Cambridge

VCE BUSINESS MANAGEMENT



Units 1 & 2
Third Edition

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VCTA Victorian Commercial Teachers Association

Area of Study summary graphic organisers created by Sonya Musgrave

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Introduction

Congratulations on choosing to study VCE Business Management! We think it is a fantastic subject which offers knoweldge you can put into practical use in your future work or studies. The author team is comprised of highly experienced Business Management teachers, who wish you the best for your VCE studies.

About the author team

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Thank you

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How to use this resource

Book structure

- All chapters have been closely aligned to the *VCE Business Management Study Design 2023–2027*.
- This book for Units 1&2 contains two units, and six Areas of Study.
- Each unit and Area of Study starts with an overview taken directly from the VCAA Study Design.
- We have tried to make the book's alignment to the curriculum very clear for you. For example, each Area of Study starts by listing the chapters included and each chapter opens with a 'What's ahead' visual showing the main sections of the chapter.
- Chapters start with an engaging 'Kickstarter activity,' which can be used to spark classroom discussion.
- Each chapter has a 'Chapter overview' that lists the 'Key knowledge and Learning intentions' for the chapter. These are based on the key knowledge and key skills of the Study Design.
- Each chapter is divided into numbered sections, and each of these sections covers a key knowledge dot point from the Study Design.
- Each chapter section starts with 'Learning intentions' to drive your inquiries into VCE Business Management.
- At the end of each chapter section are review questions and at the end of each chapter are end-of-chapter activity questions.
- At the end of each Area of Study you will find a summary section featuring a range of revision tools for your preparation for assessment tasks.

Activity types

This series uses a range of activity types including the following:

- Activities (activities that scaffold important concepts and skills from the Study Design)
- Case study analyses
- Reviews (questions in both print and digital formats)
- End-of-chapter activities, which include a range of tasks for you to complete, including extension questions.

Digital resources

This series uses the interactive Edjin platform, and includes both a student and a teacher edition.

In the **Interactive Textbook** version of this book students will find the following key resources:

- Downloadable worksheets for all activities
- Success Criteria checklists (aligned to each chapter's Learning goals, for students to self-assess their progress)
- Interactive Scorcher quizzes (timed, competitive and fun tests of knowledge)
- Interactive Review activities (digital questions to summarise each chapter section)
- Videos
- Suggested solutions to all activities (enabled by teacher)
- A PDF downloadable version of the student textbook.

In the **Online Teaching Suite**, teachers will find:

- Exam generator – a powerful tool featuring scores of VCAA-style examination questions, and model answers. This tool allows you to create practice assessment tasks that you can assign to your classes. You can filter questions by Area of Study, mark allocation, or key term.
- Additional downloadable practice exams and SACs
- Reporting tools to track the progress of your classes and students
- PowerPoint summaries of each chapter
- Teaching programs
- Suggested solutions to all activities (access for students can also be enabled).

How to unpack assessment questions

This guide may help you to approach certain questions in this text. Although there is no external examination for Units 1&2, questions are written in a VCAA-examination style to help you become familiar with these types of questions.

You will need to refer to this table when looking at the 'Extended response question – let's unpack it' feature at the end of each Area of Study.

A	**Annotate the command word**	Before writing anything, read the question carefully and completely to work out exactly what it is asking you to do. Identify the **command word** (e.g. discuss, evaluate, analyse). This will inform the structure of your response.
B	**Brackets around different parts of the question**	Does the question ask you to do more than one thing? Does it have more than one part? – If it does, put brackets around the separate parts.
C	**Count the marks**	Look at the **marks available**: think about what you need to include to get all of the available marks. • Consider the command word. This might highlight that the question is one mark per point. • Questions with five or more marks are often holistically marked. – Consider how you can construct an in-depth response.
D	**Determine key words to use**	Identify **key concepts** in the question so you can identify the **key terms** you need to use. • Ask yourself: what is the question about? • Identify the key knowledge the question is drawing on and ensure that relevant terms are used.
E	**Evidence** ***If required***	**Use the stimulus**. If the question states 'using the data' or 'using the diagram', ensure that your response contains information from this stimulus. Provide evidence to support your evaluation or justification to add complexity to the response.

Example question

Describe the importance of goal setting and decision-making when establishing a business. **Identify** and **justify** two characteristics of successful business managers and how these characteristics contribute to business success. **(5 marks)**

EXTENDED RESPONSE QUESTION – LET'S UNPACK IT

Task words
Describe: Provide a detailed account of something

Identify: Determine or establish as being a particular thing. To determine the key characteristics or features

Justify: Give valid reasons or evidence to support an answer, or conclusion, or response involved in the stimulus material

Limiting word
Determines the number of examples you must use

Describe the key characteristics of this style and **identify** and **justify** two management skills which you believe will be important to help them to grow their business. **(5 marks)**

Study Design requirements
Key knowledge: The importance of goal setting and decision-making in business.
The characteristics of successful business managers and ow these contribute to business success.

Marks allocated

Hints:

- This question has multiple parts and requires all parts to be completed to gain full marks.
- There is a range of other skills that could be identified and justified

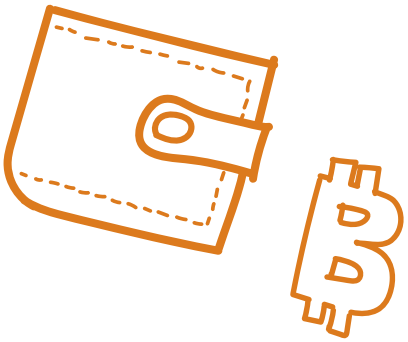
Key skills-based terms used in outcomes and assessment questions

The following explains common terms used in assessment questions and activites in this resource.

Term	Definition
Analyse	Identify components/elements and the significance of the relationship between them; draw out and relate implications; determine logic and reasonableness of information
Apply	Use; employ in a particular situation or context
Compare	Recognise similarities and differences and the significance of these similarities and differences
Define	Give the precise meaning and identify essential qualities of a word, phrase, concept or physical quantity
Describe	Provide characteristics, features and qualities of a given concept, opinion, situation, event, process, effect, argument, narrative, text, experiment, artwork, performance piece or other artefact in an accurate way
Discuss	Present a clear, considered and balanced argument or prose that identifies issues and shows the strengths and weaknesses of, or points for and against, one or more arguments, concepts, factors, hypotheses, narratives and/or opinions
Distinguish	Make clear the differences between two or more arguments, concepts, opinions, narratives, artefacts, data points, trends and/or items
Evaluate	Ascertain the value or amount of; make a judgment using the information supplied, criteria and/or own knowledge and understanding to consider a logical argument and/or supporting evidence for and against different points, arguments, concepts, processes, opinions or other information
Examine	Consider an argument, concept, debate, data point, trend or artefact in a way that identifies assumptions, possibilities and interrelationships
Explain	Give a detailed account of why and/or how with reference to causes, effects, continuity, change, reasons or mechanisms; make the relationships between things evident
Identify	Recognise and name and/or select an event, feature, ingredient, element, speaker and/or part from a list or extended narrative or argument, or within a diagram, structure, artwork or experiment
Interpret	Draw meaning from an argument, point of view, description or diagram, text, image or artwork and determine significance within context
Investigate	Observe, study or carry out an examination in order to establish facts and reach new conclusions
Justify	Show, prove or defend, with reasoning and evidence, an argument, decision and/or point of view using given data and/or other information
List	Provide a series of related words, names, numbers or items that are arranged consecutively
Outline	Provide an overview or the main features of an argument, point of view, text, narrative, diagram or image
Propose	Suggest or put forward a point of view, idea, argument, diagram, plan and/or suggestion based on given data or stimulus material for consideration or action
Provide reasons/ justify	Justify your choice or answer; give valid reasons or evidence to support an answer or conclusion
Recommend	Put forward and/or approve (someone or something) as being suitable for a particular purpose or role
Summarise	Retell concisely the relevant and major details of one or more arguments, text, narratives, methodologies, processes, outcomes and/or sequences of events

Source: © VCAA, Glossary of Command Terms

Overview of Areas of Study and assessment



Planning a business and establishing a business

The VCE Business Management Study Design outlines the following Areas of Study and the relevant school-assessed coursework that must be undertaken for the course.

