit their letter of application and résumé online. This allows for immediate acknowledgement of receipt of the application.

One Girl is a business that operates as a social enterprise. It is looking for a new CEO to take its

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Figure 16.10 One Girl – looking for a CEO

business into the future. Its vision is to assist with the education of 1 000 000 girls in Africa. To recruit this new CEO, it created a video, which outlined the job description and person specification, and it placed this on its website. This approach provided a very innovative, human and personal touch to what this business was about and who it was searching for. It also required an application form to be completed explaining why the applicant would want to work for it (see Cambridge weblinks: http://cambridge.edu.au/redirect/?id=7005).

ACTIVITY 16.2

Go to the careers pages of these business websites and answer the following questions:

- ALDI
- Kathmandu
- Coles.

1 Search their careers section and identify any current job vacancies.

2 Outline the procedure that applicants need to follow to apply for these positions.

3 How would you rate the career pages websites of these businesses? What do you like or dislike about these pages? Is the information provided useful?

Online recruitment agencies

There are many online recruitment agencies operating in Australia, both in capital cities and regional areas, and specialising in certain employment sectors. Traditionally, a recruitment agency worked on behalf of an employer to find job applicants. In more recent times, these agencies have developed their own data bases of people seeking employment so they may match these to job vacancies as they arise. The agency will ask the prospective job seeker to create a profile on its website, attend an interview or to come into its office to undertake an aptitude test.

Australia's top job websites are:

- Seek
- MyCareer
- JobSearch
- APS Jobs
- careerone
- OneShift.

ACTIVITY 16.3

Go to the website of each of the above job websites.

1 Identify the types of jobs being advertised on the websites – are they covering jobs in a range of industries or are they specialising in one industry?

2 Choose one job vacancy listed at each website and summarise its details.

3 Explain how the website OneShift differs from the other websites.

Social media

The use of **social media** as a recruitment method has been rapidly expanding over the past decade. Businesses are increasingly using social networking sites such as LinkedIn, Facebook and Twitter to advertise job openings. Businesses of all sizes have Facebook and Twitter pages where applicants can find information about the business, any current job vacancies (job postings) and stories about what it is like to work for the business.

social media websites and applications that enable users to create and share content or to participate in social networking

The most popular network for recruiting professionals is LinkedIn Recruiting Solutions, which has members from more than 130 different industries. Businesses can advertise jobs on LinkedIn as well as create career pages to attract and engage talented candidates. The network also enables businesses to easily gain access to candidates and find out about their career history, skills and qualifications. An employer can send a request for a referral of a

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Figure 16.11 The use of social media as a recruitment method has been rapidly expanding over the past decade.

recommended candidate for a particular job opening. LinkedIn provides a way of staying in touch with former, valued and trusted employees whom a business may want to attract back in future times or rely upon for a referral. Using the key word search facility allows a business to search for people with the required qualifications and experience who they can then contact directly to see if they are interested in a vacant position with their business.

Job board is another form of social media being used by businesses to post vacant positions. These are websites where businesses pay a fee to the job board to list their job on the site and will often accept job applications directly from the job board. Seek is one of the largest job board providers in Australia. Other more specialised or niche-oriented boards focus on a particular industry, such as information technology, education or healthcare jobs.

job board websites where businesses pay a fee to the job board to list their job on the site and will often accept job applications directly from the job board

There are also a number of other methods that can be used when attracting applicants for a job:

- Referrals of candidates from one of the current employees at the business. This method often acts to streamline the recruitment process as the employee has inside knowledge of the business and knows the type of person needed for the job. It also provides an advantage for the applicant as they have someone inside the business who can hand their résumé directly to the person responsible for conducting the recruitment.
- Walk-in applications (unsolicited applications) – a prospective candidate makes a direct approach to a business on the off-chance that there may be a position vacant. The applicant has nothing to lose by adopting this method and may actually gain a job by asking a quick question or handing in their résumé.
- Government employment agencies – these are often used by people who are unemployed and need assistance to find a job placement. As part of their eligibility requirements for unemployment benefits, people are required to be 'work ready'. The jobs offered by these agencies are mostly clerical, sales, technical and manual positions.
- Direct recruitment of graduates from universities or TAFEs.

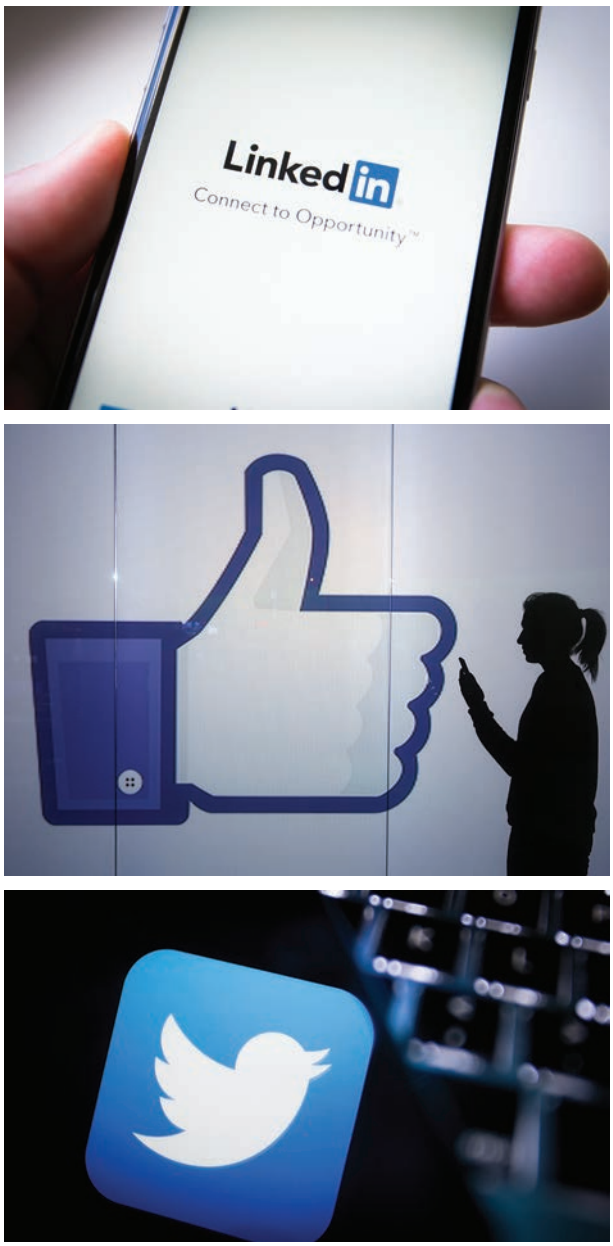


Figure 16.12 Popular social media sites – LinkedIn, Facebook and Twitter

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CASE STUDY 16.1

Ski resort seeking seasonal workers

Each year Mt Hotham Skiing Company (MHSC) seeks exciting, innovative and dynamic individuals to join its team working at the Mt Hotham ski resort. The company is responsible for ski field operations including snow grooming, snowmaking, lifts, the snowsports school, ticketing, guest services, retail, equipment hire, day spas, property maintenance, reservations, events and marketing and the Hotham Airport.

Previous snow experience is desirable but not essential for many of the positions. Join our team, make friends and enjoy all that the great Alpine snowfields have to offer!

Vacancies exist for:

- Administration/Reception
- Day Care and Indoor Attendants
- Day Spa Staff (Beauty and Massage Therapist)
- Experienced Boot Fitter
- Events
- Hotel Receptionist
- Housekeeper and Commercial Cleaners
- Human Resources Assistant
- Instructor Positions – experienced Ski and Snowboard (Australian Residents or current work visa holders)
- Instructor Positions – Skills Clinic (Australian Residents or current work visa holders)
- Lift Attendant
- Porter/Snow Clearer
- Qualified Cook/Chef (including Head Chef)
- Rental Hire Attendant
- Reservations Manager (Permanent ongoing year round position)
- Retail Sales Staff
- Snow Groomers (must be experienced)
- Snowmaking
- Ticket Seller/Ticket Checker.



Figure 16.13 Each year Mt Hotham Skiing Company (MHSC) seeks exciting, innovative and dynamic individuals to join its team.

(Source: Mount Hotham website, Employment 'Mount Hotham Skiing Company'.)

Analysis

1 From the list of job vacancies above, choose one of the jobs and design an online job advertisement.

2 Identify which social media site and/or website you think would be the best to use to attract the greatest number of applicants to the job you have chosen. Justify your choices.

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16.3 Selection of applicants

Within the **selection** process, a range of methods are used to ensure the best applicant is found. The actual order of using these selection devices may differ depending on the particular business. All steps in the selection process perform an important role when trying to select the right person for the job position that a business wants to fill.

selection process undertaken by a business to decide whether to make a job offer to a candidate

Receipt of application

It is not only polite, but good business practice to acknowledge any application made by a job candidate. This can take the form of a telephone call or a simple letter of acknowledgement.

Some businesses require an **application form** to be completed. This is a valuable screening tool, as it seeks information the business sees as important. Care needs to be taken when preparing application forms to ensure they do not breach equal employment opportunity provisions. Questions relating to marital status, ethnic origin, age (unless minimum requirement necessary for position; e.g. bar work) should not be included.

application form basic source of employment information covering qualifications, experience and other job-related data

Initial screening

This step eliminates applicants who do not possess the skills and expertise required for the position. By reading through the letters of application, résumés and application forms (if required), a short list of applicants to be interviewed is created. When reviewing applications there are common areas often considered: hobbies and interests, accomplishments/results, any gaps in employment history, stability in employment, related experience to job advertised, appearance and overall structure of résumé, career progression, education and qualifications.

For larger corporations that attract many applicants, online testing is sometimes used to determine whether or not an applicant meets the basic requirements of the role. They could be assessed on problem-solving abilities or technical expertise in the area they are applying for. Timed tests could be simple multiple choice questions or games that require critical thinking.

Often a rating system is used: 'Yes' (will get an interview), 'No' (definitely no interview) and 'Maybe' (consider again later). If the applicant is to be interviewed, they are normally contacted by telephone and a mutually convenient time is arranged.

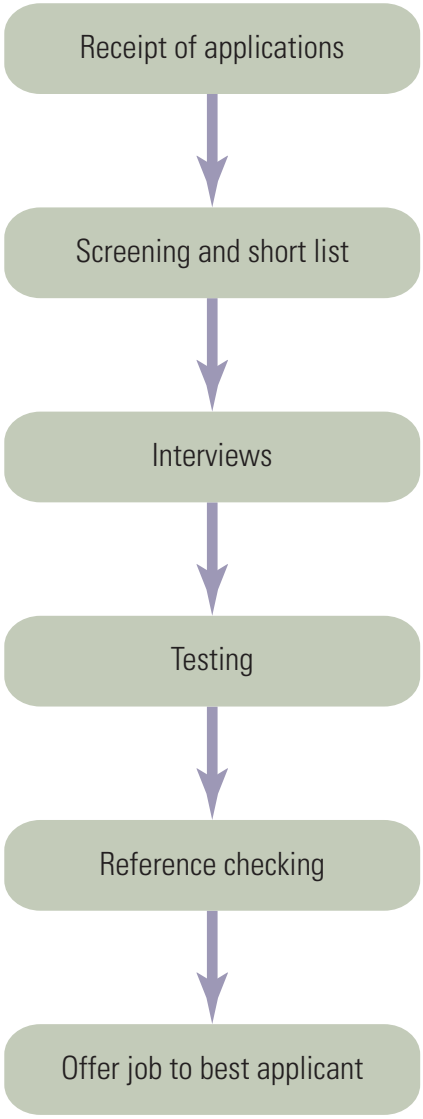


Figure 16.14 The selection process

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CASE STUDY 16.2

Message from Virgin Australia CEO John Borghetti

The Virgin Australia group of airlines prides itself on recruiting the right people into the right roles and we're always looking for team members in all specialities to join our award winning team.

We know what sets Virgin Australia apart is our people and the drive that we all have to make a real difference for our guests. Our culture encourages innovation whilst ensuring that our guests remain the focus of our business. We deliver a highly professional and polished service, whilst ensuring that we are safe in everything that we do. We want dedicated people who are passionate about customer service and ready for the challenge of working in a challenging environment.

The reality is that being a team member of the Virgin Australia group of airlines involves hard work but is very rewarding. Our people are at the cornerstone of the business and their award winning service to every guest every day is putting the magic back into flying.

So if you are interested in being a part of our passionate and innovative team then we would love to hear from you.

Kind regards,

John Borghetti

CEO – Virgin Australia group of airlines

(Source: Virgin Australia website, 'Welcome'.)



Figure 16.15 The Virgin Australia group of airlines prides itself on recruiting the right people into the right roles.

Analysis

1. Identify what John Borghetti believes sets Virgin Australia apart from other airlines.
2. Describe what the culture of Virgin encourages and values.
3. Describe what being a 'team member' of Virgin Australia involves.
4. Identify the personal qualities that Virgin Australia would be looking for in its employees.

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Interviews

The employment **interview** is the most commonly used selection technique. It is the opportunity for an employer and the candidate to learn more about each other. Some businesses use telephone Skype as a way to conduct initial interviews (virtual interviews) with the aim of screening candidates and narrowing down the pool of applicants who will be invited for a face-to-face interview. This is also a way to reduce the expense involved in interviewing candidates who are not local.

interview a one-on-one conversation between a job applicant and a representative(s) of an employer that is conducted to assess whether the applicant should be hired

It is quite common that an applicant will attend several rounds of interview. The first in-person interview generally seeks to find out about the applicant's experience, skills, work history and whether they have the personal qualities and qualifications the business is seeking from its workers. The number of interviews often reflects the level of seniority of the position in the business. For example, a shop assistant may only have one face-to-face interview with the owner of a small business, whereas a senior manager in a larger business will go through a far more rigorous and time-consuming interview process.

The most common interview style is structured, where a series of questions are asked based on the job description and specification. Alternatively, an unstructured interview can be used where the applicant is encouraged to do most of the talking with not much direction from the interviewer.

There are certain elements that must be addressed if a selection interview is to be successful and produce the desired outcome.

1 Plan for the interview

The location must be arranged and the candidate advised of the time and location. The location should be private (e.g. conference room), free of interruptions. Seating arrangements need to be made to ensure no confronting or intimidating situations are created. The interview panel must be formed, given all relevant information on the candidate and the job; that is, personal attributes, experience, skills and qualifications required for the job and any other relevant business details. They should be directed to look for any gaps in employment history, vague wording, inflated job title and frequent job changes. In addition, the panel meets to formulate a series of questions to put to each candidate during the interview.



Figure 16.16 First impressions count

2 Opening the interview

The candidate should be greeted with a handshake by all parties and a little 'small talk' entered into to gain rapport and put the candidate more at ease. It is important to set the scene by outlining how the interview will be conducted.

3 The main parts of the interview

a *Questioning* – there are two main types of questions that can be asked during the interview:

- Open questions usually require more than a few words in response, giving the applicant opportunity to answer the question. Open questions help to reveal thoughts, needs, feelings and opinions. They also require the applicant to think before answering.
- Closed questions only require a short 'yes' or 'no' answer, or require the candidate to pick 'X' or 'Y'. They require very little thinking and talking. Closed questions are used to elicit specific facts or details (e.g. 'Do you have a current work visa?').

It is important to remember that employers believe that past behaviour is the best predictor of future behaviour. Questions that require the interviewee to explain past experiences and behaviours should be asked; for example, 'Tell me about a time you encountered a difficult customer and how you dealt with the situation.' Often the interviewer will need to gain further details by using follow-up questions. The candidate should be allowed to talk for approximately 70 per cent of the time, with the interviewing panel being active listeners. Watch the body language of

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both the candidate and the panel. Non-verbal signs, such as facial expressions, fidgeting, arm movements and the like give important clues as to what people are really thinking.

b *Understanding the legal requirements* – it is important to be aware of areas of discrimination (race/nationality, marital status, age, pregnancy, physical features, impairment/disability, religious belief or activity, lawful sexual activity, parental status, industrial activity) when questioning and forming opinions of suitable applicants. This will help to protect the panel from any accusations of discriminatory or unfair interviewing practices.

c *Selling the job and the business* – explain the key aspects of the job and where it fits within the business. Ask the applicant if they have any questions or need any more information.

4 Close the interview

Give a firm handshake and thank the applicant for coming. Advise them of the next stage in the process.