UNIT 1 PLANNING A BUSINESS: AREAS OF STUDY

1 The business idea
2 Internal business environment and planning
3 External business environment and planning

UNIT 1 COURSEWORK ASSESSMENT CHART

Number	Outcome	Assessment tasks
1	Describe a process for creating and developing a business idea, and explain how innovative and entrepreneurial practices can contribute to the national economy and social wellbeing.	All assessments at Units 1&2 are school-based. Procedures for assessment of levels of achievement in Units 1&2 are a matter for school decision. For this unit students are required to demonstrate three outcomes. As a set these outcomes encompass the Areas of Study in the unit. Suitable tasks for assessment in this unit may be selected from the following: • a case study analysis • short-answer and extended-answer structured questions • a business research report • an interview with and a report on a chosen business • a school-based, short-term business activity • a business simulation exercise • an essay • a business survey and analysis • a media analysis.
2	Describe the internal business environment and analyse how factors from within it may affect business planning.	
3	Describe the external environment of a business and explain how the macro and operating factors within it may affect business planning.	

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UNIT 2 ESTABLISHING A BUSINESS: AREAS OF STUDY

1 Legal requirements and financial considerations
2 Marketing a business
3 Staffing a business

UNIT 2 COURSEWORK ASSESSMENT CHART

Number	Outcome	Assessment tasks
1	Outline the key legal requirements and financial record-keeping considerations when establishing a business, and explain the importance of establishing effective policies and procedures to achieve compliance with these requirements.	All assessments at Units 1&2 are school-based. Procedures for assessment of levels of achievement in Units 1&2 are a matter for school decision. For this unit students are required to demonstrate three outcomes. As a set these outcomes encompass the Areas of Study in the unit. Suitable tasks for assessment in this unit may be selected from the following: • a case study analysis • short-answer and extended-answer structured questions • a business research report • an interview with and a report on a chosen business • a school-based, short-term business activity • a business simulation exercise • an essay • a business survey and analysis • a media analysis.
2	Explain how establishing a customer base and a marketing presence supports the achievement of business objectives, analyse effective marketing and public relations strategies and apply these strategies to business-related case studies.	
3	Discuss the importance of staff to a business, discuss the staffing needs for a business, and evaluate staff-management strategies from both an employer and staff perspective.	

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UNIT 1
PLANNING A BUSINESS

UNIT DESCRIPTION

Businesses of all sizes are major contributors to the economic and social wellbeing of a nation. The ability of entrepreneurs to establish a business and the fostering of conditions under which new business ideas can emerge are vital for a nation's wellbeing. Taking a business idea and planning how to make it a reality are the cornerstones of economic and social development. In this unit, students explore the factors affecting business ideas and the internal and external environments within which businesses operate, as well as the effect of these on planning a business. They also consider the importance of the business sector to the national economy and social wellbeing.

Source: © VCAA, VCE Business Management Study Design, 2023–2027, *p. 9*; *reproduced by permission*

AREAS OF STUDY IN THIS UNIT
1 The business idea
2 Internal business environment and planning
3 External business environment and planning

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AREA OF STUDY 1
THE BUSINESS IDEA

AREA OF STUDY DESCRIPTION

In this Area of Study students investigate the concept of entrepreneurship. They consider how business ideas are created and how conditions can be fostered for new business ideas to emerge. New business ideas come from a range of sources, such as identifying a gap in the market, technological developments and changing customer needs. Students explore some of the considerations to be made before a business can be established as well as the importance of businesses to the national economy and social wellbeing.

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OUTCOME 1

On completion of this unit, the student should be able to describe a process for creating and developing a business idea, and explain how innovative and entrepreneurial practices can contribute to the national economy and social wellbeing.

To achieve this outcome the student will draw on key knowledge and key skills outlined in Area of Study 1. [These are listed at the start of each chapter.]

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CHAPTERS IN THIS AREA OF STUDY	
	1 The business idea
	2 Business concept development: 'getting off the ground'
	3 Business contributions to society: innovation and entrepreneurship

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CHAPTER 1
The business idea

'The way to get started is to quit talking and begin doing.'

Walt Disney (1901–1966)

About the author:
Walt Disney was an American entrepreneur, animator, writer, voice actor and film producer.





KICKSTARTER ACTIVITY

1 **Explain** the link between this quote and entrepreneurship.
2 Why is it important for someone wanting to start a business to 'begin doing'?

CHAPTER OVERVIEW

In this chapter, you will examine the concept of entrepreneurship, the personal motivation behind starting a business and the characteristics of successful business managers and entrepreneurs. You will also be introduced to sources of business opportunity, such as innovation, taking advantage of market opportunities, taking advantage of changing customer needs, research and development, technological development and global markets.

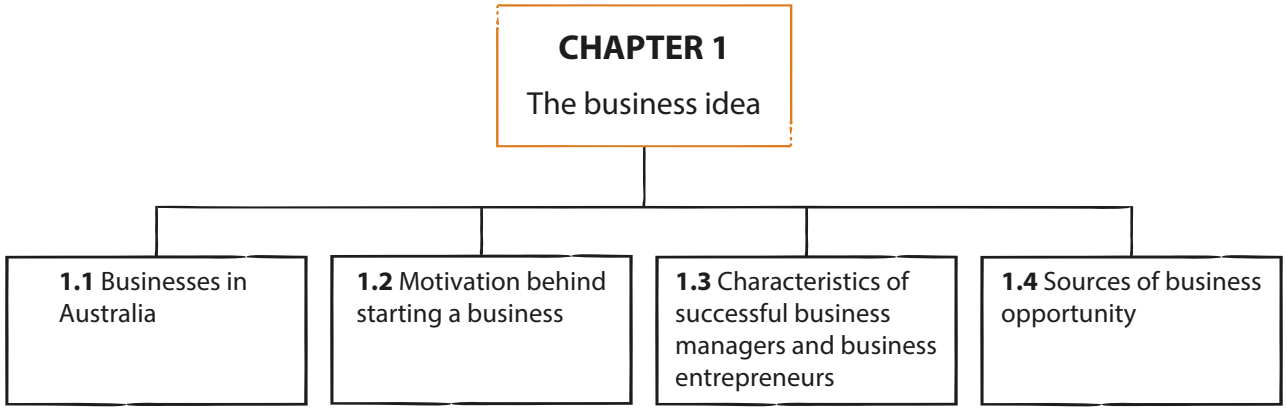
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Key knowledge and learning intentions

Key knowledge	Learning intentions – at the end of this chapter I will be able to:
Examine the concept of entrepreneurship	**1.1 Businesses in Australia** 1.1.1 Examine, describe and apply the concept of entrepreneurship when planning a business
Describe the personal motivation behind starting a business such as the desire for financial and personal independence, to make a profit and to fulfil a market and/or social need	**1.2 Motivation behind starting a business** 1.2.1 Describe the personal motivation behind starting a business including the desire for independence, desire to make a profit, and fulfil a market and/or social need
Describe the characteristics of successful business managers and business entrepreneurs and how these characteristics contribute to business success	**1.3 Characteristics of successful business managers and business entrepreneurs** 1.3.1 Describe the characteristics of successful business managers and entrepreneurs
Sources of business opportunity such as innovation, recognising and taking advantage of market opportunities, changing customer needs, research and development, technological development and global markets	**1.4 Sources of business opportunity** 1.4.1 Sources of business opportunity 1.4.2 Innovation 1.4.3 Market opportunities 1.4.4 Customer needs 1.4.5 Research and development 1.4.6 Technological development 1.4.7 Global markets

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What's ahead



1.1 Businesses in Australia

Learning intentions – at the end of this chapter section I will be able to:	**1.1.1** Examine, describe and apply the concept of entrepreneurship when planning a business

entrepreneurship the ability to 'think outside the box' and come up with new and different ways of seeing things. This ability and skill set often see new products developed.

entrepreneur an individual who creates a new business, bears most of the risks and enjoys the rewards. An entrepreneur is usually an innovator and a source of new ideas, products and services.

Entrepreneurship and **entrepreneurs** are important in any economy and society and provide many benefits, as they think 'outside the box' and take advantage of opportunities that may arise. This supports the type and variety of products and services available to customers and also can provide a source of employment in the economy. Entrepreneurship can be defined as an individual who creates a new business, bears most of the risks and enjoys the rewards. An entrepreneur is usually an innovator and a source of new ideas, products and services.

Entrepreneurship is important for the economy and society as it allows for new ideas and can improve the standard of living for many people. There are a number of programs in place to assist individuals and businesses to innovate and develop new businesses and products. The Commonwealth Government, for example, has a range of grants and supports in place. Since 2014 there has been an Accelerating Commercialisation service that has supported businesses. Over 500 grants have been awarded, covering up to 50 per cent of the cost and the business needs to match the funding provided. The service helps businesses to expand their networks through connections to supporters, investors and potential partners.

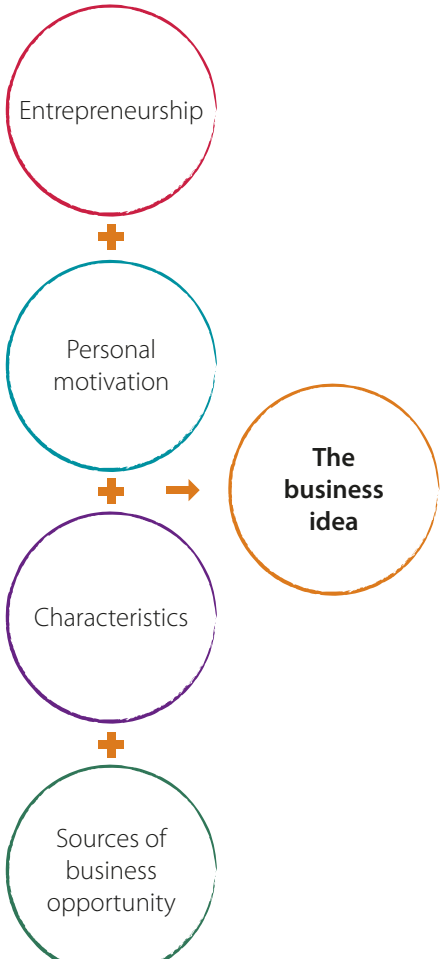


Figure 1.1 Many factors need to be considered when planning a business.

The government also offers an Entrepreneurs Programme that assists in shortening the development life cycle of new ideas to get them into production and to the market. Examples of businesses supported through this program include 3DMorphic, which is an automation method for the rapid turnaround of 3D printed implants for surgical patients. Another example of a business to receive assistance is Investfast, which developed software for financial services companies to prevent money laundering and increase financial compliance. Forty First Floor is another successful recipient working on commercialising an event entertainment app called 'Crowd Canvas', which transforms audience smartphones into active dynamic pixels to complete audio/visual light and sound shows.

Source: Business.gov.au website, News section

REVIEW ACTIVITY 1.1

Part 1: Digital quiz
Please see the Interactive Textbook to access a digital activity.

Part 2: Short-answer questions
Answer these questions on paper or in the Interactive Textbook.

1 **Define** the following concepts:
   a entrepreneur
   b innovation.
2 **Explain** the connection between entrepreneurship and innovation.

1.2 Motivation behind starting a business

Learning intentions – at the end of this chapter section I will be able to:	**1.2.1** Describe the personal motivation behind starting a business including the desire for independence, desire to make a profit, and fulfil a market and/or social need

People decide to start a business for a variety of reasons. These include those outlined in Figure 1.2.



Figure 1.2 There are many things that motivate a person to start their own business.

The reasons people start their own business vary. Some of the main reasons include:

- A desire for independence. 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 for permission. There is more potential for flexible working hours and conditions.
- Potential wealth and financial independence, especially if the business is successful.
- Filling an identified gap in the market. Many small businesses are founded because someone recognised there was an unfulfilled market need and a gap as a product or service was not available.
- Fulfilling 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 and aim to create profits. Unlike other business models, however, these profits are distributed to social causes, not shareholders/owners.

innovation a new or improved product/s or method/s of doing things and is often the impetus for a new business venture

social enterprise private-sector business that distributes profit to benefit the community rather than individual shareholders

Motivation to establish a social enterprise includes:

- to provide employment, training and support for targeted groups
- to meet a community need
- to generate profits that can be redistributed to social programs, charities and foundations.

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 can realistically satisfy their personal objectives
- whether 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.

ACTIVITY 1.1

Research a social enterprise
Select one of the following social enterprises:

- Ceres Fair Food
- StartSomeGood
- Gecko Traxx
- White Box Enterprises
- Spare Harvest
- GG's Flowers & Hampers.

Research and answer the following questions:

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?
e In what ways does this social enterprise operate as a business?



Figure 1.3 Motivation for some businesses is to meet a community need.

The following case studies provide two examples of individual motivation that led to the establishment of a business.

CASE STUDY
1.1

Allbirds (sustainability)



Allbirds was started in New Zealand and now operates from Silicon Valley in the USA. It makes carbon-neutral sneakers from merino wool and natural materials. It turns sugar cane into foam soles and makes shoe laces out of recycled bottles.

The business debuted on the Nasdaq (US Stock Exchange) and after the first day of trading was valued at $US4 billion. The company is known for its green credentials and is now a globally recognised brand. It sells shoes, lounge clothes and accessories.

Tim Brown (co-founder) believes that the business's focus on sustainable products is now seen as a mainstream idea. It is continuing to work on a number of new sustainable products.

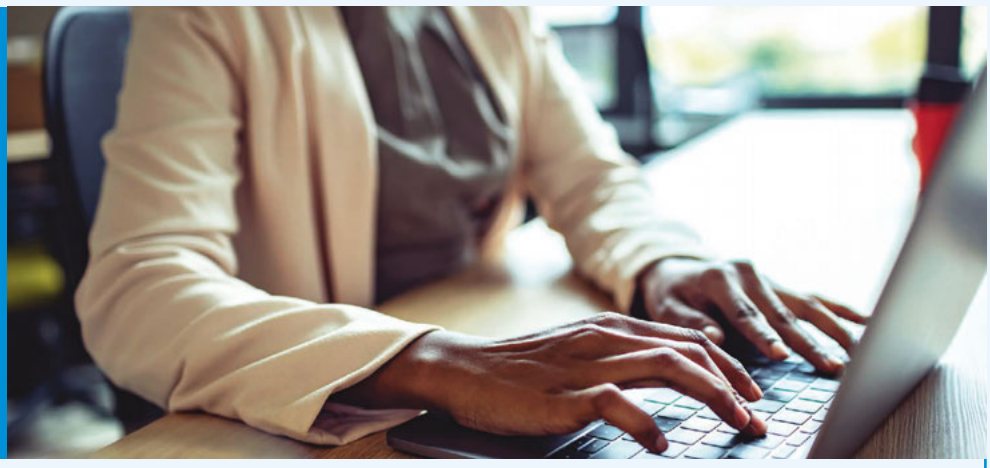
Source: Adapted from Jessica Yun, '"Built to meet this moment": Inside Allbirds' $5.5b Nasdaq debut', The Age, *5 November 2021.*

CASE STUDY ANALYSIS

1 **Describe** the products produced by Allbirds.
2 **Identify** and **describe** why the business has successfully debuted on the Nasdaq.
3 **Describe** the likely motivations behind the establishment of this business.

CASE STUDY
1.2

Social enterprise: Blaze Your Trail



Jessica Macpherson spent twelve years building and leading Melbourne charity St Kilda Mums. She then decided to launch a technology training social enterprise called Blaze Your Trail. It provides technology training, mentoring and employment placement for migrants enabling them to get a start in the workforce. Most of its placements have been with Salesforce as the company provides its platform free to charities and is widely used.

Blaze Your Trail has also seen interest from large businesses who want to use the social enterprise to recruit new talent and hire a more diverse workforce. This includes global technology consultancy MTX, which launched in Australia and is partnering with Blaze Your Trail. Its staff are contributing to training and mentoring programs and MTX is aiming to employ candidates out of the program.