5 Evaluate the applicants

All panel members need to finalise their notes immediately after the interview. Assessment should be made only on the candidate's skills, knowledge and **capabilities** relative to the job requirements and you may be asked to explain your decision and justify your choice. (Hint: do not dismiss your gut feelings about a person.)

capabilities competence to perform a task



Figure 16.17 Active listening by all parties to the interview

Using interviews as a selection method allows for:

- the parties (interviewer and interviewee) to start developing their relationship
- the interviewer to gain a lot of information about the interviewee. It also allows the applicant to find out information about the business and what the job involves.
- the interviewer to pose problem or behavioural scenarios to the applicant to then make a judgement of their problem-solving skills
- the interviewee to make clear any misunderstanding or mistake they may have made during the course of the interview.

There are, however, some downsides to using interviews as a selection method, namely:

- to be effective they generally require more than one interview to make the selection.
- they are time-consuming as time needs to be found for: preparing for the interview by the interviewer or the panel of interviewers, conducting interviews, interpreting the responses and making recommendations on which candidates should progress to the next round of interviews
- potential for interviewer bias
- costly due to personnel costs associated with interview and panel members
- inefficient if the interviewer and panel members are not trained or experienced in how to conduct an interview.

Online selection

Some businesses now use a combination of recruitment methods to assist them to find the best candidate for the job. For example, when recruiting graduates the Department of Defence requires applicants to complete certain components online and, if successful, they will be called in to an assessment centre for a face-to-face interview. This practice is also common with many state and federal government departments and large businesses. Applicants access the online application form on the website and need to provide the required information for each selection criteria set out for the position. The information provided must be clear and concise as it is used as the basis for short-listing applicants as well as for their selection.

For employers, using an online application and selection process can have some advantages. It is cost-effective and reduces the cost associated with hiring. Receiving job applications in digital format makes them easy to store, sort and screen for key words, which saves time when wanting to create

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Figure 16.18 Some businesses now use a combination of recruitment methods to assist them to find the best candidate for the job.

a short list of people to be interviewed. Using the online application also allows the business to cast a wider net for finding the right candidate as job openings can easily be advised and spread on the internet through job-posting sites, company websites, blogs and social media.

The ease of applying online means that a business may receive applications from unqualified applicants or people who are not seriously interested in the position. This places more importance on having an effective screening strategy in place to reduce the number of applicants to a manageable number to process for selection.

Another issue with using standardised online forms as the bases of sorting and selecting applicants is that it often constrains the applicant from uploading some of the data that would be contained in their traditional résumé. If the employer wants someone with creative skills, an online application and selection format may exclude them from including samples of their work.

Psychological testing

Psychological testing (also known as psychometric testing) provides a scientific component to selection. It must be carried out by a qualified organisational psychologist, who has completed training in occupational testing. It aims to assess the potential of an individual to perform in a particular job role and covers:

1 **Aptitude test** or an ability or intelligence test – designed to measure an applicant's intelligence or IQ based on their ability to reason with numbers, words and abstract items. This test indicates a person's ability to think conceptually and solve problems.

aptitude test a test of special abilities (e.g. clerical, language, artistic) that are required for a specific job



Figure 16.19 Psychological testing provides a scientific component to selection.

2 Personality or temperament traits, which looks at the behaviour of a person in the workplace. One popular test is the Myer Briggs Type Indicator, which classifies people as being: an extrovert or introvert; sensing or intuitive; thinking or feeling; judgemental or perceptive.
3 Motivational – looks at a person's drive and initiative.

The advantages of conducting psychometric testing include:

- Conducting these tests could save the business money in the long run as it prevents hiring a candidate who performs well in an interview but is not really suited to the tasks of the job.
- Every candidate gets the same questions and is given the same opportunities as the tests are standardised.
- It provides applicants with weaker interview skills or who are shy a chance to prove themselves in another way.

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The disadvantages of conducting psychometric testing include:

- too much reliance on applicants telling the truth when answering questions
- not always a good way of assessing an applicant's personality
- if a qualified person is not administering the test, how do you know that its findings are correct or can be relied upon?

Work testing

Businesses use work testing as a method to assess how candidates perform in work situations. This form of testing can provide additional objective information which relates to skills that may be difficult to assess using other methods, such as an interview. Work tests can take a variety of forms, such as: computer tests, presentations, role plays and written work. They can also include exercises that test the applicant's ability to analyse statistical or budget information or other exercises that test an applicant's speed, skill, accuracy and dexterity at manual tasks. For instance, a cashier for a supermarket may be tested in product knowledge and their speed and accuracy of processing customers through a checkout.

Candidates are usually advised in advance that they will be asked to take a work test and often it is arranged to be taken either before or after their interview.

Examples of common work tests are:

- drafting and typing a letter to a client of a business
- creating an Excel spreadsheet, based on information that has been supplied
- drafting a press release to announce an important decision made by the business
- reading and summarising a document that could be placed on the intranet of the business.

Asking a job applicant to undertake a work test can provide the following advantages when undertaking the selection process:

- It can be relied upon to test the work capability of the candidate as the test should be based on tasks likely to form part of the job.
- Because the work being tested has a direct relationship to the job, their ability to perform the task usually ranks higher than the results of the personality test.
- It is difficult for an applicant to fake job proficiency.
- The applicant is using equipment that is the same or very similar to the actual equipment they will be using for that job.
- An applicant will often feel that the test allows them to display skills that would not be shown during an interview.

The major disadvantage in conducting a work test relates to the type of job. If the tasks associated with the job are complex and take a longer period (days or weeks) to perform, they are not as good an indicator of an applicant's ability for jobs where tasks can be completed in a short period of time.

Background investigation – reference checking

Comprehensive reference checking provides important opportunities to learn more about candidates and should be undertaken before offering the position. Human resource supervisors can conduct these checks personally by contacting former supervisors and work colleagues of the applicant or using their professional network to talk with other individuals who can provide additional insight into the applicant.

It may also be wise to check academic qualifications, as there are instances of qualifications having been misstated in résumés. A police check may also need to be undertaken if the area of employment relates to providing services to children, such as teaching or child care. Social media, such as Facebook, are now being extensively used by businesses as part of background checking of applicants.

Advising applicants of outcome

Once all the background checks and testing have been undertaken and the selection panel has decided on the most suitable applicant, the following needs to occur:

- The position needs to be officially offered to the successful job applicant. This may be done initially



Figure 16.20 Academic qualification – authentic or false?

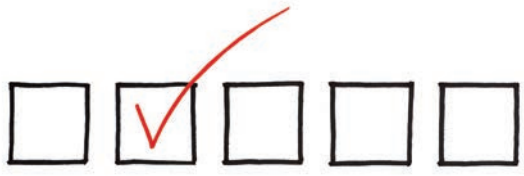
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by telephone and followed up by a formal letter of offer. This letter will contain all the conditions of work, such as salary, leave entitlements, job title, starting date, location of job and to whom the person will report.

- The remaining unsuccessful short-listed applicants need to be thanked for their interest and advised of their non-success.
- An announcement needs to be made to the employees of the business regarding the new appointment.

Evaluation of recruiting methods

The evaluation of recruitment methods provides valuable feedback for controlling costs, improving recruitment performance and determining whether strategic business objectives are being achieved. This can be done by looking at the measures outlined in Table 16.3.



ACTIVITY 16.4

Complete the following questions.

1. List the costs that can result from a poor recruitment and selection process being undertaken by a business.
2. Identify which areas of cost would be reduced if a business were to recruit internally.
3. Discuss the advantages and disadvantages of recruiting from internal and external sources.
4. Analyse which method of selection would be cheaper for a business – an interview or a combination of online selection and interview.



Figure 16.21 In today's business environment, hiring the wrong candidate can cost a business.

Measure	Evaluation
Quality of process and outcome	How many applicants applied for the vacant position? How many of the applicants were qualified and suitable for short-listing?
Cost of process	What was the total cost, including advertising, agency fees and travel expenses?
Time	How long did it take between recognising the need for the new position, receiving the application and selecting and offering the job?
Soft data	Was there any additional qualitative feedback from the applicant and management on how well the method worked?

Table 16.3 Evaluating recruitment methods

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16.4 Employment arrangements

An employer and employee will enter into a legally binding **employment contract**. There is a range of ways these contractual arrangements can commence. One common method is the signing of the duplicate letter of offer by the successful candidate and returning it to the person making the offer.

employment contract a formal written agreement between an employer and an employee setting out the legal obligations of each party; an informal or oral agreement may also be entered into

The employment contract may engage the employee in the following ways:

- **Permanent full-time** basis – the employee enters into a continuing contract of employment. The number of hours worked (e.g. full time is 38 hours per nominal week as stated in the National Employment Standards (NES)) will depend on the conditions of either the award or collective agreement applicable to the business. The employee will be entitled to receive a salary or wages, leave entitlements (sick and carer's leave, parental leave, compassionate and bereavement leave) and superannuation guarantee rate of 9.5 per cent. In addition, for each year of employment at a business, the employee accrues long service leave entitlements.

permanent full-time the employee enters into a continuing contract of employment

- **Permanent part-time** basis – the employee enters into a continuing contract; however, while entitled to all the above employment conditions, they will work fewer hours than a full-time employee. All calculations for pay and entitlements are made on a pro rata basis.

permanent part-time the employee enters into a continuing contract, with same employment conditions, but will work fewer hours than a full-time employee

- **Casual** basis – an employee is often appointed by oral contract (not written) for short-term, irregular or seasonal work. They are usually engaged and paid on a daily or hourly basis and do not have access to permanent employment benefits such as sick leave and annual leave, so their wages usually include compensatory loadings of between 15 and 20 per cent. Casual employees who are employed regularly may be entitled to benefits such as superannuation and long service leave under federal and state legislation. Protection is now provided for casual employees who are terminated after having been employed for longer than 12 months.

casual where an employee is appointed by oral contract (not written) for short-term, irregular or seasonal work

- **Fixed-term contract** – employees can be engaged in either a full-time or part-time capacity for project work or to replace employees absent on long service or parental leave. They generally accrue entitlements such as annual and sick leave on a pro rata basis. As the length of their employment is finite and contractually stipulated (e.g. one year or five years), it is not covered by the termination of employment legislation.

fixed-term contract employees engaged in either a full-time or part-time capacity for project work or to replace employees absent on long service or parental leave

Businesses increasingly have been employing independent contractors to complete specific tasks or projects, without affecting their ongoing staffing plans. These contractors negotiate their hours of work and rates of pay and are responsible for paying their own taxation and GST to the Australian Taxation Office. They need to have an Australian Business Number (ABN) and submit regular invoices for payment to the business. Contractors are responsible for making their own superannuation contributions and are not entitled to receive leave entitlements from the business.



Figure 16.22 Businesses increasingly have been employing independent contractors.

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Chapter summary

- Job analysis is the systematic process of looking at a particular job to determine the tasks and duties required for that job. It also determines the skills and level of experience needed by the job holder of that position.
- Job analysis results in the creation of two documents: job description and job specification.
- A job description sets out the tasks or duties specific to the job while the job specification sets out the personal qualities, qualifications and experiences of the actual job holder.
- Job design involves grouping together tasks for a particular job. The design of a job can be changed by job enlargement (increasing the number of tasks), job enrichment (increasing the complexity of the tasks) or job rotation (moving between several jobs).
- Creating teams and quality circles are also popular tools used by businesses to create greater flexibility, increased motivation and a greater feeling of ownership and contribution to the achievements of the business.
- Recruitment involves locating and attracting a pool of qualified applicants to fill a vacant position in the business.
- Recruitment can be through internal or external sources, both of which have their associated methods and their related advantages and disadvantages.
- Selection is the process undertaken by a business to ultimately decide to which applicant it will make a job offer.
- The selection process can involve: screening the applicants, creating a short list, conducting interviews, different forms of testing and undertaking background checks.
- A business can use a variety of employment arrangements with its staff. They may be employed as permanent staff members either on a full- or part-time basis, as casuals or on a fixed-term contract basis.

Chapter summary questions

1 Define the following terms and use them in a sentence to demonstrate your understanding of the term:
   a promotion
   b job description
   c application form
   d fixed-term contract
   e internal recruitment.

2 Outline the benefits that can come to both the business and its employees from using internal recruitment as a way to fill a job vacancy at a business.

3 Outline the benefits to a business of using external recruitment methods as its way of finding suitably qualified applicants for vacant positions within the business.

4 Explain the importance of good job design to a business wanting to achieve its business objectives. Include in your explanation how job enrichment and job rotation can help a business to become more productive.

5 Describe the process a business needs to undertake to prepare a job description and job specification.

6 A variety of tests can be undertaken by applicants. What are they? Why are they used?

7 Distinguish between the employment arrangements for a permanent full-time and permanent part-time employee.

Extension questions

Premium Real Estate was created in July 2015 from the merger of two local real estate companies, Select Real Estate and James Alexander Real Estate. Both companies had in recent years been increasing their overseas client base in China and Malaysia. The owners of the two real estate businesses believed that the merger would result in them being able to attract more clients from overseas and this would put them into a better position when negotiating with owners in Australia to list with them to sell their properties.

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Premium Real Estate determined it would need to hire additional real estate agents and office staff to support its expansion strategy.

1. Advise the owners of Premium Real Estate on the process they should undertake to create the job description and job specification for the real estate agent's position.
2. Outline the important personal specifications that would be needed for the position of real estate agent in this business.
3. Advise Premium Real Estate where it would be appropriate to advertise or to go to attract applicants for these vacant positions.
4. Outline the selection process that you would recommend be followed to ensure the best applicant(s) are chosen to fill the vacant positions.

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CHAPTER 17

Expectations and legal obligations

Key terms

- award
- benefits
- bullying
- conditions of employment
- discrimination
- enterprise agreement
- flexible work practices
- harassment
- induction
- National Employment Standards (NES)
- remuneration
- salary
- salary package
- wages
- work–life balance

Overview

Each individual employee working for a business will have different expectations from their job. Some will place great value on the conditions under which they will be employed, while others are looking for being able to create a balance between their work and personal lives. Securing a job with a guaranteed future, while an achievable goal in the past, is now becoming a more difficult expectation to fulfil. Employers expect their employees to be loyal to their business and in the event of them wanting to leave the business they will provide the necessary terms of notice. When an employee commences work at a business it is important that they are properly inducted as this will result in them being able to contribute to the business objectives and be productive at a faster rate.

The federal and state governments have passed legislation and established statutory authorities that set out legal obligations employers must observe, which relate to providing equal employment opportunities and workplace gender equity.

Key knowledge

In this chapter students will learn about:

- Employer expectations such as contracts of employment, business loyalty and terms of notice
- Employee expectations such as conditions of employment, remuneration, job security and work–life balance
- Legal obligations for staffing such as occupational health and safety (OH&S), equal employment opportunity legislation and the Workplace Gender Equality Agency
- The purpose and common methods of employee induction.

What's ahead



Figure 17.1 Expectations and legal obligations regarding employees

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17.1 Employer expectations

Employers hire staff to help the business achieve its objectives and contribute to its overall success. Regardless of the job title of the employee, there are a few characteristics that employers value in their employees. They would like them to have a positive attitude as this will impact upon the relationships the employee develops with their co-workers, supervisors and managers. This will also affect the way the employee feels about the tasks related to their job. Being dependable and cooperative are also important characteristics. It is important that the employer feels they can rely on the employee to do what they say they will do, while also getting along with their fellow workers. Employees are also valued if they are willing to learn new skills and happily receive feedback to assist them to improve how they perform their job.



Figure 17.2 Employees are valued if they are willing to learn new skills.

Contracts of employment

Employers expect that they will enter into a contract of employment with an employee, laying down terms and conditions of their involvement with a business. This contract can be either written or verbal and cannot provide for less than the legal minimum as found in the **National Employment Standards (NES)** and any enterprise agreement, award or any other applicable registered agreement. All employees are covered by the NES whether or not they have signed an employment contract.

National Employment Standards (NES) 10 minimum employment entitlements that have to be provided to all employees in Australia

The NES are the 10 minimum employment entitlements that must be given to all Australian employees. Providing less than the minimum wage or conditions found in the NES cannot be excused by an enterprise agreement, employment contract, award or other registered agreement. The 10 minimum entitlements are set out in Table 17.1

Businesses may choose from one of the following arrangements relating to the pay and working conditions under which they employ their staff.

- Modern **awards** are a legally binding document determined and varied by the Fair Work Commission, which sets the pay and employment conditions for a whole industry or occupation. They are used as the benchmark for assessing enterprise agreements before approval. Modern awards build on the NES and cover a further 10 subject areas, including minimum wages, arrangements for when work is performed, overtime and penalty rates, allowances, leave and leave loadings, superannuation and procedures for consultation, dispute resolution and the representation of employees.

award an agreement that sets out minimum terms and conditions of employment relating to an industry or occupation

- **Enterprise agreements** are made at an enterprise level (workplace) between an employer and their employees covering their terms and conditions of employment. Enterprise agreements can be tailored to meet the needs of particular enterprises and differ from awards, which relate to an entire industry or occupation.

enterprise agreement a written collective agreement made between an employer and the employees at a workplace, setting out the terms and conditions of employment

The Fair Work Commission can assist in the process of making such agreements and can deal with disputes that may arise under the terms of the agreement and assess and approve agreements. The agreement covers a broad range of matters such as rates of pay and employment conditions; for example, hours of work, meal breaks, overtime, consultative mechanisms, dispute resolution procedures and any authorised deductions to be made from the wages of an individual employee.