Source: Adapted from Cara Waters, 'Charity founder blazes own trail with tech training', The Age, *28 September 2021.*

CASE STUDY ANALYSIS

1. **Explain** how Blaze Your Trail is supporting people to return to the workforce.
2. **Describe** the motivation behind starting Blaze Your Trail.
3. **Explain** why other businesses have joined with Blaze Your Trail. **Discuss** the benefits for the participants and the businesses involved.

REVIEW ACTIVITY 1.2

Part 1: Digital quiz
Please see the Interactive Textbook to access a digital activity.

Part 2: Short-answer questions
Answer these questions on paper or in the Interactive Textbook.

1. **Define** the following concept: gap in the market.
2. **List** and **explain** three 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.

1.3 Characteristics of successful business managers and business entrepreneurs

Learning intentions – at the end of this chapter section I will be able to:	**1.3.1** Describe the characteristics of successful business managers and entrepreneurs

Certain personal qualities and characteristics are recognised as being advantageous to starting a business. These are outlined in Table 1.1.

Table 1.1 Characteristics of entrepreneurs

Characteristic	Explanation
Risk taker	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 the establishment of a business.
Ability to 'think outside the box'	People who are able to devise original ideas, 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.
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.
Resilient	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.
Having a vision	The ability to spot an opportunity and have a clear goal as to how this can be achieved requires curiosity, an open mind and listening skills.
Possessing 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 (self-starter)	Successful entrepreneurs are often intrinsically motivated to achieve personal goals and enjoy challenges, and are naturally competitive.
Goal setting	To be successful there needs to be the ability to set goals and work towards achievement.
Accept responsibility and learn from mistakes	This may mean that they make decisions that are not always right. Being resilient and being able to start again is important.

(continued)

(continued)

Flexible	Having the ability to change direction when required is 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.
Capacity and drive for hard work and practicality	Running a business is time consuming. Being a 'doer' is required to put ideas into practice.
Ambition	Being ambitious is required to achieve long-term goals.
Ethical	Clients and customers will lose interest in those who lie and cheat. Long-term business success therefore requires an ethical approach.

ACTIVITY 1.2



Read the descriptions of the qualities and skills of these potential business owners set out in paragraphs **a–d** below and answer the questions that follow.

a 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 gets angry when dealing with staff and customers. His wife works in marketing. Surjeet's friends say that he is a very determined person who wants to have 10 restaurants within the next five years.

b Mila is a professional dancer with extensive experience appearing in stage and television shows and is highly regarded by those who have worked with her. She is very quiet, lacks confidence and finds it difficult to talk to groups of people. Mila loves working with children and quickly builds rapport with them. She also has a teaching qualification.

c Owen has just finished Year 12. He has good computer skills, is confident and often helps his family and friends with computer issues. He wants to set up his own computer repair business. He completed a number of subjects; however, his results in English were very low.

d Lydia is sports mad. For eight years she has worked in a chain of stores that sell sporting shoes, but has recently become very disillusioned after being passed over for promotion. Lydia feels that her selling skills and technical expertise in fitting sports shoes are better than anyone else in this industry.

1 **Identify** the skills Surjeet possesses that could help his new restaurant succeed. What personal qualities could hinder his chances of success and why? Suggest how Surjeet could work towards future improvement.

2 Assess whether Mila should start her own dance school. **Identify** the skills she has that would help her. Advise how she could learn to overcome her shyness when working with others.

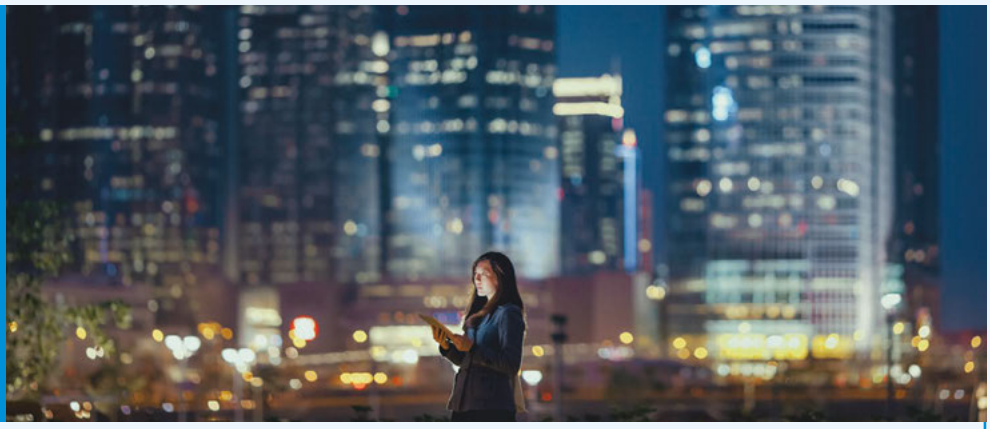
3 **Identify** the skills Owen should try to acquire before he starts his own computer repair business. **Recommend** somewhere that he could acquire these skills.

4 **Propose** two actions that Lydia should take. **Justify** your answer.

5 Suggest and **justify** an appropriate type of small business for each person.

CASE STUDY
1.3

Traits of successful entrepreneurs



Success has nothing to do with introversion, extroversion, or personality type. There's a key set of traits that set truly successful entrepreneurs apart and allow them to achieve success.

1 Have a driving force behind what you do

David Kollar, founder of clothing brand Kollar Clothing, learned that the way you dress can have an impact on your confidence from a young age. He took inspiration from observing people that were well dressed and projected confidence to inspire his line of clothing, and made it his goal for his business.

2 Be a self-starter

Formal education is not always needed to become a successful entrepreneur. Many of the world's most successful entrepreneurs don't have degrees or formal qualifications. What they do have is a desire to learn, grow and develop themselves. David Kollar, Richard Branson and Lindsay Fox, for example, are all self-taught.

3 Resilience

You have to be ready for whatever comes your way as an entrepreneur. Successful entrepreneurs are able to adapt, pivot, reframe, reimagine, or reinvent their products or brand. If there is no resilience then it is unlikely that a person can overcome setbacks and challenges.

4 Creativity and problem-solving

Creativity is basically a requirement for entrepreneurs, and it's applicable to all parts of a business from product creation to business operations. Being an entrepreneur often requires out-of-the-box thinking to find creative ways to finance a product, raise brand awareness, get things done cheaply and manage the competing demands on them.

5 Relationship building

Relationships with others such as suppliers, retailers and customers are important if a business is going to be successful. Building relationships is important; maintaining them is key to long-lasting success.



Figure 1.4 David Kollar is the founder of Kollar Clothing.

6 Tenacity

Drive, determination and persistence are qualities that all successful entrepreneurs believe is vital to their success. Being willing to push through challenges, deal with adversity and pursue opportunities are all important. Most entrepreneurs are willing to take risks and not afraid to take on challenges.

Source: Adapted from 'Traits of successful entrepreneurs', Forbes.com.

CASE STUDY ANALYSIS

Read the case study and watch the video to answer the following questions:

1. Why are there common characteristics that many entrepreneurs possess?
2. Of the six traits listed in the article (or of those mentioned in the video from Harvard Business School), which do you believe are the three most important? **Justify** your answer.
3. Select and **investigate** one of the following successful entrepreneurs:
   - Janine Allis
   - Lindsay Fox
   - Mark Zuckerberg
   - Elon Musk
   - Rupert Murdoch
   - Richard Branson
   - Mike Cannon-Brookes and Scott Farquhar.
4. **Describe** how each founded and grew their business.
5. **Identify** the key qualities and skills demonstrated by the entrepreneur and **explain** how they contributed to the success of the business.



Figure 1.5 Mike Cannon-Brookes and Scott Farquhar founded Atlassian.

Video 1.1 Traits of successful entrepreneurs

ACTIVITY 1.3

The Global Entrepreneurship Index is an annual index that measures the health of the entrepreneurship ecosystems in 136 countries. It then ranks the performance of these against each other, and each country in the survey is given a score. The scores are out of 100 and are based on the best attitude and potential for overall entrepreneurship.

This provides a picture of how each country performs in both the domestic and international context. The figure sets out the position Australia holds.

		2019	2018	2017	2016	2015
1	United States	86.80	83.61	83.37	86.20	85.00
2	Switzerland	82.20	80.45	77.96	67.80	68.60
3	Canada	80.40	79.25	75.60	79.50	81.50
4	Denmark	79.30	74.31	74.06	76.00	71.40
5	United Kingdom	77.50	77.75	71.29	67.70	72.70
6	Australia	73.10	75.45	72.51	78.00	77.60
7	Iceland	73.00	74.15	73.49	68.90	70.40
8	Netherlands	72.30	68.15	67.79	65.40	66.50
9	Ireland	71.30	73.72	70.96	65.60	65.30
10	Finland	70.20	67.90	66.91	61.80	65.70

Figure 1.6 The Global Entrepreneurial Index for 2019

1. Why is the Global Entrepreneurship Index completed every year? Why is it an important source of information?
2. Australia is rated sixth on the list. Why does the index **investigate** the best attitude and potential for overall entrepreneurship?
3. **Explain** the benefits of a business having the right attitude and potential for entrepreneurship.

While there are a number of traits and characteristics that business managers and business entrepreneurs need to possess, there are also skills that will assist a person successfully running their own business. These skills are set out in Table 1.2.

Table 1.2 Skills to run a successful business

Skill	Explanation
Technical skills and qualifications	These include specific skills needed for a business; e.g. lawyers need to be qualified, and a swimming school operator needs knowledge about how people learn to swim.
Communication skills and negotiation skills	These are required to successfully deal with a range of people the business comes into contact with. Examples include staff, customers, suppliers and government agencies.
Leadership skills	These skills are important as the person starting the business might have to lead the business while also leading staff. They need to be able to motivate and inspire others and work towards achieving their goals and objectives.
Strategic thinking and analytical skills	It is important to take a long-term view of the business and devise a plan to achieve the goals that have been set.
Planning skills	This includes time management and organisational skills. Owners have to make sure they can coordinate and plan for all aspects of the business.
Financial management skills	It is crucial that the financial position of the business is continually monitored and evaluated.
Sales and marketing skills	These are important as the owner needs to promote the business to reach potential customers.
Technology skills	Knowledge of relevant software packages is important.

Figure 1.7 Successful business owners require a wide range of skills.



ACTIVITY 1.4



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 or notes.

- Technical skills
- Strategic thinking and analytical skills
- Financial management skills
- Leadership skills
- Technology skills
- Planning skills

An example is completed for you.

Skill	Why is this skill necessary in small business?	Self-evaluation – positives	Self-evaluation – negatives	Strategy for developing expertise in this area
Communication and negotiation skills	To deal effectively with all aspects of the business, including selling, staff, government agencies and 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.

ACTIVITY 1.5



Identify and **explain** 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.
5. Plan the steps to produce a product or deliver a service.

REVIEW ACTIVITY 1.3



Part 1: Digital quiz
Please see the Interactive Textbook to access a digital activity.

Part 2: Short-answer questions
Answer these questions on paper or in the Interactive Textbook.

1. **Outline** an example of when an entrepreneur or business operator would require the following:
   a. communication skills
   b. negotiation skills
   c. financial management skills
   d. marketing skills
   e. technical skills.
2. Write a paragraph to **describe** five qualities usually found in successful entrepreneurs. **Explain** how each quality would be advantageous when starting a new business.

1.4 Sources of business opportunity

Learning intentions – at the end of this chapter section I will be able to describe and understand the following:	**1.4.1** Sources of business opportunity
	1.4.2 Innovation
	1.4.3 Market opportunities
	1.4.4 Customer needs
	1.4.5 Research and development
	1.4.6 Technological development
	1.4.7 Global markets

There are a number of opportunities a business can seize or take advantage of particularly when trying to establish and build a business. These include those in Figure 1.8.

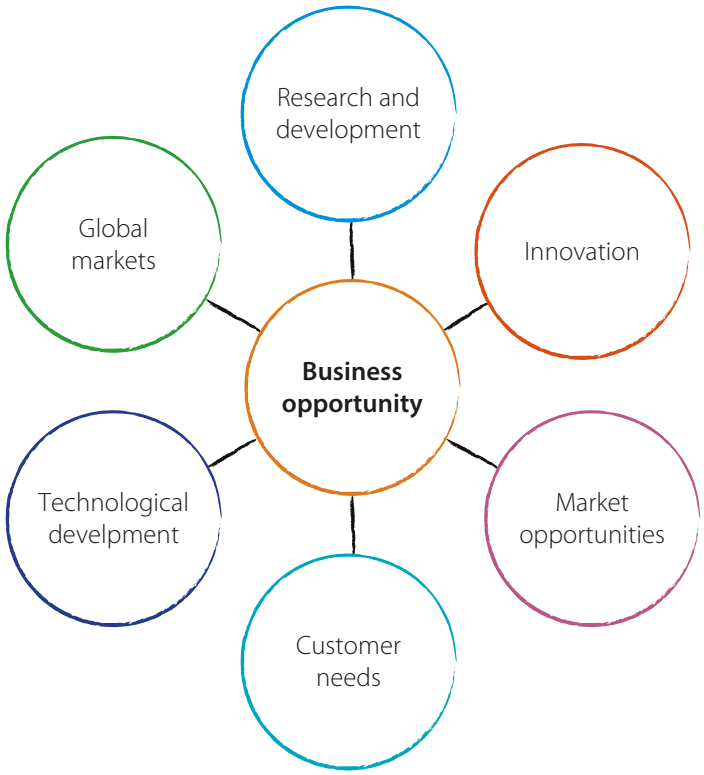


Figure 1.8 There are a number of business opportunities that arise.

market niche where a business can find a gap or space in an industry or market. It usually means that there is something unique about their product or service so customers will buy from the business.

All businesses need to continually look for new opportunities to either start, diversify, or continue to grow their business if they are to remain successful. Large businesses continually look at ways to increase their presence, sales and profits. Many small businesses need to look for any **market niches** or gaps that may exist in the market as this allows them to grow and be successful.

Innovation

Innovation is a new or improved product/s or method/s of doing things and 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. Innovation can be a catalyst for further success and growth, enabling a business to become increasingly competitive in the marketplace. Innovation may come from scientific research, changes in work practices and often improvements in technology. Original thinkers are frequently sources of innovation.

Successful entrepreneurs are usually able to think innovatively and/or identify innovations that have potential for 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 services
- new products (the most common form of innovation)
- new production techniques (these may reduce production costs by either allowing a product to be made for a lower cost or creating a more complex product)
- new marketing techniques (allowing a product to be promoted in a different manner, gaining more attention from potential consumers).

CASE STUDY
1.4



Innovation: Quantum Brilliance

Quantum Brilliance has found a way to make quantum computers more accessible, potentially contributing to the solution to the world's pending information storage issues. Quantum Brilliance is a spin-out company from the Australian National University in Canberra and has developed the world's first room-temperature quantum computer that is small enough to fit inside a lunchbox.

This is a significant innovation because current storage space for information is finite and the world will continue to need more processing power to be able to handle complex problems.

It is estimated that within 20 years computers will not have the capability to power all of the machines in the world. The innovation comes from the size of the computer and the fact that it does not need to be stored in super-cooled fridges and vacuum chambers to function.

The company was supported by the Commonwealth Government through a grant from AusIndustry, which gave it an Accelerating Commercialisation grant and money from the Innovations Connections.

The computer will be deployed to the Pawsey Super Computing Centre in Perth to assist in the development of a supercomputing centre. It is estimated that there is potential for up to 10 000 new jobs and $2.5 billion each year in revenue by 2040.

Source: Adapted from business.gov.au website.

CASE STUDY ANALYSIS

1 **Explain** why innovation is important for Australia.
2 How will this product assist other businesses in Australia and around the world?
3 **Explain** why the Commonwealth Government provides grants and money to businesses and individuals looking at new products and services.



Figure 1.9 Many businesses are taking advantage of the increased interest in healthy living.