Prior to approval of any enterprise agreement, it must undergo checking against the Better Off Overall Test (BOOT) created by the *Fair Work Act 2009*. The test compares the

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Minimum standard	Explanation
Maximum weekly hours of work	Full-time employee – 38 hours. May be only required to work a reasonable number of additional hours.
Request for flexible working arrangements	Right to request flexible hours until children reach school age, with employers only able to refuse on reasonable business grounds.
Parental leave and related entitlements	Parents to have a right to separate periods of 12 months of unpaid leave, up to a total of 24 months. An employer must consult an employee if they make a decision that will have significant effect on the status, pay or location of the employee's pre-parental leave position.
Annual leave	All full-time, non-casual employees will be guaranteed four weeks of paid annual leave each year (part-time employees paid pro rata). Certain shift workers will be entitled to an additional paid week of annual leave.
Personal/carer's leave and compassionate leave	All full-time, non-casual employees will be entitled to 10 days of paid personal and carer's leave each year (part-timers pro rata). Employees also entitled to two days of paid compassionate leave on the death or serious illness of a family member or a person the employee lives with, plus two days of unpaid personal leave where required for genuine caring purposes and family emergencies.
Community service leave	Entitlement to leave for prescribed community service activities (e.g. paid leave for jury service and reasonable unpaid leave for emergency service duties).
Long service leave	Employee's existing entitlements preserved.
Public holidays	Guarantees eight national public holidays, plus prescribed state and local holidays. Where an employee works on a public holiday, they will be entitled to an appropriate penalty rate of pay or other compensation (set out in an appropriate award).
Termination of employment and redundancy	Employees will be entitled to fair notice of termination, provided in writing, and those who are made redundant and who are employed in workplaces with 15 or more employees will be entitled to redundancy pay (maximum of 16 weeks' pay).
Fair Work Information Statement	Employers must provide all new employees with a Fair Work Information Statement that contains prescribed information about the employee's rights and entitlements at work.

(Source: Adapted from the *Fair Work Act 2009* (Cth).)

Table 17.1 The National Employment Standards

terms of the proposed enterprise agreement against the relevant modern award to make sure employees will be better off overall. The NES came into operation on 1 January 2010 and their purpose is to ensure that all employees' key entitlements are protected in law by a strong safety net of fair minimum conditions. The NES apply to all employees under the federal system, regardless of the industry to which they belong, their occupation or income levels.

Business loyalty

In our current business environment where loyalty to a business is not rewarded by job security, employers can't just expect employees to be loyal – they need to earn loyalty. There is lesser sense nowadays that a business is going to look after its employees in the way that it used to, which would lead one to expect a reduction in the loyalty shown by employees.

Businesses that conduct themselves in an ethical manner and take responsibility for both their wins and

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losses are far more likely to have loyal employees. A loyal employee will treat their boss as a 'person' not as a 'position of power', and often will feel sufficiently confident to provide honest feedback that perhaps the boss did not want to hear, such as that their idea may not work or a mistake has been made. Loyalty may also be shown in the way that the employee will not criticise or disagree with their manager or the business in public; however, they will expect to receive respect back from the manager. They will also except to be involved in an honest exchange of ideas in private. Finally, once a decision has been made, they will support the decision whether they agree or not. When they decide to leave the business, a loyal employee will try to make the termination as painless as possible both for the business and themselves.

Employees are often more loyal to those around them – their manager, their colleagues and perhaps their clients – than they are to the business. If a manager looks out for their subordinate's best interests, provides opportunities for them to improve themselves and pays attention to their career path, then they are more likely to earn the loyalty of that employee.

Currently, Australian workplaces are made up of employees from three generational classifications. Baby boomers (born between 1946 and 1964), generation X (born between 1965 and 1979) and generation Y (born between 1980 and 1994), often referred to as the 'millennials'. This provides an additional challenge to employers as the expectations of each of these groups are diverse. While baby boomers are less driven by financial rewards and more by the stimulation they gain from their jobs, they are more likely to be loyal to their employer if they are provided with jobs that reflect their wishes, such as part-time employment. To gain the loyalty of generation X, businesses need to provide these employees with better pay and working conditions, time off for study and training, and development opportunities. Providing a flexible work–life plan for both these generational groups should assist in gaining their loyalty.

Gaining the loyalty of generation Y or millennial employees poses a different challenge to a business. Each year, a survey is undertaken by Deloitte, a multinational professional services firm. The results of the 2016 Deloitte Millennial Survey state that millennial employees express little loyalty to their current employers and many are planning near-term exits. This remarkable absence of allegiance (loyalty) represents a serious challenge to any business employing a large number of millennials, who it is estimated will comprise 75 per cent of the workforce by 2025. However, because most young professionals choose to work for businesses that share their personal values, such as wanting to make the world more compassionate, innovative and sustainable, it is not too late for employers to overcome this 'loyalty challenge'.



Figure 17.3 Most young professionals choose to work for businesses that share their values.

Terms of notice

When an employee decides to resign from a business they need to give notice to their employer. The period of notice commences when the employee advises the employer that they want to end the employment relationship and finishes on the last day of employment. The period of notice required

ACTIVITY 17.1

'Businesses can no longer expect their employees to be loyal enough to stay for 10 or 20 years, and maybe that's a good thing.'

1 Discuss this quote by presenting arguments that agree and disagree with its content.

2 Outline what actions a business needs to undertake to gain loyalty from its employees.

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to be given will be set out in the legal document under which they are employed, namely the award, employment contract or enterprise agreement. It is possible for an employee to give more notice than is formally required; however, an employer does not have to accept this and can choose to ask the employee to leave when the minimum notice period ends.

It would be an expectation that as the employee has decided to leave the business, they would work during their period of notice. The employee may, however, take annual leave during the notice period if they have the agreement of their employer. Accrued sick leave may also be taken during the notice period; however, the employer may ask for evidence (e.g. medical certificate) verifying that the employee is actually sick.

An employer would expect, and has the legal right, to retain the intellectual property in an invention or any work developed as part of an employee's job. The employer may also require the departing employee to enter into a non-disclosure agreement about the work they were performing. After the period of notice is served by the employee, the employer would expect that all property provided by the business to that employee (e.g. car, computer, mobile phone) be returned and their access to the intranet will cease. It is also a reasonable expectation that if the job position has been filled during the term of the employee's notice, they will carry out a formal handover of work to their successor.

17.2 Employee expectations

Each individual employee working for a business will have different expectations from their job and different factors will motivate them. As every person has different values, it must be realised that what one employee may expect, and will be motivated by to perform well, will not necessarily motivate another. People all have different cultural backgrounds, abilities, experiences, attitudes and learning patterns and will therefore be motivated by different rewards. For a reward to be effective, it must be both attainable and worth attaining.

It is important for employers to gain an understanding of what employees want from their workplace. Employees seem to greatly value working for a respected and successful business that provides them with the opportunity for personal development and advancement. They want to feel that their work



Figure 17.4 It is important for employers to gain an understanding of what employees want from their workplace.

not only contributes to the corporate bottom line (profit), but can also have a positive impact on the broader community.

The workplace is now seen as a place that must have a 'real' meaning, where employees can gain respect, recognition and fulfilment, not just an environment where they go to perform a set of tasks.

Conditions of employment

Conditions of employment refer to what an employer has agreed to give the employee in return for the employee's work. It is an expectation of employees that they will receive **remuneration** (pay) in return for the work they perform for their employer. The remuneration for their labour may be as straightforward as receiving a wage or salary, but may also encompass less tangible benefits.

- **Wages** – worked out on an hourly basis for a working week (e.g. nominal 38 hours per week). An employee would expect to receive overtime if their hours at work exceed the nominal hours, at a rate of one-and-one-half times

conditions of employment what an employer has agreed to give the employee in return for the employee's work

remuneration the amount a person is paid for performing work tasks (i.e. job); it can take the form of cash and/or fringe benefits; it can be referred to as a wage or salary

wages monetary reward for labour, paid on a weekly basis, calculated by multiplying the hourly rate by the number of hours worked for the period

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the normal rate. Additional penalty rates may be paid for Sundays or public holidays. Employees under this system would expect to be paid on a weekly basis.

salary an agreed amount of money paid to employees for their labour during a year, expressed as an amount per annum

salary package the total value of an employee's remuneration and is comprised of both cash and fringe benefits

- **Salary** – an annual figure usually paid on a monthly or fortnightly basis. Employees receiving a salary would not expect to receive payment for overtime, as additional hours worked are often taken off in lieu.
- **Salary package** – used for more senior positions in a business. The employee would expect to receive a salary component, performance-based pay (bonus), additional superannuation entitlements, company car, share options and other fringe benefits.
- **Benefits** – employees, while not necessarily expecting them, do value additional benefits provided by their employers. These benefits can be care assistance programs (e.g. family care, paid parental leave), or alternative work arrangements.

benefits financial rewards that are not paid directly in cash to an employee; for example, parental leave and sick leave

Employees have the expectation that they will receive a fair wage and work under the conditions outlined in the award relevant to their job. The Fair Work Ombudsman provides protection for workers who feel that this expectation has not been met.

CASE STUDY 17.1

Restaurant, café and catering services workers share more than $1.2 million back-pay

25 June 2015

Food services workers in restaurants, cafés and catering companies throughout Australia have been underpaid over $1.2 million, spot checks by the Fair Work Ombudsman have revealed. A total of 456 businesses were found to have short-changed 2752 employees more than $1.215 million. One worker was owed more than $40 000. More than $386 000 was recouped for 698 employees in Victoria alone.



Figure 17.5 'Conditions of employment' refer to what an employer has agreed to give the employee in return for the employee's work.

The underpayments were identified as part of the second wave of the Fair Work Ombudsman's National Hospitality Industry Campaign. Fair Work Ombudsman Natalie James says 1066 employers were asked to supply their 2012–13 time and wages records for assessment. Only 42 per cent (451) were fully compliant with their workplace obligations. A total of 879 individual errors were identified at 615 businesses. Almost 20 per cent of mistakes related to weekend penalty rates.

'The majority of errors related to wage entitlements,' Ms James said today when releasing a report on the campaign findings. 'Employers were paying flat rates for all hours worked, which was often not enough to cover penalties, loadings and overtime.'

Fair Work inspectors issued two formal Letters of Caution and two on-the-spot fines. Ms James says a 58 per cent contravention rate shows an ongoing need for intervention by the Fair Work Ombudsman in the food services sector. 'According to recent data, this is an industry with a vulnerable workforce comprised largely of young employees and low-skilled employees,' she said.

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The Fair Work Ombudsman found low rates of employer group membership, which it is now encouraging as a means of improving compliance rates.

State-based recoveries were:

- $386 389 for 698 employees in Victoria,
- $355 980 for 846 employees in Queensland,
- $282 996 for 788 employees in NSW,
- $63 967 for 193 employees in SA,
- $51 650 for 62 employees in WA,
- $29 795 for 77 employees in Tasmania,
- $25 767 for 45 employees in the NT, and
- $18 759 for 43 employees in the ACT.



Figure 17.6 Food services workers in restaurants, cafés and catering companies throughout Australia have been underpaid over $1.2 million.

More than 52 000 employers were contacted by the Fair Work Ombudsman in advance of the campaign. Major stakeholders were also notified, including Restaurant and Catering Australia, United Voice, the Franchise Council of Australia, the Shop Distributive and Allied Employees Association, Australian Culinary Association, the Service Industry Legal Service and the Japanese/Australian Catering and Restaurant Information Service.

The National Hospitality Industry Campaign was split into three sub-sectors – accommodation, pubs, bars and taverns; restaurants, cafes and catering services; and take-away foods. Results of the first wave of the National Hospitality Industry Campaign for pubs, bars, taverns and accommodation houses were released in December, 2013.

Of 750 businesses audited, 515 (69 per cent) were found to be compliant. Just over 100 employers were required to back-pay $367 000 to 629 workers found to have been short-changed their minimum entitlements.

Ms James says the hospitality sector was targeted for attention over three years from 2012–15 in response to more than 4500 requests for assistance from employees in 2010–11, a high volume of calls to the Fair Work Infoline and a number of litigations against hospitality businesses for breaches of workplace laws.

In 2008, a national hospitality campaign involving 664 employers saw more than $1.6 million in underpaid wages and entitlements returned to a total of 4679 workers across the country.

Nine regional compliance programs involving the hospitality sector were also undertaken between 2010 and 2012 which returned $680 421 to 2271 workers who had been short-changed.

Ms James said the Fair Work Ombudsman was committed to helping employers to understand and comply with workplace laws, but operators also needed to make an effort to get the basics right in the first place. She urged hospitality businesses to use the online tools and resources available to them free of charge at www.fairwork.gov.au.

These include pay calculators to determine the correct award and minimum wages for employees, templates for pay-slips and time-and-wages records and a range of fact sheets on workplace entitlements.

Employers and employees seeking advice can also call the Fair Work Infoline on 13 13 94. A free interpreter service is also available on 13 14 50.

(Source: Fair Work Ombudsman, 'Restaurant, café and catering services workers share more than $1.2 million back-pay', media release, 25 June 2015.)

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CASE STUDY 17.1 continued

Analysis

1. How many employees in Victoria were found by the Fair Work Ombudsman to be underpaid?
2. What was the total value of underpayment discovered by the Fair Work Ombudsman's spot checks?
3. Outline the type of mistakes being made by employers.
4. Identify the items that paying 'flat rates' fails to cover.
5. Explain why the hospitality industry is viewed by the Fair Work Ombudsman as a problem industry.
6. Which state was identified as having the largest non-compliance recoveries?
7. Outline the commitment made by the Fair Work Ombudsman to employers in the hospitality industry.
8. Undertake research to find any current claims for underpayment of wages that are being exposed by the media. Outline the problem and then describe what action is being taken to rectify the employee's claim.

Job security

Employees like to feel assured that they have gainful employment for as long as they determine. Job insecurity has become a growing concern for many employees. Job security, or lack thereof, has a huge impact on the level of motivation demonstrated by employees as well as their feelings of loyalty and commitment to a business.

In the past, employees believed that if they were able to get a job with a large business, such as a bank, insurance company, large manufacturer or government department, they would have job security for their entire working lives. They were happy to start with an entry level position and work their way up the hierarchy over time. In recent times, with the change in economic circumstances of both Australia and businesses, this expectation is no longer able to be met. For example, the closure of the main automotive companies operating in Australia and the scaling back of the mining industry have meant that a vast number of employees have lost their jobs, with many finding it difficult to get another job in the same industry. Statistics provided by the Australian Bureau of Statistics (ABS) indicate that many of these workers have, however, been able to find other forms of work, either through changing industries, updating their skills or using their redundancy payouts to establish their own businesses. The mode of employment has also changed, with some workers changing from being permanent employees of a business to providing their services as contractors.

Figure 17.7 The Fair Work Ombudsman is committed to helping employers to understand and comply with workplace laws.



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CASE STUDY 17.2

A mobile workforce

Until recently people were concerned about stable jobs and the opportunity to climb the corporate ladder. This has all changed as a mobile workforce searches for an improved balance between work and life and higher levels of job satisfaction. However, while millennials have become far more mobile than their grandparents, they still yearn for job security and will change employer in order to have a more secure position.



Figure 17.8 The employment landscape is changing rapidly in Australia.

Surveys show that one in five people have been in their present position for less than a year and an astonishing 60 per cent of the Australian workforce has been at their current job less than five years. What is the profile of the typical job changer? She is likely to be a woman, in a sales position and not a manager.

People do not necessarily make the change for promotion or a higher income. Most of the 200 000 Australians who changed jobs in the 2011–12 financial year stayed in similar occupations and at the same level. Thirteen per cent of employees are looking to improve their work–life balance – they may want to work closer to home or work shorter hours to spend more time with their children. Some are bored – they want to study part time or take on a position with more challenges. A lucky few manage to find work that allows them to stay at home or travel the world!

Analysis

1. What percentage of the Australian workforce has been in their current job for less than five years?
2. What percentage of workers have held their job for less than one year?
3. Which gender is most likely to swap jobs? Which group of workers is most likely to swap jobs?
4. What is the approach that millennials take to job security?
5. What percentage of Australians change jobs in better working conditions? Identify what it is they are looking for in their new jobs.