Market opportunities

A successful business entrepreneur is able to see opportunities that others may fail to recognise. The source of most business opportunities is change. As society's needs and wants evolve and change, so too do the types of goods and services people want to purchase.

Examples of market opportunities include:

- If the type of people (**demographic**) moving into an area is changing, so too will the products that market seeks to buy. For example, if young families move into a specific area, demand for child-care services or children's clothing will increase.
- 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 societal attitudes including lifestyles change, so does consumer demand. For example, increased community interest in healthy living has seen demand for personal training, dieticians and weight-loss services increase.
- 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.
- An entrepreneur looking for inspiration should 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.
- The media can also be used as a source of ideas for a business concept. Regular observation of the media can provide inspiration and innovative ideas. Television shows focusing on entrepreneurship, such as *Shark Tank*, 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.
- Trade shows and exhibitions provide opportunities to see new products and obtain ideas, and there may be opportunities for the rebranding of existing products. They also provide opportunities to make important contacts and to network.

demographic the population in a particular age group, type, or target market to which a business will try to attract and target their product or service

CASE STUDY
1.5

Betty's Burgers: market opportunities



The parent company of upscale fast food outlet Betty's Burgers has distinguished itself from its rivals, criticising their overcomplicated menus as the business prepares to add new meatless options and capitalise on Australia's economic reopening.

The burger chain has benefited from the COVID-19 pandemic and increased sales. It is looking at expanding the number of stores it has in Australia.

Betty's Burgers competes with the likes of Grill'd in the premium end of the burger market, as distinct from mass market chains such as McDonald's and Hungry Jack's. It believes its smaller menu means it can manage its operations more easily.

Its parent company Retail Zoo also owns the Boost Juice, Cibo Espresso and Salsas chains.

A move into more focus on the alternative meat movement will be a key growth driver for the business. The Betty's Burger menu currently features two non-meat options, one with a crispy puff rice patty and another with mushroom, as the company sees this as a trend in the market. The business wants to be seen as a leader in the environmental, social and governance space. While Betty's Burgers sales exploded during the pandemic, the chain's focus was in-restaurant dining, and the company hopes to capitalise on the return of in-house dining as lockdowns subside. Despite widespread concerns about shortages in the hospitality sector, the business stated it had no trouble hiring workers.

Source: Adapted from Jessica Yun, 'Burger wars Betty's Burgers swipes at rivals amid lofty plans to expand', The Age*, 10 November 2021.*

CASE STUDY ANALYSIS

1. **Describe** how a business can take advantage of market opportunities to expand.
2. What does Betty Burgers believe makes it different from other burger chains?
3. **Explain** why it is important for a business to continually look for new market opportunities.

Customer needs

An entrepreneur is able to recognise signs indicating customer needs and wants. They 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.

ACTIVITY 1.6

Identify two potential ideas for a new business that could arise from each of the following scenarios:

1. A news report reveals that home burglaries are increasing.
2. A government study finds a link between fast foods and increased childhood obesity.
3. Melbourne is chosen as the venue for a major sporting event.
4. Studies find that many people do not have sufficient time to prepare healthy meals.
5. Statistics show a significant number of retired people living in an area.

CASE STUDY
1.6

Customer needs: gender-neutral children's clothing



Designer Gary Bigeni has developed a new children's clothing collection for children between 18 months and five years old.

'They're just colours, and they're just clothes', Bigeni said. 'They should be for everyone.'

Begeni sees the product range as an expansion on his focus on inclusivity. Before creating his over-sized, hand-painted children's styles, with no fastenings for quick changes, Bigeni consulted friends with budding families on their preferences. He found that some people believed some girls clothing was fussy or impractical for active play. Boys clothing was often limited in colour and pattern choices.

Associate Professor Michelle Telfer, director of the Royal Children's Hospital's Gender Service in Melbourne stated: 'Gender-neutral clothing provides an expansion of options for young children.'

With items priced from $60 to $80, Bigeni's children's collection is made-to-order, like his adults' range, in the interests of sustainability. The over-sized approach is a way of tapping into current trends as well as extending the lifespan of a T-shirt dress.

Source: Adapted from Damien Woolnough, 'Ditching boys and girls from children's clothing at last', The Age*, 20 November 2021.*

CASE STUDY ANALYSIS

1. **Explain** why it is important for a business to be able to change and respond to customer needs.
2. **Explain** how Bigeni identified a gap in the market and changing customer demand.

Research and development

Research and development are often the sources of new business ideas that lead to innovation. They are an important means for achieving future growth and continuing to offer a relevant product in the market. Research and development help to drive technological improvements that lead to greater productivity and increased economic growth.

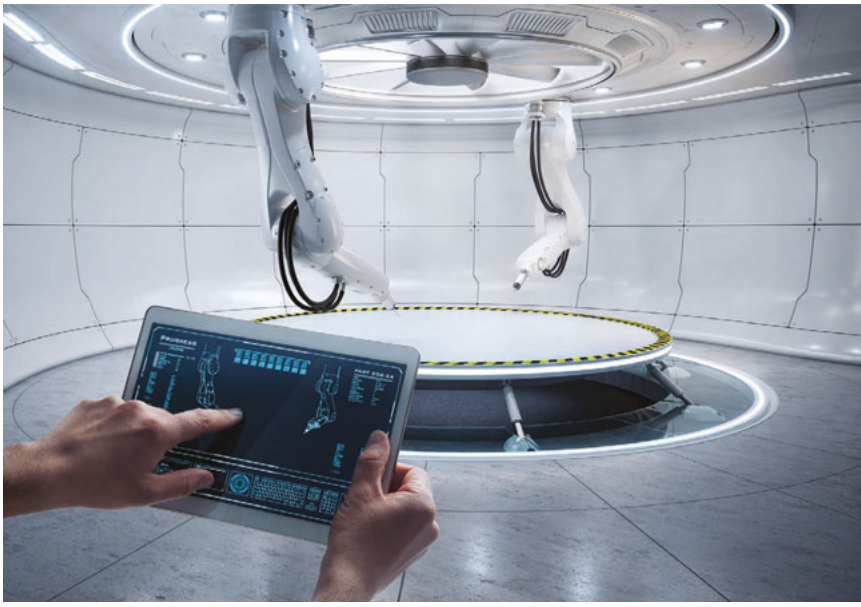


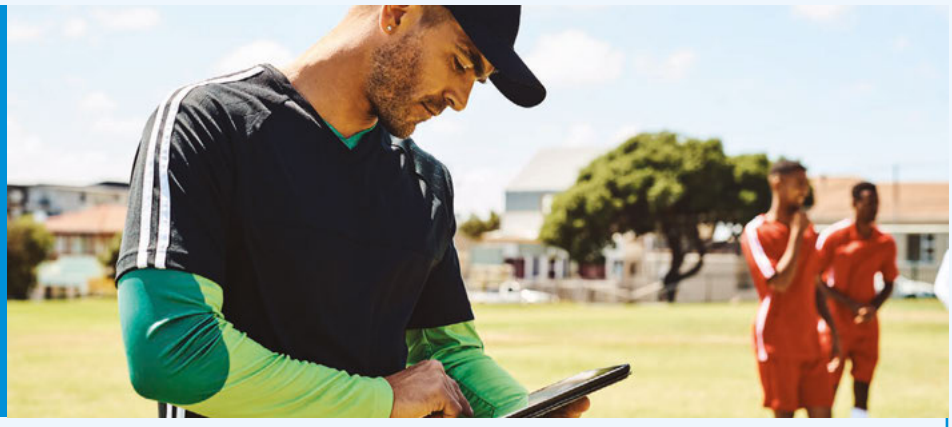
Figure 1.10 Research and development are often sources of innovation.

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 they might be interested in. For example, increasing community concerns about personal security could translate into a market for security products and services.

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.

CASE STUDY
1.7

Research and development: Catapult



Catapult was a start-up company that successfully commercialised sport technology and exported it to the rest of the world. Catapult was born out of a collaboration between the Australian Cooperative Research Centres (CRC) Program and the Australian Institute of Sport (AIS) in 1999. It is now listed on the ASX (Australian Stock Exchange) and employs more than 300 people across 25 countries.