Figure 17.9 The traditional working roles of previous generations have, for the most part, been thrown out the window.

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CASE STUDY 17.2 continued

6 Conduct a mini survey of people you know (both genders and a variety of age groups) who are currently in the workforce to find answers to the following questions:
   - **a** How long have you been at your current job?
   - **b** Do you intend to change jobs in the next year?
   - **c** If yes, for what reason are you wanting to change your job?
   - **d** What do you value more in your job – flexible working conditions or job security?

7 Based on the results of your mini survey, discuss whether job security is an outdated job expectation of workers in today's work environment.

Work–life balance

Employees are now placing increasing demands on employers to provide more flexibility in their work practices to allow time for their family or other responsibilities. The Fair Work Commission recognises this change in expectation for working parents responsible for the care of a child and encourages employers to enter into arrangements to change the employee's hours of work, pattern of work or even the location of that work to allow time for family responsibilities.

Businesses that are working towards creating **work–life balance** for their employees are offering the following family-friendly work practices: family and parental leave (either paid or unpaid); child care, which may be subsidised and provided either on-site or off-site; and school holiday programs. In addition, **flexible work practices** should be available to workers of all ages and may take the forms of: offering flexible working hours, part-time work or job share, and home-based work where employees work some or all of their hours at home and telecommute.

work–life balance the relationship between a person's work and the commitments in the rest of their life

flexible work practices conditions that allow employees to balance work and family responsibilities more effectively

While many employees would like to be able to have flexibility in their working conditions, not all industries find it easy to arrange. An article on the CareerOne website (see Cambridge weblinks: http://cambridge.edu.au/redirect/?id=7006) reported that health and community care employees had the most flexible working conditions (68 per cent), followed by accounting, banking and finance employees (55 per cent). Only 37 per cent of manufacturing, transport and logistics employees felt they had a flexible work environment.

When a business introduces flexible work practices, it is important that the employees are consulted and any proposed changes discussed, particularly with



Figure 17.10 Some businesses are working towards creating 'work–life balance' for their employees.



Figure 17.11 Men and women of all ages use flexible work arrangements to meet family commitments.

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those staff directly affected. These new arrangements should be checked to ensure they comply with any workplace agreements operating at the workplace.

Introducing flexible work practices brings benefits to a business, such as: reducing or avoiding unnecessary recruitment costs as staff turnover will reduce; retaining valued employees who might otherwise leave the business; promoting diversity and fairness throughout the business; positive effects on employee wellbeing; higher staff morale and increased productivity of employees, as they are more focused when at work.

CASE STUDY 17.3

Flexible working hours found to boost productivity

Cambridge Dictionaries Online defines flexible working as 'a situation in which an employer allows people to choose the times that they work so that they can do other things, for example spend time with their children'. According to news reports, less than 50 per cent of Australian companies have a policy on flexibility, and often those that do, do not take their policies seriously.

In recent years, some Australian organisations have discovered that encouraging work flexibility is a key to employee participation and productivity. They have tried to modify or change their business cultures accordingly – which as one could imagine is not an easy or quick transition.

Major Australian bank Westpac is one example of an organisation that is taking work flexibility very seriously, and both the bank and its 40 000 employees are reaping the benefits.

In June 2015, the bank instigated a serious push to ensure that all staffing roles located both in Australia and globally offer flexibility. The push included the ability to change working hours, compress work weeks, work away from the office regularly or occasionally, and share roles. Staff were also offered up to 12 weeks' paid and unpaid leave a year.



Figure 17.12 Telecommuting is a way to provide flexibility to employees.

Before the drive towards work flexibility, Westpac claimed that over 60 per cent of its employees (male and female) already worked flexibly (that number is comprised of 58 per cent of male workers with flexible hours and 68 per cent of female staff). When it asked if staff would need some form of flexibility in the next three years, 90 per cent said yes.

Westpac chief executive Brian Hartzer explained that 'if people have the flexibility to manage their personal commitments, they are more likely to bring their whole selves to work every day. And that means they're more likely to do their best work and exceed customer expectations'.

Westpac's business case for a more diverse workplace makes a lot of sense. Companies with a diverse workplace culture have been linked with improved job performance and higher productivity rates, as well as higher levels of innovation and profit.

Another area Westpac is succeeding in is gender inclusivity. For example, the bank has a target of 50 per cent women in leadership by 2017, and work flexibility is seen as a crucial tool in building gender equity.

Ainslie van Onselen, the head of Women's Markets, Diversity and Inclusion at Westpac, says it has been critical to get senior managers committed to role modelling flexibility. She claims

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CASE STUDY 17.3 continued

that flexibility 'puts the onus on the manager to judge performance based on productivity and output, rather than just sheer presence in the office'. Van Onselen explained that the program is supported with seminars and coaching on topics such as returning to work after leave, and managing your career while also being a carer of dependents (children, parents or a spouse).

Westpac appears as a model case study in the fifth annual research report on achieving gender parity in Australian organisations from Bain & Co and Chief Executive Women.

In its survey of over 1000 people in business, government and non-profit organisations, the researchers found that men are increasingly demanding the ability to work flexibly, often to take a more active part in parenting. That means flexible models are becoming more and more relevant for men, without the traditional stigma or repercussions for their careers.

'If Australian society really aspires to equal workforce participation by men and women at every level of leadership, then there is a clear imperative to ensure that both genders are equally enabled to share the caregiving role,' the study found.

Analysis

1. How many people are employed by Westpac?
2. In the next three years, what percentage of workers at Westpac want flexibility in the way they work?
3. What is the current percentage of workers at Westpac using flexible work practices? What is the breakdown of male/female staff working flexible hours?
4. Identify the various options Westpac makes available to employees to create flexibility.
5. Outline the benefits to Westpac of providing this flexibility to its staff.
6. What is the target Westpac wants to achieve for women holding leadership positions?
7. Identify programs being run by Westpac to improve its performance and support employees who are seeking work–life balance.



Figure 17.13 The business case for a more diverse workplace has been apparent for years.

17.3 Legal obligations for staff

The legal obligations of a business to its staff can come from any one of the following sources:

- federal, state and territory laws
- industrial awards and agreements
- tribunal decisions
- contracts of employment (written or verbal).

An employer is obliged to pay their employees their correct pay and provide supporting documentation (pay slips) and reimburse any work-related expenses. They must also deduct Pay as you go (PAYG) tax instalments from the pay of their workers and forward it to the Australian Taxation Office (ATO). An employer is also legally obliged to make appropriate payments (currently 9.5 per cent) under the Superannuation

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Guarantee legislation. As outlined by the Australian Government on its business.gov.au website, employers are obliged to ensure that they are providing a safe work environment, are not acting in a way that may seriously damage an employee's reputation or cause them mental distress or humiliation, or act in a way that damages the trust and confidence necessary for an employment relationship.

Occupational health and safety

A business must provide a safe and healthy workplace for its employees. The *Occupational Health and Safety Act 2004* (the Act) is the cornerstone of legislative and administrative measures to improve occupational health and safety (OH&S) in Victoria. It outlines the rights and responsibilities of employers, penalties for non-compliance, workplace insurance and how to make a claim, and return to work expectations and procedures.

It is the expectation that employers will provide and maintain a safe workplace, which includes machinery, equipment and systems of work. Also covered is the safe use, handling, storage and transport of chemicals. Employers must ensure that safety procedures are in place, such as fire exits not being blocked, emergency equipment being serviceable and the worksite being generally tidy.

Employees should also be provided with adequate facilities, such as clean toilets, cool and clean drinking water and hygienic eating areas. Employees must receive information, instruction, training and supervision to work in a safe and healthy manner.

Workplaces should have a poster prominently displayed that outlines the procedure for an employee in the event of them being injured.

In the event of a workplace injury, employees have the right to return to work to take up alternative duties once they have received a WorkSafe Medical Certificate of Capacity. Employers have legal obligations under the *Workplace Injury, Rehabilitation and Compensation Act 2013*, which state that the injured worker does not need to be 100 per cent recovered to return to work. The worker may undertake reduced hours in their regular job or alternative duties.

Penalties for breaches of the *Occupational Health & Safety Act 2004* are imposed on both corporate bodies (companies) and individuals. The maximum penalty for a company is $1 075 050 and for an individual it is $215 010.



Figure 17.14 'If you are injured at work' poster. The WorkSafe website (which can be accessed via http://cambridge.edu.au/redirect/?id=7000) should be accessed for more information and future updates on any references used.

ACTIVITY 17.2

Study the following scenarios and determine whether the business is at fault in terms of OH&S regulations. Give reasons for your answer.

1. Jeremy lifts by himself a large and very heavy package from a small removal truck and hurts his back. The truck had an electric operating tail gate which can be used to lower heavy goods. All workers at the furniture removal business have been trained in how to use this device.
2. Sally works as a data entry operator in an office. She has suffered in the past lower back and neck problems. She uses a computer which sits on her desk and uses a non-adjustable chair.
3. Peter works in a very noisy workshop. The business provides ear protection, but Peter does not wear them. He has suffered hearing loss.

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Equal employment opportunity

In Australia, national and state laws cover equal employment opportunity and anti-discrimination in the workplace. Businesses are legally obliged to create a workplace free from **discrimination** and **harassment**. Putting effective anti-discrimination and anti-harassment procedures in place while protecting employees has the added benefit to a business of improving productivity and efficiency.

discrimination the unjust or prejudicial treatment of different categories of people, especially on the grounds of race, age or sex

harassment behaviour designed to make a person feel uncomfortable, offended, humiliated or intimidated

To assist a business to develop their policies and put in place best practice procedures, the Australian Human Rights Commission provides written directions via its fact sheets. The Fair Work Ombudsman also works with employers and employees to assist and educate them on how to prevent discrimination in the workplace.

In Victoria, the *Equal Opportunity Act 2010* (the Act) provides protection for people from discrimination and harassment in areas of public life, such as workplaces, schools, clubs, shops or places that provide services. The Act makes it illegal for someone to discriminate against an employee based on their personal characteristics such as age, race, disability, physical features and political beliefs. It also is against the law to sexually harass, victimise or vilify someone based on their race or religion.



Figure 17.15 Flexible models are equally relevant for men, without stigma or repercussions for their career.

Victorian Equal Opportunity & Human Rights Commission

Figure 17.16 Victorian Equal Opportunity & Human Rights Commission

It is easy to detect direct discrimination, such as treating someone unfavourably due to their personal characteristics, and this often occurs because people make wrong or unfair assumptions about what people with particular characteristics are capable or not capable of doing; for example, where a worker does not get a job because the employer says 'we have employed people with your religious beliefs before and they want to take off too many religious holidays'.

Detecting indirect discrimination is a little harder and often becomes part of the culture or practices of a business. It could mean that the business is placing unreasonable requirements, conditions or practices that act to disadvantage an individual or group of employees due to their personal characteristics or circumstances; for example, if a business changes the start of its work day to 6 a.m. from the prior time of 8.30 a.m. and requires all employees to be at work at that time. While it may be a reasonable requirement for the business to commence its operations at this earlier time, it could also be judged as not treating all its workers equally, as the change could disadvantage those who need to provide care for their children in the morning.

The Act also makes it illegal to victimise an employee due to their asserting their rights under equal opportunity law, having made a complaint or refusing to do something because it would be judged as being a discriminatory act, sexual harassment or victimisation.

Employers must also ensure that **bullying** is not occurring at their business. Bullying happens when someone in a workplace repeatedly behaves in an unreasonable manner towards another employee or group of employees, which leads to placing the bullied person's health and safety at risk. Bullying can take many forms, such as publicly humiliating someone, verbally abusing them or spreading malicious rumours or

bullying someone in the workplace repeatedly behaves unreasonably towards another person or group of people and causes a risk to health and safety in the workplace

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gossip. It can be undertaken by managers towards their workers, among co-workers or even by workers towards their managers. It is important that businesses respond to instances of workplace bullying in a way that is judged as being appropriate to the seriousness of what has occurred.

ACTIVITY 17.3

YOU BE THE JUDGE

CASE 1

Lance applied for work in a bank and was offered a position as security liaison manager. He later claimed that, as a result of a previous criminal record, the bank withdrew its employment offer. Lance argued that his criminal record was over 10 years old, and that the bank's information was not supplied by a standard police check but was instead obtained from another employee at the bank.

The bank confirmed that it had offered Lance the job and had rescinded the offer after it learned of his criminal record. The bank claimed that as the role required liaison with police services, Lance's criminal past made him ineligible for the position.

Questions

1. What do you think should be the outcome of this claim?
2. Should Lance be allowed to work at the bank or should the bank pay him compensation for lost wages?

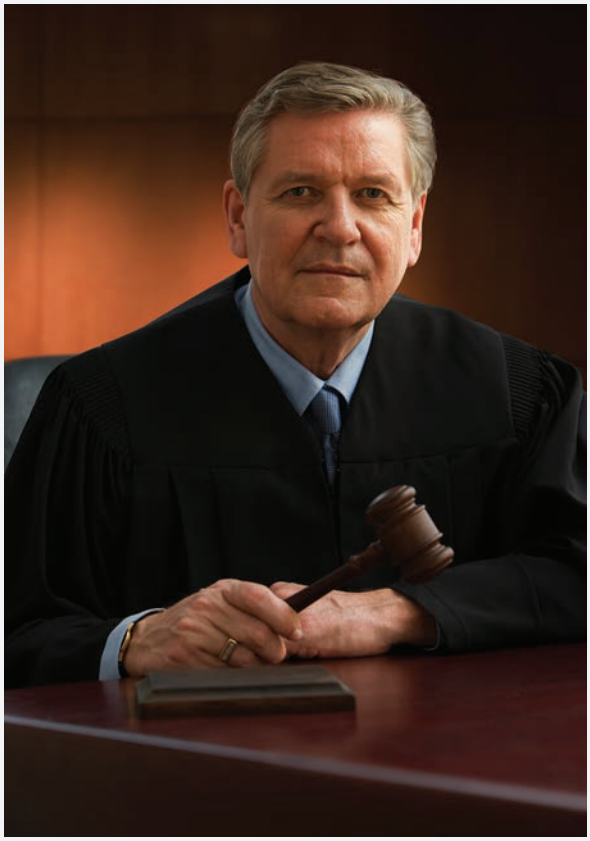


Figure 17.17 You be the judge

CASE 2

Six years ago, Horace was made redundant in his role as a pattern maker for an industrial company after 14 years of service. He claims that during his employment, he was an active member of his trade union as well as a union delegate. In the years since his redundancy, Horace has applied three separate times for employment with the company, but was unsuccessful in his bid for a position. He alleges that he has been refused employment due to his involvement in his trade union and claims that he was told he would not be offered a position because he 'had a history' and had cost the company a large sum of money. The company has denied the comments and claims that the three positions Horace applied for in the last six years were either filled by a more qualified applicant or deemed unnecessary and left unfulfilled.

Questions

1. Do you think that Horace has been discriminated against by the business?
2. Is there any action that needs to be taken by the company in this case?

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ACTIVITY 17.3 continued

CASE 3

Stephanie had been working with her employer for more than 11 years when she became pregnant. Unfortunately, she suffered from morning sickness and needed to come in to work later in the morning. To compensate for this, she offered to leave work later than normal so she could finish her daily tasks. Her employer told her that this arrangement was not acceptable and started to deduct money from her wages for the hours not worked in the morning.

Questions

1 Would you advise Stephanie that she should make a formal complaint about the actions of her employer?

2 On what basis should the complaint be lodged?

Workplace Gender Equality Agency

The Workplace Gender Equality Agency (WGEA) is an Australian government statutory authority whose role is to promote and improve gender equality in the Australian workforce. The agency was established by the *Workplace Gender Equality Act 2012* (the Act) with the purpose of overseeing that women and men are equally represented, valued and rewarded in the workforce.

Businesses who have 100 or more staff are required to submit to the agency each year a report outlining the operations of their business based on the following criteria:

- the gender composition (i.e. male and female) and their levels within the management hierarchy of the business
- remuneration levels of their male and female employees
- employment conditions and practices relating to flexible working arrangements, and working arrangements and support provided to employees with family or caring responsibilities
- consultations they have undertaken with employees on issues of gender balance
- any sex-based harassment or discrimination issues that have occurred.

The WGEA, which commenced operations in 2013, has now reported its findings for two years. Some of the findings are:

- Workforce characteristics:
  - men – a decrease in the number of men in permanent full-time positions, an increase in contract and casual positions and a decrease in jobs in the mining and construction industries
  - women – an increase in permanent part-time jobs in healthcare, social assistance and retail
  - casual – male and female positions have increased in administration, support services, healthcare, social assistance, education and training.
- Senior management roles are heavily male dominated with females making up 36.5 per cent of management positions; however, they represent only 15 per cent at CEO level. Twenty-five per cent of businesses have no women in key management positions.
- The gender pay gap currently ranges between 19.1 and 24 per cent. Gender pay gap is the difference between the average male full-time earnings and average female full-time earnings as expressed as a percentage of male earnings.

Small businesses and their owners employ the largest proportion of employees in the workforce. There appears to be limited awareness of gender equality and pay equity issues by many of these businesses as they are not compelled by law to report on these. It is essential that if equality and equity are to be achieved, small businesses must ensure that they manage and improve gender equality and pay equity at their workplaces.

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ACTIVITY 17.4

Go to the Workplace Gender Equality Agency website, and answer the following questions.

1. Identify the workforce characteristics for the current year as stated in the WGEA's annual report.
2. Compare these characteristics with those previously outlined and describe the major differences (increases or decreases).
3. Has there been an improvement in the percentage of women in senior management positions?
4. Within the Australian workforce, which industries are reported as being male dominated and which are reported as female dominated?

17.4 Employee induction

Induction involves all the activities undertaken by a business when introducing a new employee to the business and the department or area in which they will work. The length of the induction period, which often incorporates some form of training, can last from a couple of hours to several days. The main purposes of induction are to:

induction the process of introducing new workers to their place of work, their job role, their colleagues, supervisors, management and corporate culture

- commence the socialisation process; that is, sense of feeling of belonging
- communicate the values, beliefs and expectations of the business
- provide information about job tasks and performance expectations
- create a favourable impression (public relations) about the business.

Creating an induction pack (employee handbook), which can be given to the new employee on the day they commence at the business, would be a good start to their induction process. The pack would consist of:

- an organisation chart listing the current roles and employees' names
- a copy of the company human resources manual (relevant to medium or larger businesses)
- a copy of their job description
- the staff telephone list
- a list of email addresses and how to use the intranet of the business
- a safety induction including evacuation procedures
- security access.



Figure 17.18 An induction program can make a new employee feel welcome.



Figure 17.19 Employee handbook

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Item	Yes/No
Prepared work area/work station; e.g. computer, telephone, desk, chair	
Arranged for supervisor/manager to welcome new employee and introduce to fellow employees in their work area and department	
Organised for explanation of job procedures, duties and responsibilities	
Organised any initial training requirements	
Information sourced on the business's expectations as to attendance, personal conduct and appearance	
Arranged orientation tour of facilities	
Staff handbook and other induction material ready to be given to new employee	
All administrative/pay documentation compiled and ready for employee to complete	
Sourced details of organisational chart, organisational communication and responsibility channels, safety rules, security requirements and other relevant policies	
Arranged for a mentor to assist new employee to settle into job	

Table 17.2 Simple induction checklist

The employee may then refer to this induction pack when they have queries in the early days of their new job.

Using a simple induction checklist (see Table 17.2) can ensure that all necessary documentation and arrangements are in place for the new employee.

A good induction program is important, as it reduces staff turnover and means the new employee will become effective and reach expected performance levels more quickly. After the initial formal induction program, many businesses use a mentoring or 'buddy' system to further assist the new employee to settle into the job. The mentor or buddy will often be assigned to assist the new employee in that first important year as they gradually settle into their new work environment.



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Chapter summary

- Employers value their staff having a positive attitude, being dependable and cooperative.
- Employers expect their employees to enter into a contract of employment, which sets out their job role and working conditions.
- Employers will rely on an award to set out the pay and working conditions for their employees or negotiate an enterprise agreement for a particular workplace.
- The National Employment Standards (NES) set out 10 minimum standards that must be reflected in all agreements that relate to pay and working conditions.
- Employers expect their employees to be loyal to their business and to provide appropriate terms of notice in the event that they resign or retire from the business.
- Employees also have expectations that relate to their employment.
- Employees want their conditions of employment to provide for fair remuneration for their labour.
- Remuneration can take the form of wages, salary, salary package and benefits.
- Employees like to feel assured that they have job security; however, this expectation is often now not being met.
- The expectation of having work–life balance is placing increasing demands on employers.
- This has led to a variety of family friendly work practices being offered by businesses, such as family and parental leave, child care facilities or subsidies and school holiday programs.
- It is also an expectation of employees of any age that they should be able to have flexible work practices made available to them. These can take the form of flexible working hours, part-time or job share, home-based work and telecommuting.
- Legal obligations for staff require employers to provide a safe and healthy workplace (OH&S).
- Equal employment opportunity legislation regulates workplaces to ensure that businesses are working towards creating equal employment opportunity and eradicating discrimination, harassment and bullying in workplaces.
- Workplace gender equality is an important issue. The Workplace Gender Equality Agency oversees the practices occurring in businesses to ensure that women and men are equally represented, valued and rewarded.
- Induction is the process of introducing new workers to the place of work, their job role, colleagues, supervisors, management and corporate culture.
- A well-run induction program means that the new employee will become more effective and reach their expected performance levels more quickly. It also has the effect of reducing staff turnover.

Chapter summary questions

1 Define the following terms. Use each term in a sentence to demonstrate your understanding:

a remuneration

b harassment

c salary package.

2 Imagine you are an employee who has just landed their first permanent full-time job. Identify what your expectations would be from that job and the business.

3 Identify the expectations that your employer would have of you. Describe why they may differ.

4 'Loyalty by an employee to a business is a thing of the past.' Discuss whether you believe this statement is true or not.

5 Explain the difference between the following methods of remuneration: salary and wages.

6 Work–life balance is an expectation that employees are increasingly placing on businesses. Describe the concept of work–life balance and provide examples of practices that a business would need to adopt to achieve it.

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7 Explain the effect that having three generations of employees in the workforce is placing on employers.

8 Outline why it is important for businesses to adhere to legislative requirements relating to the management of staff.

Extension questions

'Many businesses underestimate the importance of induction – taking an ad hoc approach, and relying on their employees to work it out as they go.'

1 Define the term 'induction', and describe its purpose.

2 Explain the methods that should be used to induct a new employee.

3 Describe the benefits that a well-run induction program can bring to a business.

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CHAPTER 18

Global and corporate social responsibility issues

Key terms

- disability
- diversity
- Employee Assistance Program (EAP)
- Employer of Choice
- visa
- volunteering

Overview

Businesses when they are being established need to focus upon developing a workforce of the correct size while also ensuring that employees have the skills and personal qualities to be able to assist the business to be productive and achieve its business objectives. Many businesses find it difficult to source their workforce entirely from local people. Seeking workers from overseas is an option that many businesses take up. The approach a business decides to take to manage its commitment to being socially responsible when establishing its workforce will impact on the policies created, its corporate culture and the approach it takes to its staffing requirements.

What's ahead



Figure 18.1 Global issues and CSR both overlap with staffing.

Key knowledge

In this chapter students will learn about:

- Global issues such as overseas recruitment
- Corporate social responsibility issues regarding establishing the staffing of a business.



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18.1 Global issues

Employing people from overseas can sometimes be the best option for a business if it is unable to find local employees with the necessary qualifications, skills and experience required to meet the demands of the job it wants filled. Employing people from overseas may also bring to the business fresh ideas and new approaches on how to successfully operate a business.

Recruiting from overseas

The most popular countries that Australian businesses source their overseas workers from are India, China and the United Kingdom. In the year 2013–14 the Department of Immigration and Border Protection advised the top three occupation groups sourced from overseas were professionals (63.1 per cent), technical and trades workers (22 per cent), and managers (8.6 per cent).

The Australian Government has put in place methods for businesses to recruit skilled workers who are currently living overseas; these include:

- sponsoring a worker on a permanent basis. This means the worker will apply for permanent migration through the Employer Nomination Scheme or, if the business is located in regional Australia, the Regional Sponsorship Migration Scheme.



Figure 18.2 Employing people from overseas can sometimes be the best option for a business.



Figure 18.4 Skilled overseas workers fill labour gaps in Australia.



Figure 18.3 Employing people from overseas may bring to the business fresh ideas and new approaches.



Figure 18.5 Temporary skilled workers and workers under labour agreements often perform agricultural work.

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visa an endorsement on a passport indicating that the holder is allowed to enter, leave or stay for a specified period of time in a country

- sponsoring a worker on a temporary basis by gaining a Temporary Work (Skilled) Subclass 457 visa. This **visa** will allow the worker to come to Australia to work for up to four years.
- entering into a labour agreement. The worker can be employed either on a permanent or temporary basis by the business entering into a formal labour agreement with the Australian Government.

Should a business be interested in employing skilled overseas workers, it can access the online service SkillSelect, which is managed by the Department of Immigration and Border Protection. This facility holds details of skilled workers and business people living overseas who are interested in migrating to Australia. It allows a business to conduct a search based on occupation, qualifications and English-language ability. The Victorian Government also has a state nomination program to assist in sourcing overseas workers. It is the responsibility of the business to ensure that these skilled employees wishing to work in Australia will be allowed to do so.

It is important that a business that has recruited skilled employees from overseas provides support mechanisms in the workplace. These could involve activities such as:

- undertaking a comprehensive induction process. This should explain how things work at the business and provide clear information about what is expected of them.



Figure 18.6 Overseas workers arriving to fill short-term jobs

- providing diversity training to all employees at the workplace; that is, current and new overseas employees. This will assist in gaining understanding of and respect for the different cultures in that workplace.
- providing a mentor or buddy to give the new employees ongoing support following their initial induction.

Some businesses have programs in place to assist newly arrived overseas workers to settle into their new communities, often assisting them with accommodation and welcome events, and providing information about local services and attractions in their local community.

CASE STUDY 18.1

Recruiting health workers

Claire McKenzie manages the Clinical Care Division at Great Lakes Health and Community Service approximately four hours southeast of Melbourne. Great Lakes Health provides a diverse range of health and community services requiring a variety of professional skills and resources, as Claire explains: 'We have inpatient services; we have community nursing; we have all forms of aged care and we provide childcare. There are two doctors associated with the centre and the Ambulance Service is just next door. It's a fantastically diverse organisation which really provides a whole of lifespan service. So there's demand for a wide variety of skills. And that's where our problems began.'

Overseas health professionals play an important role in filling long-term nursing vacancies and continuing the provision of high quality health care services in the region. Claire's team of almost fifty staff in the clinical and catering divisions now includes a number of overseas trained nurses who have migrated from the Philippines, India, China, the United Kingdom and Mauritius.

Despite the beautiful surrounds and friendly community, Great Lakes Health and Community Service experiences ongoing challenges in attracting nursing staff. Claire became increasingly

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CASE STUDY 18.1 continued

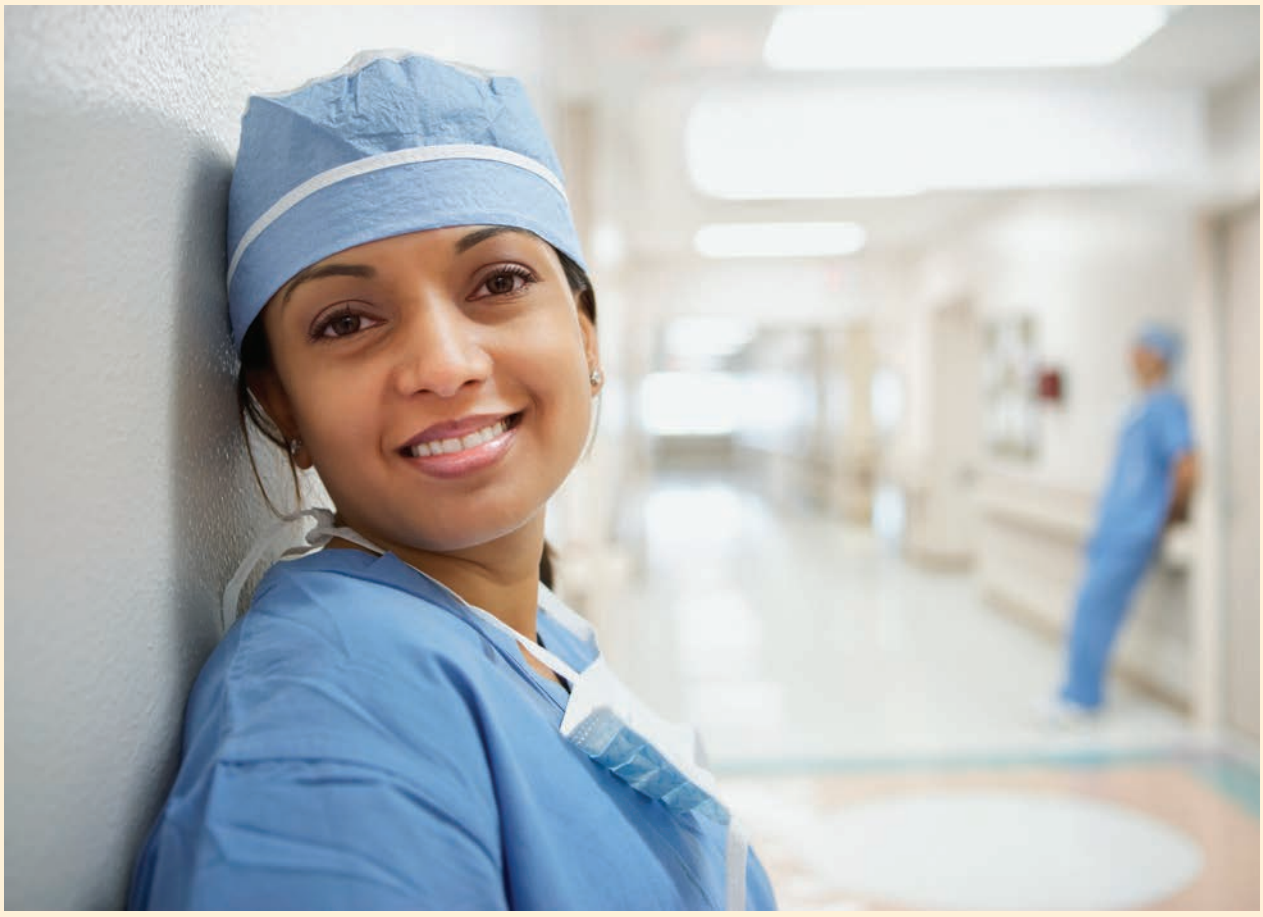
frustrated with the difficulties she faced recruiting staff for the variety of roles needed to sustain such a diverse, community-based service, using standard recruiting tools.

This changed when Claire received a letter from a nurse who had come to Australia via China. While there was ample room for him to join the team, Claire quickly realised that employing a skilled migrant was more complex than the local recruitment process.

Claire initially used the 457 visa to employ her skilled migrants because she found that the process was quicker and enabled a skilled migrant to work for up to four years. But employment continuity was also an important consideration, and Claire now accesses the Regional Sponsored Migration Scheme (RSMS), a permanent residency visa subclass which requires migrants to commit to their sponsoring employer for two years.

Since adding skilled migration into the workforce planning strategy of Great Lakes Health and Community Services and for the first time since commencing her current role, Claire now has a full staff for the facility. 'Our experience with skilled migrants has been an extremely positive one. And our existing staff find our new arrivals to be so bright and happy and skilled and friendly and hardworking. They are like a breath of fresh air. I now have six full time nurses, which means that other people can take holidays. Our sick leave has also been reduced dramatically and we don't work as short-staffed as we did. It's just been a revelation. It's transformed our organisation. Without skilled migrants, we would not be able to deliver such high quality Primary Care in Great Lakes. Our entire division one nursing staff on some days can be skilled migrants and that makes me very proud. What on earth would I have done if we didn't have them?' Claire said. 'Now that we've got our recruitment strategy working really well we are starting to think of ways of retaining our staff. We know that some of them, when they get their permanent

Figure 18.7 Overseas health professionals play an important role in filling long-term nursing vacancies.



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residency, will want to move on and see a bit of Australia. But what I really hope is that at least some will stay with us for a lot longer.

'We've learnt along the way some really useful things we can do to help our newly arrived staff settle into their roles, their new lives, and into the local community. As a matter of process, we help out new staff with the basics, such as accommodation arrangements and an orientation and education program that includes rotations in community nursing and advanced life support education. But my staff go above and beyond to make new staff feel welcome and respected. For example, they open their own homes for temporary accommodation, create social engagement opportunities and avenues for finding cheap or gifted furniture and supplies. Our new staff tell us that this makes all the difference.

'In the future, we'd like to trial some new settlement support initiatives such as recreational days with other skilled migrants in the region.'

Analysis

1. Identify the services provided by Great Lakes Health and Community Service.
2. List the job vacancies being filled by overseas workers.
3. List the countries from which these overseas workers have come.
4. What process did Claire McKenzie initially use to employ the overseas workers?
5. What scheme does Claire McKenzie now use? How long must a sponsored employee stay at the sponsored workplace?
6. Identify the benefits Great Lakes Health enjoys as a result of recruiting and employing overseas workers.
7. Describe the actions taken by Great Lakes Health to settle the overseas workers into both their local community and life in Australia.