It provides elite sporting organisations and athletes with detailed real-time data and analytics to monitor and measure athletes. Its hardware and software solutions have been used by more than 500 sports teams and organisations worldwide. It has come a long way in a short time and is radically changing the way elite athletes are coached and managed.

It was able to develop the ideas and technology through support from the Victorian Government through Invest Victoria.

Source: Adapted from Invest.vic.gov.au website.

CASE STUDY ANALYSIS

1 **Explain** why it is important for a business to engage in research and development.
2 **Describe** the role of partners such as Invest Victoria in assisting businesses to undertake research and development of a product or service.
3 Go to the website www.invest.vic.gov.au or another state or federal website and **identify** one business that has been supported to develop a business idea.

Technological development

The development and impending availability of new technologies can be another source of ideas for a new business. Technology is usually developed to meet a human need. Businesses can apply technology in a range of different ways. This is set out in Table 1.3.

Table 1.3 Technology and innovation

Production	Technology used in: • planning stage • production processes • consistent quality.
Marketing	Use of internet and online sales Social media to market and reach customers
Financial	Payment systems; e.g. EFTPOS, PayPal and Afterpay

For example, the growth and development of the internet, coupled with 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 area of technological development offering numerous possibilities for business application. Concerns with protecting personal and business data has also seen an increased need for businesses to develop ways to counter cyber-attacks.

ACTIVITY 1.7

Select one of the following recent Victorian start-ups with a technology focus:

- Etsy
- Afterpay
- The Trade Desk
- Seer
- My Plan Manager
- Canva.

1 **Investigate** the background of developing the business.
2 **Identify** the skills and qualities of the key developers.
3 **Discuss** the potential application of the start-up for business locally and globally.

CASE STUDY
1.8

Technology: cyber security



Jason Edelstein knows how to pick locks, avoid security cameras, bypass electric fences and dodge guards. He has broken into data centres and critical infrastructure sites and stolen sensitive information.

However, none of this is illegal. Edelstein is a senior executive at CyberCX – Australia's largest cybersecurity firm.

His team of hackers is hired by companies, including the biggest banks and energy suppliers, to find weaknesses in their security. While breaking-and-entering seems a world away from digital hacking, Edelstein says they're not so different: 'It requires out of the box thinking.'

He started his career in accounting and then shifted his career into cybersecurity. Now he leads the penetration testing division, a fast-growing and eclectic group of 'ethical hackers' who blend complex coding with a penchant for breaking the rules.

Since the start of COVID-19, there has been a proliferation of digital crime.

There have been a number of high-profile ransomware attacks, including on Toll Group, that have wreaked havoc on essential service providers. The Reserve Bank of Australia this month warned a successful cyber-attack against a major bank was 'almost inevitable'.

Edelstein says larger businesses have been taking cybersecurity seriously for at least five years. There are laws that mandate yearly penetration testing for some industries, and well-resourced companies are throwing money at innovative solutions to avoid compromising customer data or suffering a reputational hit. Demand for these services is likely to grow.

Source: Adapted from Charlotte Greive, 'Meet the ethical hackers fighting the rising threat of cybercrime', The Age, 12 November 2021.

CASE STUDY ANALYSIS

1. How can technology lead to innovative and new business processes?
2. The case study discusses the developments in the cybersecurity area. **Explain** why this is becoming an important issue for businesses.

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.

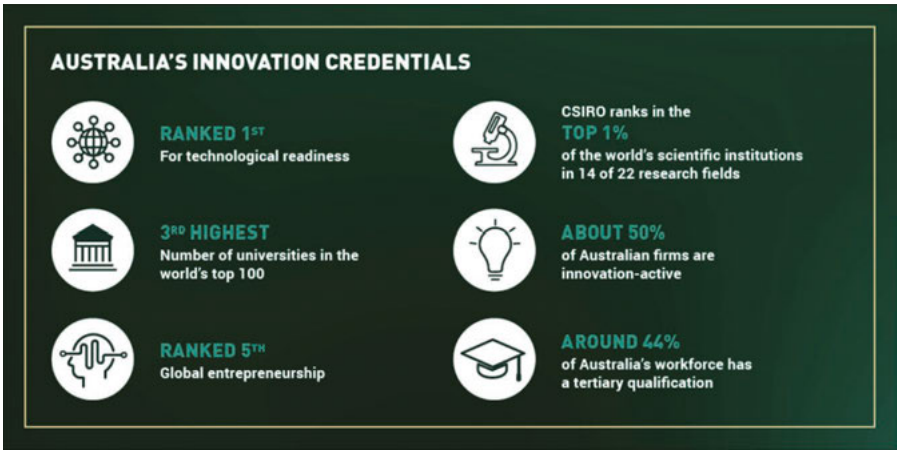


Figure 1.11 Australian businesses have been successful accessing global markets.

There have also been several Australian entrepreneurs who have realised the value of Australian goods and services and taken these overseas to build successful businesses. Melbourne-style cafes, for example, have been opening over the past decade in New York, offering their unique mix of top baristas, good food and quality service. Many Australian businesses have been successful overseas and this is recognised.

Because labour costs are high in Australia, businesses also have to be efficient to keep themselves competitive. Further, there is no language barrier in the USA. Showpo is an Australian fashion retailer currently experiencing rapid growth. They have seen increased sales and have focused on a pop-up store in Los Angeles.

CASE STUDY
1.9

Accessing global markets



Manufacturing in Australia has had a long and proud history; however, during the last 30 years many companies have been unable to complete with other countries due to costs related to distance, higher wages and the price of energy. Governments and large corporate companies offshored manufacturing projects, rather than support local business and spend the money in Australia.

Manufacturing only accounts for 5.4% of total employment in Australia. Many things that we import could be made here, but many manufacturing companies produce offshore as the cost is much lower.

However, COVID-19 has changed this. In 2020, supply chains around the world were disrupted and the cost of freight nearly doubled. Some Australian businesses were also affected by a deteriorating trade relationship with China.

The Australian Government announced a new 'Modern Manufacturing Strategy' to stimulate the Australian economy. A number of priorities were identified including:

1. Resources Technology and Critical Minerals Processing
2. Food and Beverage
3. Medical Products
4. Recycling and Clean Energy
5. Defence
6. Space.

With renewed attention and financial investment, Australia's manufacturing industry will be re-energised and more appealing to companies that are making products here and are looking to export them overseas.

For a business to move into the global market there needs to be clear objectives and the ability to be dynamic and agile in their approach to business.

Two examples of Australian businesses that have been successful in the global market are:

- AirPhysio, who started in 2016 to help with people with respiratory conditions like asthma, bronchiectasis and cystic fibrosis. It manufactures a mucus clearance and lung expansion device that uses an all-natural process called Oscillating Positive Expiratory Pressure (OPEP). Its product is now sold in five different continents. Co-Founder Paul O'Brien always had a vision to go global, and this mindset helped him develop his business the right way from the start. Paul also says that being able to look outside the box and move quickly are extremely important factors.
- Beauty and the Bees is an all-natural eco-friendly hair and skincare range sourced from Tasmania's mountains, seas, farms and rainforests. Jill Saunders is the founder and harnesses these natural resources for her hair and beauty products, which are made from Tasmanian leatherwood honey. Jill started at Salamanca market with a card table. Now she has a 930-square-metre factory employing eight staff, and a retail store that is renowned for its quality products and friendly service. In 2013, Jill and her business partner identified the USA as a key market and began selling via Amazon.com. By 2021, the brand was in the top 5% of sellers on the site. The move into the USA has been so successful that it now represents 80% of the company's total revenue. Jill notes that making sure her brand remains fresh in the market is key. Choosing where to manufacture their products has also been important. Jill is moving production out of Tasmania into Melbourne due to the cost of logistics and freight.

Source: Adapted from dearinassociates.com website.

CASE STUDY ANALYSIS

1 **Explain** why the Australian Government implements programs and support for Australian businesses to move into the global market.
2 Look at the two case studies and **describe** the main ideas of the owners and how this has assisted them in moving into other markets overseas.

REVIEW ACTIVITY 1.4



Part 1: Digital quiz
Please see the Interactive Textbook to access a digital activity.