Skilled workers from overseas who are currently in Australia

Another group of skilled workers that could be recruited to fill a job vacancy are those who, while born overseas, currently live and have the right to work in Australia. These workers may be:

- international students who hold a student visa
- visitors on working holiday visas. These visa holders usually look for short-term or casual work in specific industries in regional Australia.
- refugees who have a protection or refugee or humanitarian visa
- skilled migrants who have come to Australia on a skilled visa because they have skills currently in short supply in Australia.

It is the responsibility of the business, as an employer, to make sure the applicant they intend



Figure 18.8 Working holiday visa holders are encouraged to work in specific industries.

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to recruit is allowed to work in Australia. Under the *Migration Act 1968*, it is a criminal offence for a person to knowingly or recklessly employ an illegal worker. The business must check the type of visa and its associated work conditions prior to offering employment. Everyone that works in Australia has the right to basic workplace protections provided under workplace laws and award conditions and the National Employment Standards (NES), which outline the 10 minimum entitlements of all employees.

CASE STUDY 18.2

Overseas student workers exploited by convenience store

Court documents reveal that the Fair Work Ombudsman (FWO) has launched legal action against a 7-Eleven store owner who allegedly underpaid staff on a large scale, paying as little as $13 an hour and falsifying payment records. At the time, the minimum wage for an adult retail worker was between $17.98 and $18.52.

Eight employees working in the store were assessed as having been underpaid, with one staff member allegedly being underpaid a total of $13 962.14 over a 13-month period ending in August 2014. The staff were on student work visas, which permit students to work a maximum of 40 hours per fortnight during their studies. FWO also alleged that none of the workers received shift worker allowances despite working overnight on a 24-hour roster, and the business owner also allegedly failed to pay penalty rates for Saturday and Sunday shifts worked by his staff.

FWO is seeking confirmation that the business breached employment legislation and heavy fines for the business owner.

Analysis

1. What type of business is a 7-Eleven store?
2. Identify the allegations being made against the owner of this 7-Eleven store by the Fair Work Ombudsman.
3. Describe why employees working on student visas are not keen to report their employers to the Fair Work Ombudsman for underpayment of wages and unfair working conditions.

The Australian Government recently made changes to allow highly skilled workers to stay in Australia for a short period of time without the previously required 457 visa. This change, while supported by employer groups, has been criticised by unions.



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CASE STUDY 18.3

Government relaxes entry requirements for short-term foreign workers

The Department of Immigration and Border Protection has reviewed skilled migration, and in December 2014 it released its recommendations to relax entry requirements for short-term foreign workers. Its proposals include extending the six-month short term mobility visa to 12 months, meaning that overseas workers would not have to apply for a 457 working visa. Under a 457, stricter entry requirements include English-language tests, and employers are also required to demonstrate they have looked for local workers before giving jobs to employees from overseas.



Figure 18.9 Workers protested against 457 visas

Opposition spokesman for Immigration and Border Protection Richard Marles said the Labor Party was 'deeply concerned' about any proposal to remove English-language requirements for temporary skilled migrants as well as labour market testing.

A spokesman for the Assistant Minister for Immigration and Border Protection said the Coalition government fully supported the principle that Australian workers have priority for domestic job opportunities. 'An effectively managed skilled migration program is essential in supporting employers in industries and regions experiencing skill shortages. It is essential in restoring growth in the economy. It is essential in lifting our productivity.'

Australian Chamber of Commerce and Industry director of employment Jenny Lambert said all stakeholders needed to recognise that opportunities for Australians are enhanced by a strong economy that is globally competitive. She said the Department of Immigration proposal referred to highly specialised skills. 'Access to these skills can only benefit the skills development of the Australian workforce as evidence shows that such arrangements allow for the transfer of skills to Australians,' Ms Lambert said.

However, workers' unions fear these proposed changes to visa requirements will cost local jobs and lead to the exploitation of overseas workers. Ged Kearney, president of the Australian Council of Trade Unions (ACTU), said the proposed relaxation of requirements for temporary-entry visas would undermine Australian wages and conditions, and would lead to further exploitation of foreign workers. 'We find it absolutely extraordinary that the government's panel has made a recommendation to just have open slather on the labour market,' she said.

Similarly, Construction, Forestry, Mining and Energy Union (CFMEU) national secretary Michael O'Connor argued that under the proposed changes employers would not be required to demonstrate they had first tried to fill job vacancies with Australian workers before giving them to foreign workers. 'It is absolute madness in the current environment, with unemployment at a 10-year high, to be removing even more opportunities for people to gain access to the workforce,' Mr O'Connor said. 'The impact on young people will be particularly harsh. Youth unemployment is at crisis levels, yet the majority of 457 visa approvals are for people under 30.'

(Source: Based on A Patty, 'Overseas workers will be allowed to work for a year without applying for 457 visas', *Sydney Morning Herald*, 7 January 2015.)

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CASE STUDY 18.3 continued

Analysis

1. Identify the change proposed by the Australian Government.
2. Describe the unions' reaction to the change.
3. Which group in the Australian workforce do the unions believe will be most adversely impacted by the change?
4. What does Ged Kearney (ACTU) believe will be the consequence of the change?
5. What two areas of the change cause concern for Richard Marles, opposition spokesman for Immigration and Border Protection?
6. Which group does the government state should have priority for domestic jobs?
7. Identify the benefits the government believe will flow from the change.



Figure 18.10 Youth unemployment is at crisis levels.

CASE STUDY 18.4

Federal government allowing more foreign workers to gain seasonal farm employment

The number of foreign seasonal workers on Australian farms will increase from July, 2015. Foreign Affairs Minister Julie Bishop announced the Seasonal Worker Program would offer an additional 1,000 placements to more than 4,200 people. Workers on the program are from the Pacific and East Timor (Timor Leste) and can work on farms for up to six months a year.

Andrew Macdonald, a spokesman for lobby group AUSVEG, said his organisation supported the changes. 'Labour issues are an ongoing issue within the Australian horticulture sector on many vegetable and potato growing operations,' he said. 'So we do support any initiatives that provide a greater pool of workers, a larger workforce that is available for growers to get on and get the job done.'

Ms Bishop, in a statement, said the program allowed participants to send much-needed money back home. 'Due to high demand for employees in the agriculture sector and difficulties filling positions with Australian workers, we have increased access for overseas workers by removing the arbitrary caps on other sectors put in place by the previous government,' she said. 'These changes will allow



Figure 18.11 Seasonal agricultural workers employed on a rural property

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Australian businesses to better meet the demand for seasonal workers, while also providing valuable economic opportunities for more workers from the Pacific and Timor Leste.'

Australian Council of Trade Unions (ACTU) president Ged Kearney said she wanted strict guidelines to prevent the exploitation of foreign workers. 'By and large, unions are supportive of the Seasonal Worker Program and we were very happy with the safeguards that were put in place around it,' she said. 'Increasing it by a small amount may well reflect the needs of our farmers using the program. However, unions have a concern very broadly about the welfare of migrant workers generally. We have been hearing terrible examples lately about how migrant workers have been exploited.' Ms Kearney said she heard reports of migrant workers that received 60 cents an hour and paid 'exorbitant rent' despite living in crowded accommodation.

Mr Macdonald said AUSVEG wanted the Federal Government to expand the program to allow workers from Thailand and Vietnam. He said AUSVEG also wanted an expansion of the work holiday visa program to allow people from the Czech Republic, Israel and Indonesia to apply. 'The fact is that these jobs are there, they are regularly there, they are available, but despite this Australian farms are often still grappling with labour shortages,' Mr Macdonald said. 'That's why we do welcome programs like the Seasonal Worker Program, the ongoing source of backpackers coming to Australia and taking up work on properties. We really do feel that these assist farmers in filling labour shortages and getting the job done during peak seasons.'

(Source: B Worthington, 'Federal Government allowing more foreign workers to gain seasonal farm employment', *ABC Rural*, 24 February 2015.)

Analysis

1. How many foreign seasonal agricultural workers are now being allowed to work in Australia under the Seasonal Worker Program?
2. Name the countries from where these workers are currently being sourced. To which countries would AUSVEG like the program extended?
3. Identify the benefits gained by both the employer and the workers in this employment scheme.
4. Describe some problems that have been identified with employing seasonal workers from overseas.

Figure 18.12 Australian farms are often still grappling with labour shortages.



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18.2 Corporate social responsibility management issues when establishing staffing of a business

There are a range of corporate social responsibility (CSR) management issues or questions that could arise when a business is establishing its workforce (i.e. staff). Strategies that businesses may implement to ensure they are judged as being socially responsible include:

1 creating a diverse workforce
2 establishing policies to support their employees
3 establishing policies that link employees to their community.

Creating a positive, supportive and diverse work environment where employees feel valued while contributing to the overall success of the business should be key objectives of any business. This approach can contribute to the business being recognised as an **Employer of Choice** based on the internal policies and practices that a business uses to manage its CSR. If a business is judged as being an Employer of Choice, it can also be regarded as demonstrating CSR.

Employer of Choice a business that is regarded as a great place to work

Diversity in the workforce

Creating a diverse workforce is a proactive approach that can be taken by a business to ensure it has a discrimination-free workplace. It is unlawful to disadvantage employees and job seekers because of their race, colour, gender, sexual preference, age, physical or mental disability, marital status, family or carer's responsibilities, pregnancy, religion, political opinion, national extraction or social origin. For a business, having a diverse workforce means it can benefit from the different talents, experiences and perspectives of its employees. There are a variety of ways that a business can create **diversity** in its workforce.

diversity human characteristics that make people different from one another



Figure 18.13 Hiring a mature-age worker can be a good investment for a business.

Employing mature-age workers

The current Australian workplace has three generations of employees (baby boomers, generation X and generation Y). Hiring a mature-age worker can be a good investment for a business as they bring with them many years of knowledge and experience. They could assist the business to improve their business processes and provide mentoring and training to less experienced employees. These mature employees also save the business money as their rate of absenteeism is usually lower than the other two generational groups. A business that welcomes mature-age workers will certainly be judged as a better employer as well as a good corporate citizen.

Employing people with a disability

People who have a **disability** can bring a range of skills, qualifications, talents and experience to a business. For example, Telstra is a business committed to employing workers with disabilities. It has a formal comprehensive Disability Action Plan (2013–2016) where one of its objectives is: 'To improve attraction, recruitment, engagement and retention of people with disability and their carers at Telstra'.

disability a physical or mental condition that limits a person's movements, senses or activities

Case study 18.5 is about Kellie Pearson, a former Telstra employee who is profoundly deaf.

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CASE STUDY 18.5

Employing people with a disability: Kellie's aspirations supported by employers

When Kellie Pearson graduated from university with a double major in accounting and marketing, she sought an employer with a positive attitude to employing people with disability.

This determined young woman, who wears powerful hearing aids and relies heavily on lip reading, chose Telstra's graduate program as the offer of employment that best suited her needs.

After successfully completing three different placements in her graduate year, Kellie was appointed as Senior Pricing Specialist in the Pricing Development team, where she had wide range of responsibilities.

Kellie identified the following strategies as the most useful to her in overcoming communication difficulties:

- When people phoned her, if she did not know exactly what they were saying, she asked them to email or SMS her.
- For 'talk' with her colleagues, she regularly used Telstra's Microsoft Office Communicator, which allows instant talking to colleagues.
- Kellie was based in the same building as most people with whom she interacted, which allowed her to rely on her lip reading skills.

Ten years after her stint with Telstra, Kellie is now based in Singapore, where she is a Management Consultant at EY specialising in the Healthcare and Life Sciences sector. She continues to find new ways to improve communications with colleagues on a global level through advances in technology, including video conferencing.

To this day Kellie is appreciative of the high quality of support and encouragement she received from Telstra.

(Source: Based on Australian Government, Job Access website, 'Profoundly deaf – Kellie's aspirations supported by employer'.)

Analysis

1 Identify the approach taken by Telstra to employing people with a disability.

2 Outline the strategies Kellie takes to overcome any communication difficulties she may have.

Evidence has shown that not only is it socially responsible to employ people with disabilities, they actually boost workplace morale and enhance teamwork. In addition, they have fewer days off, take less sick leave and stay longer at the workplace than other workers.

ACTIVITY 18.1

Visit the Job Access website at Cambridge weblinks (http://cambridge.edu.au/redirect/?id=7007).

1 Choose two different case studies of employees with disabilities.

2 Identify the approach taken by the business to employing this worker.

3 Describe what the employee has gained through having this job.

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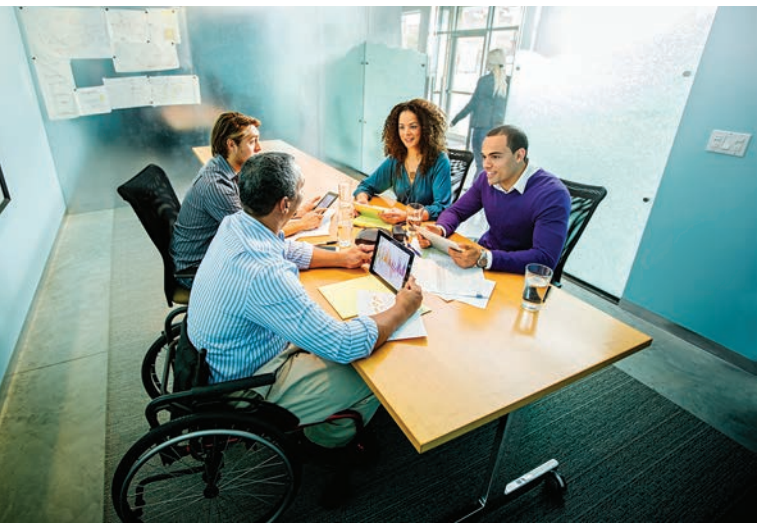


Figure 18.14 Evidence has shown that employing people with disabilities boosts workplace morale and enhances teamwork.

Employing Aboriginal and Torres Strait Islander peoples

A business could gain different perspectives, experience and knowledge by employing Aboriginal and Torres Strait Islander employees. It is worth noting that the Aboriginal and Torres Strait Islander population in Australia is growing faster than the non-Indigenous population, with 56 per cent of Aboriginal and Torres Strait Islander Australians under 25 years of age. Employing these young workers would allow a business the opportunity of developing their cross-cultural awareness and would greatly assist when dealing with suppliers and customers from Aboriginal and Torres Strait Islander communities. It is the view of Reconciliation Australia that a business adopting this strategy should be regarded as an Employers of Choice. They also believe that improving employment opportunities for Aboriginal and Torres Strait Islander job seekers is a key element in providing their economic independence, which will address the long term disadvantage experienced by First Australians. Employers have a critical role to play in supporting this process for example by employing local people in local jobs. Employers can also support better education and training outcomes for Aboriginal and Torres Strait Islander peoples by making links with local communities and involving them in accredited employment based training such as traineeships and apprenticeships (see Reconciliation Australia, at Cambridge weblinks: http://cambridge.edu.au/redirect/?id=7008).

CASE STUDY 18.6

Major supermarkets supporting Aboriginal and Torres Strait Islander communities

Both Coles and Woolworths supermarket chains have proactively committed to providing employment to Aboriginal and Torres Strait Islander peoples. Coles has stated that it is committed to ensuring 'their team represents the communities they serve'. The business has announced its 'Aboriginal and Torres Strait Islander Plan', which articulates Coles' commitment to provide more jobs for Indigenous team members. Coles claims that it provides a range of opportunities for people from Aboriginal and Torres Strait Islander communities to actively develop their careers within the company, across many areas of the business.

Similarly, Woolworths demonstrated its commitment to closing the gap between Indigenous and non-Indigenous Australians when it launched its *Reconciliation Action Plan* in June 2011.



Figure 18.15 Two major Australian supermarkets – Coles and Woolworths

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Analysis

1. Visit the Coles Indigenous Employment webpage and the Woolworths Diversity webpage. Summarise the approach being taken by both these companies to employing workers from the Aboriginal and Torres Strait Islander communities.
2. The third pillar of the Woolworths *Reconciliation Action Plan* relates to providing opportunities of working with small businesses owned by Aboriginal and Torres Strait Islander peoples. Identify what type of businesses and products these communities might create.
3. Evaluate whether you believe Coles and Woolworths are meeting their commitment to being socially responsible employers with the strategies they have undertaken.

18.3 Establishing policies to support employees

Creating flexible and family-friendly workplace policies

A business that offers flexible working arrangements to all employees is recognising the personal and family commitments of its employees. A flexible workplace is extremely attractive to workers of any age. These arrangements are appreciated by younger workers (both male and female) who may be contemplating starting a family or are caring for young children, or older workers who are providing care to elderly parents or an unwell partner/spouse. The employer may offer flexible working hours, remote-working opportunities, telecommuting, time-off policies and wellbeing programs, which then provide employees with tools for coping with the demands of the



Figure 18.16 Recognising personal, family and work commitments is important.

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modern workplace. Adopting these flexible working arrangements is seen as a way of attracting people to the business and a good way to encourage skilled workers to stay with the business.

Creating a policy on parental leave that exceeds the minimum legislated requirements and also includes programs related to retaining connection with the employee while on leave are also examples of good business practice.

Employee Assistance Programs

An **Employee Assistance Program (EAP)** is an employer-funded (i.e. free to employee) counselling or other personal service that is provided to employees and often their close family members. This confidential assistance is available for employees who are experiencing personal, family and work-related problems that could impact on the performance and/or health of the employee. Initially, businesses introduced these programs to assist workers with issues related to alcohol, drugs and gambling. In more recent times, the scope of these programs has been extended to assist with domestic and family violence issues.

Employee Assistance Program (EAP) a confidential, short-term counselling service for employees with personal problems that affect their work performance

Community volunteering and engagement

Businesses do not operate in isolation, as they are part of and rely upon their broader community. The culture of a business should therefore include giving back to its community. Many businesses now provide financial, pro-bono and in-kind support for a range of community organisations. It is important when establishing the relationship with staff during the recruitment and selection process that the applicant understands this important element of social responsibility that is embraced by the business.

It would appear that younger generation workers (generation Y) do actually look to be employed by businesses that are involved in **volunteering** and community projects. They are looking for businesses that have a positive culture of which they can be proud. If they had to make the choice between two businesses with identical jobs, they would choose the one that has programs that engage with the community through volunteering. From the viewpoint of the employer, a study by Volunteering Australia found that many employers look favourably upon applicants who are or have been involved in volunteering as they believe they would have a better fit with the culture within their business.

volunteering freely offering to do something; that is, receiving no payment

Figure 18.17 EAPs provide help to workers to overcome work-related or personal problems.



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CASE STUDY 18.7

Businesses pitching in to help

FareShare offers businesses a unique opportunity to escape the workplace and team build in a different environment – the FareShare kitchen! Corporate groups learn from real chefs and cook hundreds of meals for people in need on a single shift.

Every day one or more groups of employees from over 70 businesses and other organisations provide employees to help in the kitchen to prepare the 25 000 meals per week that are distributed to people in need. The volunteers work half-day shifts in the morning and afternoon with some three-hour shifts being available in the evening.

In recent years, staff volunteering has become a popular part of many corporate social responsibility (CSR) programs. As well as giving businesses a fun team-building activity, FareShare sensitively provides employees with some insight into hunger in Melbourne, and environmental issues around food and community service.

The feedback from people involved in its corporate volunteering program has been glowing. They value learning about food insecurity and food waste, as well as picking up some cooking skills and the bonding experience with their colleagues. Many corporate volunteers have gone on to become regular volunteers with FareShare.

(Source: Based on the FareShare website.)



Figure 18.18 It would appear that younger generation workers (generation Y) look to be employed by businesses that are involved in volunteering and community projects.

Analysis

Visit the FareShare Corporate Volunteering webpage and answer the following questions:

1. List the names of the businesses that volunteer at FareShare.
2. Describe the benefits for employees and their business from being involved in this worthwhile program.
3. What other programs are being developed by FareShare as part of its commitment to being socially responsible and environmentally friendly in its operations?



Figure 18.19 In recent years, staff volunteering has become a popular part of many CSR programs.

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Chapter summary

- Businesses often need to source employees from overseas to satisfy their staffing requirements.
- The most popular countries from which workers are sourced are India, China and the United Kingdom.
- Skilled workers currently living overseas can be employed by being sponsored on a permanent basis, a temporary basis or by entering into a labour agreement.
- Other sources of overseas workers are available for businesses to employ. While these workers were born overseas, they are currently in Australia as international students, on a working holiday, as refugees or have migrated to Australia as skilled workers.
- The Australian Government issues a range of visas to overseas workers wanting to work in Australia.
- Businesses employing overseas workers need to undertake a comprehensive induction program and provide them with a mentor for ongoing support. All employees (local and overseas) at the workplace should receive diversity training.
- Managing the business's commitment to corporate social responsibility when establishing staffing can be achieved through a range of policies and strategies:
  - creating a diverse workforce
  - establishing policies to support employees
  - establishing policies that link employees to their community.
- Businesses that adopt these proactive strategies are often regarded as Employers of Choice.
- Diversity in the workplace can be achieved through employing mature-age workers, those with a disability, and Aboriginal and Torres Strait Islander peoples.
- Policies that create flexible and family-friendly workplaces and establish Employee Assistance Programs act to treat staff with respect and provide the help needed to overcome or balance their work and personal life.
- Community volunteering and engagement policies and programs link workers with their community. They also lead to improved worker engagement at their workplace, which will result in additional benefits for the business.

Chapter summary questions

1 Define the following terms and use them in a sentence to demonstrate your understanding:
   a visa
   b induction
   c volunteering
   d mentor
   e diversity.

2 Describe the benefits that employing mature-age workers can bring to a workplace.

3 Identify and explain the advantages that a business would gain by providing diversity training to all employees.

4 Identify which groups of employees or particular skill shortages are being filled by overseas workers.

5 Identify and explain the advantages that employing overseas workers can provide to a business.

6 Explain how programs where staff members volunteer in the community or provide pro bono work to assist community groups leads to greater employee engagement with the business for which they work.

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Extension questions

Being recognised as an Employer of Choice provides a business with the reputation of being a desirable place to work. Set out below are a few characteristics attributed to being an employer of choice that should be considered by a business when trying to effectively establish its staffing:

1. providing remuneration to employees that is equal to or above market rates
2. providing job security to employees
3. encouraging employees to feel empowered to make decisions and take responsibility for their jobs
4. ensuring that employees are respected by their managers and co-workers
5. providing opportunities for employees to grow both their skill base and their careers
6. making sure the business is committed to and involved with its employees, customers and the community
7. providing work–life balance through flexible working arrangements.

Discuss whether you believe that a business which incorporates the above seven characteristics into its approach to establishing staffing would be sufficient for it to be regarded as a good corporate citizen, and therefore have effectively managed its corporate social responsibility issues.

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GLOSSARY

accountability the extent to which a business has to account for its activities, accept responsibility for them and disclose results in a transparent manner

advertising informing potential buyers about a product

application the act of applying for a job or advertised vacancy; the letter or communication used in expressing interest in a job or advertised vacancy

application form basic source of employment information covering qualifications, experience and other job-related data

aptitude test a test of special abilities (e.g. clerical, language, artistic) that are required for a specific job

Australian Business Licence and Information Service (ABLIS) a government service that assists people to find the government licences, permits, approvals, registrations, codes of practice, standards and guidelines needed to meet their compliance responsibilities

Australian Business Number (ABN) nine-digit identifier of a company

Australian Company Number (ACN) nine-digit number to be used on a company's common seal and all public documents involving the company

award an agreement that sets out minimum terms and conditions of employment relating to an industry or occupation

B2B business to business

B2C business to consumer

balance of payments (BOP) a record of the total value of money and capital and imports and exports between one country and another

balance sheet an accounting report that sets out the assets, liabilities and proprietorship (owners' equity) of a business as at a given date

bank statement a periodical statement where the bank itemises the transactions relating to an account; for example, debits, credits, government and bank charges

benefits financial rewards that are not paid directly in cash to an employee; for example, parental leave and sick leave

best practice a method or technique that has consistently shown results superior to those achieved with other means, which is used as a benchmark

Better Life Index (BLI) developed by the OECD to measure standards of living across a number of different areas; for example, housing, environment and social connections

bootstrapping a way in which a small business can finance its operations without having to borrow substantial amounts of cash

brainstorming a method for generating new ideas and solutions through spontaneous contributions based on intensive and freewheeling group discussion

brand a powerful business asset that is essentially a maker's mark; it creates and brings with it awareness, desirability and power

brand leader the brand in the market with the highest market share

brand loyalty when consumers continue to purchase the same product, even though rival products may exist

brand stretching using an established brand name in order to introduce unrelated products

bricks and mortar business business with a physical presence such as a shop front or office. Involves face-to-face interaction with customers.

bullying someone in the workplace repeatedly behaves unreasonably towards another person or group of people and causes a risk to health and safety in the workplace

business angel an affluent individual who provides capital for a business start-up, usually in exchange for convertible debt or ownership equity

business association membership organisation engaged in promoting the business interests of its members

business concept an idea for a business including basic information such as the product, the target

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market, plus proposed competitive advantage. A business concept may involve a new product or simply a new approach to marketing or delivering an existing product.

Business Enterprise Centres a national network of government-funded centres that serve as a first point of contact for business owners seeking business information, advice and guidance

business goals describe what a business expects to accomplish over a specific period of time and represent the aspirations of the business

business hub a place where businesses and individuals go to seek support and have a place and space to use without necessarily setting up their own office

business incubator an organisation that supports new businesses by making available business premises, office/secretarial services, advice, consultancy and training at minimal cost, until that business is established

business layout the physical set-up or arrangement of a business. Includes placement and type of plant and equipment, fixtures and fittings.

business location geographical site of a business

business mentorship a person or program that offers knowledge, advice and experience to another person. Mentoring can be a highly effective way to provide people with the skills needed to develop a successful business.

business model the plan implemented by a business to generate revenue and make a profit. The model includes the components and functions of the business, as well as how revenue will be generated and expenses incurred.

business objectives the stated, measurable targets of how to achieve business goals

business plan the formalised planning a business undertakes on a periodic basis

business strategy the long-term plan of action adopted by a business to achieve its goals and objectives

by-laws local government laws/regulations relating to activities within a municipality

capabilities competence to perform a task

capital resources human-made items used in the process of production. Machinery and equipment are examples.

career advancement moving from a junior-level position to a more senior-level position in a business

cash book one of the simplest forms of financial record keeping; sets out all the cash transactions of a business including receipts and payments

cash flow tracking the cash or money coming into and going out of the business

cash payments when items are purchased and paid for in cash

casual where an employee is appointed by oral contract (not written) for short-term, irregular or seasonal work

causal research research that involves finding the cause and effect of certain actions

cheque an instruction to the bank to pay money from an account to the person named on the cheque (drawee)

cheque butt form of evidence to support writing of the cheque and payment of an account

clicks and mortar business a business that utilises a hybrid online/bricks and mortar business model

code of conduct guidelines to regulate standards of behaviour and conduct either within an organisation or within an industry

codes of practice sets of guidelines established by external bodies to regulate the standards of behaviour and conduct within an industry

company a separate legal entity (incorporated body) that is subject to the requirements of the *Corporations Act 2001*, owned by shareholders who have limited liability, run by directors and has perpetual succession

competitive advantage point of difference or superiority over one's competitors

competitor a business rival in the same market for products or services offered by a business

complementary business offers for sale products that are related to one's business and may be of use to that business's customers; for example, a bridal wear store and a florist

complementary pricing where the price is set low on one item and high on another item that would normally go together

conditions of employment what an employer has agreed to give the employee in return for the employee's work

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consumer a person or group who uses a product. Note a customer may be a consumer, but not all consumers are customers; that is, the person consuming a product is not necessarily the one who purchased it.

consumer behaviour the study of individuals and groups, and the processes they use to select, secure, use and dispose of products, services, experiences or ideas to satisfy their needs

consumer profile a statistical picture of the typical consumer of a product based on demographic data; for example, income, age, gender, occupation

contracts legally binding agreements that incorporate the following elements: offer, acceptance, the intention to enter into legal relations, consideration, the capacity to contract, legality of purpose, consent and certainty of terms

cooling-off period a period of time where a purchaser (in some cases) is permitted to change their mind about a purchase

copyright exists to protect the original expression of ideas (not the ideas themselves). Copyright in Australia is free and automatic and tends to cover works such as books, films, music and newspapers.

corporate citizenship acceptance by a corporate of its responsibility to stakeholders for actions and decisions

corporate social responsibility (CSR) the commitment by organisations to conduct their business in an ethical manner, to take responsibility for the economic, social and environmental consequences of their activities, and to being accountable to a wide range of stakeholders, including employees, customers and suppliers – now and in the future.

council grants include money and incentives provided to businesses and individuals to pursue business ideas and development

crisis a situation or set of circumstances that puts an immediate focus on the business

crisis management a technique used to manage an unplanned (crisis) situation

crowdfunding a way of financing a business through donations of money from the public

customer someone who buys goods or services

customer base the group of customers who repeatedly purchase the goods or services of a business and are the main source of revenue for the business

customer data base the collection of information gathered from each customer. A data base may include contact information, as well as details about past purchases and future needs.

customer expectations the value that customers believe they will gain from purchasing a particular good or service

customer needs something customers require because it is essential or very important rather than just desirable

customer relationship marketing (CRM) a business process which uses marketing strategies and activities to develop relationships with clients, gain customer loyalty and bring value to the brand

customer satisfaction the degree to which customer expectations have been met

decision making a multistep approach whereby a selection is made between a range of different alternatives

demographic the statistical data of a population, especially those showing average age, income or education

descriptive research research that incorporates consumers' attitudes, intentions and behaviour

direct distribution channel a manufacturer sells the product directly to the customer

disability a physical or mental condition that limits a person's movements, senses or activities

discrimination the unjust or prejudicial treatment of different categories of people, especially on the grounds of race, age or sex

diversity human characteristics that make people different from one another

domain name a unique name identifying the website in a web address

dotcom business a business that has always exclusively used an online business model

employee a person working for another person or a business for wages or a salary

Employee Assistance Program (EAP) a confidential, short-term counselling service for employees with personal problems that affect their work performance

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Employer of Choice a business that is regarded as a great place to work

employment contract a formal written agreement between an employer and an employee setting out the legal obligations of each party; an informal or oral agreement may also be entered into

enterprise agreement a written collective agreement made between an employer and the employees at a workplace, setting out the terms and conditions of employment

entrepreneurship the process of designing, launching and running a new business. It is the capacity and willingness to develop, organise and manage a business venture along with any of its risks in order to make a profit.

Environment Protection Authority (EPA) authority that monitors the environment and the things that impact on the environment

environmental audit highlights how the business affects the environment and sets a benchmark for improvement

environmental sustainability the ability of an ecosystem to maintain itself into the future; involves using the earth's resources at a rate they can be replenished

equal employment opportunity (EEO) providing people with a fair and equitable opportunity to succeed without any form of discrimination based on age, sex, race or nationality or physical or mental disability

equal opportunity legislation laws which aim to protect people from certain kinds of discrimination in public life and from breaches of their human rights

ergonomics the study of the relationship between people and their working environment

evidence information which identifies type of transaction, its date, parties and financial value (if any)

exchange rates the price of a country's currency in terms of another currency

executive summary an overview or summary of the key points contained in the business plan

exploratory research collecting information in an unstructured and informal manner

exporter sells home-country products overseas

exports goods and materials that Australia sends to other countries as part of trade

external recruitment the assessment of the current available pool of job candidates, other than existing staff, to ascertain if any are sufficiently skilled or qualified to fill and perform existing job vacancies

fair trade trade between companies in developed countries and producers in developing countries in which fair prices are paid to the producers

Fair Work Commission (FWC) Australia's national workplace relations tribunal. Its role is to assist employees and employers to maintain fair and productive workplaces. The FWC is an independent body that operates under the *Fair Work Act 2009*.

Fair Work Ombudsman (FWO) an independent statutory agency of the government of Australia that acts as a central point of contact for free advice and information on the Australian national workplace relations system

false and misleading representation to lie or exaggerate about the features or benefits offered by a product being sold

feasibility study initial research that is required to determine whether the business concept is potentially viable

financial management managing financial activities relating to the operation of a business

fixed-term contract employees engaged in either a full-time or part-time capacity for project work or to replace employees absent on long service or parental leave

flexible work practices conditions that allow employees to balance work and family responsibilities more effectively

floating exchange rate the value of the currency is determined by the demand and supply for the currency; it can change on a daily basis

focus group between six and 12 participants gathered together in an informal setting to give their opinion on a product or service

food miles used to measure the transport distance travelled by food products between production and consumption

foot traffic pedestrian visitors to a business or commercial site

franchise where a business owner (franchisor) grants another (franchisee) the right to use their trademark or trade name, business systems and

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processes, to produce and market a good or service according to certain specifications

franchise agreement a legal document that outlines the rights and responsibilities of the franchisor and franchisee

franchisee the person in a franchising agreement who purchases the right to use a business's trademarks, associated brands and other proprietary knowledge in order to open a branch. In addition to paying an annual franchising fee, the franchisee also pays a portion of turnover to the franchisor.

franchisor the company or individual owning/controlling the rights to grant franchises to potential franchisees

gap in the market an opportunity for a business to enter into an area of the market not currently being serviced

general partnership all partners are deemed to be equally responsible for the management of the business. Each has unlimited liability for debts and obligations.

generic brand a brand that attributes its identity to the retailer rather than the manufacturer

generic market a market where broadly similar needs of customers are met by sellers offering a variety and often diverse range of products

Global Innovation Index (GII) aims to capture the multi-dimensional facets of innovation and provide the tools that can assist in tailoring policies to promote long-term output growth, improved productivity and job growth

going rate setting a price for a product or service using prevailing market price as a basis

goodwill the difference in value between the price that a business is sold for and its net asset value; reflects the value of the firm's reputation and trading contacts

green marketing the marketing of products that are presumed to be environmentally preferable to others

gross domestic product (GDP) total market value of production in a country over a period of time minus the costs of production

harassment behaviour designed to make a person feel uncomfortable, offended, humiliated or intimidated

human resource management (HRM) the management of a wide range of responsibilities relating to the human (employees) function within a business in order to increase the efficiency of both employees and the business

importer purchases overseas products for resale in their home country

imports goods and materials that come into Australia from other countries

incorporation the process of legally declaring a corporate entity as separate from its owners

indirect distribution channel a manufacturer sells their product to a wholesaler and/or retailer (intermediary) who then sells it to the customer

induction the process of introducing new workers to their place of work, their job role, their colleagues, supervisors, management and corporate culture

industrial espionage gaining valuable information on a competitor's activities (i.e. spying)

industry association representative body for a particular industry group

informative advertising advertising that gives consumers factual information about a product rather than creating a product image

infrastructure the foundations and investment needed in a country to provide the means for an economy to operate. It can include transport, communications, education, power and electricity services.

initial public offering (IPO) floating on the stock market involves publicly offering shares to raise capital

innovation generally refers to changing or creating more effective processes, products and ideas, and can increase the likelihood of a business succeeding

insurance a contract, represented by a policy, in which an individual or entity receives financial protection or reimbursement against losses from an insurance company.

intangible assets assets that lack physical substance and are usually very difficult to value. Include patents, copyrights, franchises, goodwill, trademarks and trade names.

intellectual property (IP) the property rights over the creations of mind or intellect; can be an invention, trademark or original design

internal recruitment assessment of current available pool of applicants from existing staff who have

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the skills or qualifications to fill and perform the job vacancy

interview a one-on-one conversation between a job applicant and a representative(s) of an employer that is conducted to assess whether the applicant should be hired

intranet the internal or private network of a business based on internet technology

job a group of tasks performed by an employee

job analysis a process to identify and determine in detail the particular job duties and requirements and the relative importance of these duties for a given job

job board websites where businesses pay a fee to the job board to list their job on the site and will often accept job applications directly from the job board

job description a written description of a job's title, duties and responsibilities, including its location on the organisational chart

job design grouping together of tasks for a particular job, which should incorporate variety and challenge for the job holder

job enlargement making a job bigger or more challenging by combining various operations at a similar level (horizontal)

job enrichment making a job more challenging so workers are required to use their full capabilities and gain personal growth

job rotation workers are moved between different jobs to increase variety of work and create a more flexible workforce

job specification detailed listing of the personal skills and characteristics required to perform a particular job

label placed on a product to inform the customer/consumer with information such as manufacturer, ingredients and use-by date

labour human physical and mental effort used in creation of goods and services. Labour is a primary factor of production.

legal compliance the process by which a business ensures that it observes and complies with the external statutory laws and regulations

leverage using (something) to maximum advantage

licence permit from an authority to own or use something, do a particular thing, or carry on a trade

limited liability shareholders are only personally liable to the level of their original investment in the company

limited partnership where liability of one or more of the partners is limited

lobby group a group that aims to influence organisations or governments in their decision-making processes

loyalty program a rewards program offered by a business to customers who frequently make purchases. It may give a customer advanced access to new products, special sales coupons or free merchandise.

macro factors those factors that impact on the business and are outside the control of any one business. Examples include economic factors, government policy, changes in the law and global issues.

management by objectives (MBO) a process of setting goals, using the SMART principle, which relate to an employee's key areas of responsibility. It creates a sense of direction and provides a measure for assessing the work performance of the employee.

market the group of potential customers with similar needs who are willing to exchange something of value with sellers offering various need-satisfying goods or services

market penetration a pricing strategy that aims to set low prices initially to gain high market share quickly

market positioning a product is placed within a market with regards to its image, price and age of target market

market research a systematic approach which assists a business to make decisions about consumers and the marketplace

market saturation occurs when most consumers already own the product and the market is not growing; any sales that occur are replacement sales

market segment relatively similar (homogeneous) group of customers who are likely to respond in similar ways

market segmentation an approach that is midway between mass marketing and individual marketing; the approach defines and subdivides a large homogeneous market into clearly

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identifiable segments having similar needs, wants or demand characteristics

marketing the process that provides the link between producers or providers of goods and services, and the consumers of these

marketing concept the business focuses on satisfying the needs of the customer/consumer rather than just selling a product or service

marketing consultant a professional (specialist) who provides advice on marketing-related issues

marketing mix the seven variables that are used when undertaking marketing strategies: product, price, place, promotion, people, physical evidence and process

marketing plan the plan that sets out the marketing objectives and strategy to be undertaken by a business

market-oriented approach a business strategy that focuses on the needs and wants of consumers and develops products to meet them

mark-up pricing determined by adding gross profit to the direct cost per unit; usually expressed as a percentage

mass marketing an attempt to appeal to an entire market with one basic marketing strategy utilising mass distribution and mass media; also called undifferentiated marketing

maturity the stage of the product life cycle where sales peak (saturation point); mature products either decline or are extended to lengthen their life cycle

media release an item of news prepared for and distributed to the media

mentor person who offers their knowledge, wisdom and advice to someone with less experience

merchandise the stock of goods in a store or business

mission statement a written statement that defines a business's core purpose and focus

mixed market economy an economy that is based on both privately owned and run businesses and the government (public sector), which also provides goods and services

National Employment Standards (NES) 10 minimum employment entitlements that have to be provided to all employees in Australia

natural resources a material source of wealth, such as timber, fresh water or a mineral deposit, that occurs in a natural state and has economic value

network an interconnected system of people or businesses

niche marketing concentrating all marketing efforts on a small but specific and well-defined segment of the population

occupational health and safety (OH&S) area concerned with the safety and welfare of people engaged in work or employment. In Victoria, workplace health and safety is governed by a system of laws, regulations and compliance codes that set out the responsibilities of employers and workers to ensure that safety is maintained at work.

OECD the Organisation for Economic Cooperation and Development; an association of nations which promotes economic growth, prosperity and trade

offshoring labour refers to work that is done in another country

online business business that conducts activities via the World Wide Web

online sales when a person purchases a product or service via the internet. Online shopping has become popular because it is convenient and can be done from anywhere.

operating environment the environment immediately external to a business with which it has close interaction when conducting its business activities

operational planning the detailed, short-term planning undertaken by a business

overdraft facility an extension of credit from a lending institution when an account reaches zero which allows the ability to continue withdrawing money even if the account has no funds in it or not enough to cover the withdrawal

Pareto Principle referred to as the 80/20 rule – approximately 80 per cent of the business revenue is generated by approximately 20 per cent of the customer base

partnership a legal form of business ownership where two or more people (partners) work together

partnership agreement a formal document which outlines the duties and responsibilities of the parties to a partnership

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passive investor often referred to as a 'silent partner', provides financial input into the business but does not actively participate in the business operations

patent a right that is granted for any device, substance, method or process that is new, inventive and useful

penetration pricing a pricing strategy where the product's price is set lower than a competitor's price; also used when introducing a new product to the market

permanent full-time the employee enters into a continuing contract of employment

permanent part-time the employee enters into a continuing contract, with same employment conditions, but will work fewer hours than a full-time employee

permit a law or regulation or some type of official approval to perform a task or complete an activity

personal selling product is sold by a salesperson, preferably trained

persuasive advertising attempts to create an emotionally positive feeling about a product's image to encourage consumers to buy it

petty cash a small amount of cash held to pay for items such as stamps, tea and coffee

place encompasses the distribution channels used to market products to customers; one of the 7Ps of the marketing mix

planning a formalised decision-making process that is future oriented

policy a written statement of the processes, procedures, rules and regulations

population entire group under study as defined by the research objectives

premium periodic payment made to an insurance company

price the amount for which something is sold

price elastic the degree to which demand for a good or service varies with its price

price inelastic a fall or rise in price of a product does not impact on the demand for that product

price leadership a business that through its dominant market position is able to set prices that other businesses adopt

primary data information gathered firsthand by the business

private company a company where the shareholding is limited (small), with shares being sold privately; often run as a family business; has the words 'Proprietary Limited' (Pty Ltd) at the end of the company name

procurement policy the rules and regulations that are set in place to govern the process of acquiring goods and services needed by a business to function efficiently

product the end result of the production process; can be either a good or a service; one of the 7Ps of the marketing mix

product development the design and development of new or existing products

product differentiation products are developed and advertised to make them appear different from others on the market

product life cycle the stages through which all products pass: launch (introduction), growth, maturity, decline or extension

product line a broad group of products that are intended for similar uses and have similar physical features

product market when a consumer is looking for a particular item; for example, a particular type of drink or car

product mix a full set of all products being sold by a business

product placement a method used to gain prominence of a product in the consumer's mind; for example, in television, movies or the internet

product recall when a defective product is sourced and either rectified or replaced after it has been sold by the manufacturer

professional association usually a not-for-profit organisation seeking to further a particular profession and the interests of individuals engaged in that profession

Profit and Loss Statement an accounting report that outlines the revenue less the expenses for an accounting period. It provides a business with an overview of whether it has made a profit for the accounting period.

promotion (1) the advancement in rank or position of an employee within a business related to their previous position or job tasks; (2) the

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use of advertising, branding, sales promotion and public relations to inform and persuade consumers; one of the 7Ps of the marketing mix

proprietorship the ownership of a business

psychological pricing pricing strategy whereby the price is set in accordance with the value consumers place on the product

public the internal or external stakeholders potentially affected by the actions of a business

public liability insurance to protect the business against damages or injuries to another person or property

public listed company larger company with unlimited number of shareholders; shares can be freely traded on the stock exchange; has the word 'Limited' (Ltd) after its name

public relations the way businesses communicate with the public and media with an aim to create and maintain a positive image and create a strong relationship with their audience

publicity a 'free' form of mass communication with the aim of attracting favourable attention to a business

qualitative research research based on in-depth, open-ended responses that focus on emotional or motivational aspects of consumer behaviour

qualities personal characteristics of an individual that make up their personality and determine how they act in a situation

quality assurance a system established to ensure that predetermined quality standards are achieved

quality circle a group of workers who meet regularly to discuss quality and production. Any proposed changes to production methods are then put forward to management.

quality control process of checking the quality standards of work done or quality of raw materials or component parts

quantitative research market research based on structured, closed questions that aim to gather responses that can be summarised in figures

questionnaire form of survey where questions are asked of respondents

rate of interest the amount charged, expressed as a percentage of principal, by a lender to a borrower for the use of assets. Interest rates are typically noted on an annual basis.

record keeping maintaining accurate records of all matters related to business activities

recruitment the process of finding the best qualified pool of applicants

Registered Business Name (RBN) a trading name under which a person (sole trader) or partnership conducts its business or trade

regulation rule or directive made and maintained by an authority

remuneration the amount a person is paid for performing work tasks (i.e. job); it can take the form of cash and/or fringe benefits; it can be referred to as a wage or salary

research and development an activity undertaken by businesses to develop new methods and innovations for products and services

risk assessment conducted by an insurance company to assess the level of risk for which insurance cover is sought

salary an agreed amount of money paid to employees for their labour during a year, expressed as an amount per annum

salary package the total value of an employee's remuneration and is comprised of both cash and fringe benefits

sales promotion use of incentives to encourage increased sales; for example, free gifts, competitions, 'buy one, get one free'

sample a proportion or subset of the total population being studied

secondary data information that has been previously collected

selection process undertaken by a business to decide whether to make a job offer to a candidate

self-regulation a group or industry regulates its own conduct and behaviour

shareholder owner of a company

skills the ability to do something well, gained through training and experience

skimming pricing a strategy where high prices are set to ensure high profits before marketing advantage is lost

Small Business Centres Victoria (SBCV) a network of community based, not-for-profit business centres providing a range of business services in both metropolitan and regional locations throughout Victoria

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SMART objectives or goals which are specific, measureable, attainable or achievable, relevant or realistic and timely or time-bound

social attitudes an acquired tendency to evaluate social things in a specific way. Attitudes can be characterised by positive or negative beliefs, feelings and behaviours towards others or a particular entity.

social enterprise private sector business that distributes profit to benefit the community rather than individual shareholders

social media websites and applications that enable users to create and share content or to participate in social networking

sole trader an individual owner of a business, entitled to keep all profits after tax has been paid but liable for all losses

source documents documents that provide evidence of transactions

special interest group a group of people or an organisation seeking or receiving special advantages or privileges

sponsorship a business provides financial support to a team, charity or event in return for naming rights, merchandising or image for the organisation

staff a group of persons, as employees, charged with carrying out the work of a business

stakeholder an individual or group that has a direct or vested interest in the activities of a business

start-up commencement of business operations

strategic planning long-term (two to five years) planning undertaken by senior management to achieve business objectives

superannuation a pension or lump sum payment made to workers on retirement; the money comes from employers' contributions made during the working life of the employee

supplier supplies the inputs (resources) required for the production process

supply chain a system of organisations, people, activities, information and resources involved in moving a product or service from suppliers to manufacturers and then on to consumers

support services services (paid or unpaid) used by businesses to assist them in their decision making; for example, legal or financial advice or daily operational activities

SWOT analysis an assessment of the internal strengths and weaknesses and the external opportunities and threats for a business in a given situation

tactical planning the planning undertaken by middle-level management to assist in implementing strategic decisions; its time frame is medium term (one to two years)

tactics activities or courses of action taken by a business to achieve business objectives

target market the market at which a product or service is primarily aimed

team a group of employees with different tasks and skills working together on a common project, service or goal

technology practical application of science to achieve commercial or industrial objectives

total quality management (TQM) a concept whereby all staff in a business have responsibility for its process and output

trademark a right that is granted for a letter, number, word, phrase, sound, smell, shape, logo, picture and/or aspect of marketing

transactions contractual arrangements undertaken by a business; for example, payment of wages or rent

transfer a sideways movement of employees within the same level, from one job to another

transition period a period of time when the previous business owner works with the new owner to introduce them to the business operations, clients/customers, suppliers and other business contacts

union an organisation of workers or employees who have joined together to achieve common goals such as higher pay, better working conditions and job security

unlimited liability full liability of owner (if their business fails) to the extent of their personal assets

values statement outlines what the business sees as its values and centres around integrity, honesty and ethical behaviour

venture capital money provided by investors to start-up firms and small businesses with perceived long-term growth potential. An important source of funding for start-ups that do not have access to capital markets.

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viability whether the business is capable of developing and growing

visa an endorsement on a passport indicating that the holder is allowed to enter, leave or stay for a specified period of time in a country

vision statement a statement that outlines the aspirations and values of the business

volunteering freely offering to do something; that is, receiving no payment

wages monetary reward for labour, paid on a weekly basis, calculated by multiplying the hourly rate by the number of hours worked for the period

warranty a written guarantee, issued to the purchaser of an article by its manufacturer, promising to repair or replace it if necessary within a specified period of time

wellbeing a good or satisfactory condition of existence. It usually centres on health, happiness and prosperity.

wholesalers businesses that purchase in bulk from producers and sell smaller quantities to retailers

word-of-mouth an oral or written recommendation of someone

work environment the surrounding conditions in which an employee operates. Can be composed of physical conditions, such as office temperature, or equipment, such as personal computers. It can also be related to factors such as work processes or procedures.

WorkCover compulsory insurance scheme that provides employers with insurance cover for the cost of benefits if workers are injured or become ill because of their work

work–life balance the relationship between a person's work and the commitments in the rest of their life

workforce planning a continual planning process used to align the needs and priorities of the business with those of its employees to ensure it can meet its production and service requirements and business objectives

workplace relations historically referred to as industrial relations, workplace relations is concerned with the contractual, emotional, physical and practical relationship between employer and employee

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