Part 2: Short-answer questions
Answer these questions on paper or in the Interactive Textbook.

1 **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 university is being built in a regional town
   c a large number of retirees move into an area
   d residents in a local area believe in the importance of conservation.

Chapter 1 review

Summary

Create your own summary notes for this chapter on paper or in a digital document. A model summary is provided in the Area of Study review chapter for Unit 1 Area of Study 1, which can be used to compare with yours.

Developing clear definitions

By writing a brief explanation of each of the following terms, you will gradually build up a glossary of comprehensive terms for revision. Define these terms in your exercise book.

Key concepts

Entrepreneur	Entrepreneurship	Social enterprise
Innovation	Market niche	Demographic

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
   - **d** the skills and qualities held by management.

2 **Investigate** one of the following successful family-owned businesses and complete the questions from Question 1:
   - **a** Peregrine Corporation
   - **b** Linfox Logistics
   - **c** Visy
   - **d** Westfield
   - **e** Consolidated Travel.

3 Conduct an interview with a small business owner. **Investigate**:
   - **a** what the owner's motivation was for going into business
   - **b** the personal qualities of the business owner that enabled them to successfully develop their business
   - **c** the skills that the business owner possessed
   - **d** how the business owner used any innovation or specialisation that set them aside from competitors.

Checklist

The success criteria are linked to the learning intentions from each section of this chapter, and have been written based on the key knowledge and skills of the VCE Business Management Study Design. Completing the linked questions per success criteria will thoroughly prepare you for success in this subject. Fill in, print, or photocopy this checklist and tick the boxes when you have answered the corresponding questions correctly.

Success criteria – I am now able to:		Linked questions	Completed (Y/N)
1.1 Businesses in Australia	**1.1.1** Examine, describe and apply the concept of entrepreneurship when planning a business	Review activity 1.1: Part 1 & Part 2	Yes ☐ No ☐
1.2 Motivation behind starting a business	**1.2.1** Describe the personal motivation behind starting a business including the desire for independence, desire to make a profit, and fulfil a market and/or social need	Activity 1.1 Case study 1.1: Q3 Case study 1.2: Q2 Review activity 1.2: Part 1 & Part 2	Yes ☐ No ☐
1.3 Characteristics of successful business managers and business entrepreneurs	**1.3.1** Describe the characteristics of successful business managers and entrepreneurs	Activity 1.2 Activity 1.3: Q3 Activity 1.4 Case study 1.3 Review activity 1.3: Part 1 & Part 2	Yes ☐ No ☐
1.4 Sources of business opportunity	**1.4.1** Discuss sources of business opportunity	Extension	Yes ☐ No ☐
	1.4.2 Innovation	Case study 1.4	Yes ☐ No ☐
	1.4.3 Market opportunities	Activity 1.6 Case study 1.5 Review activity 1.4: Part 1 & Part 2	Yes ☐ No ☐
	1.4.4 Customer needs	Case study 1.6	Yes ☐ No ☐
	1.4.5 Research and development	Case study 1.7	Yes ☐ No ☐
	1.4.6 Technological developments	Activity 1.7 Case study 1.8	Yes ☐ No ☐
	1.4.7 Global markets	Case study 1.9	Yes ☐ No ☐

Digital activities

- Access the Interactive Textbook via Cambridge GO to complete a Scorcher timed competitive quiz for this chapter.
- From their Cambridge GO account, your teacher can also assign practice VCAA-style assessment questions with model responses.

CHAPTER 2
Business concept development: 'getting off the ground'

'Starting out on the right foot is SO important. Especially when it comes to getting your business or side-hustle up and running. And the best way to get on that right foot is to have a plan.'

Mia Freedman

About the author:
Mia Freedman is the co-founder and chief creative officer of the Mamamia Media Group, Australia's largest digital women's media company. She manages the world's largest women's podcast network.





KICKSTARTER ACTIVITY

1 **Explain** what this quote suggests for future business owners.
2 Predict two areas that you think should be part of a plan for new businesses and give a reason as to why the identified areas are important.

CHAPTER OVERVIEW

The process of establishing a business can be lengthy; however, investing time in the process supports a successful start to the business. To establish what is important, business goals need to be determined along with the mission and vision statement. As part of the business concept development, market research is essential and is followed by a feasibility study that ascertains whether the business idea can become a viable business.

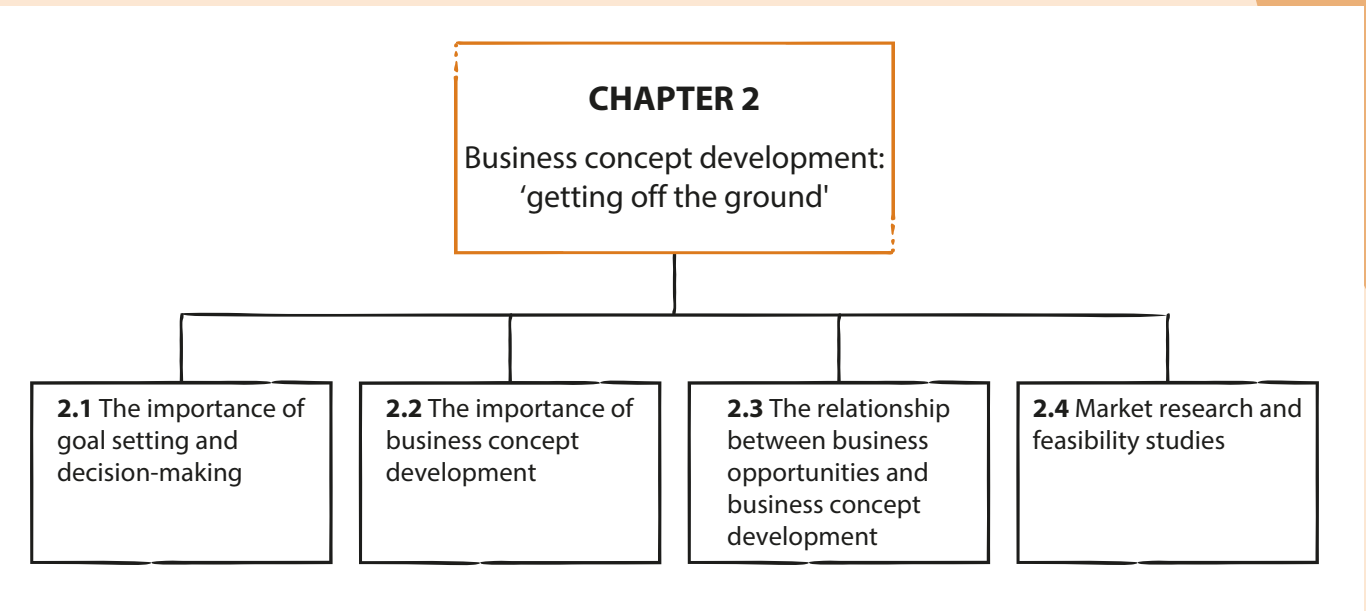
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Key knowledge and learning intentions

Key knowledge	Learning intentions – at the end of this chapter I will be able to:
Importance of goal setting and decision-making in business	**2.1 The importance of goal setting and decision-making** 2.1.1 Define goal setting and decision-making 2.1.2 Explain their significance to business 2.1.3 Describe types of goals: mission, vision, values statements and objectives
Importance of business concept development	**2.2 The importance of business concept development** 2.2.1 Describe the process of business concept development 2.2.2 Explain the importance of business concept development in a business
Importance of business concept development and its relationship with business opportunities	**2.3 The relationship between business opportunities and business concept development** 2.3.1 Describe the relationship between business opportunities and business concept development
Market research and initial feasibility studies	**2.4 Market research and feasibility studies** 2.4.1 Describe the role of market research and feasibility studies in business concept development

Source: Adapted from VCE Business Management Study Design © *VCAA; reproduced by permission*

What's ahead



2.1 The importance of goal setting and decision-making

Learning intentions – at the end of this chapter section I will be able to:	**2.1.1** Define goal setting and decision-making
	2.1.2 Explain their significance to business
	2.1.3 Describe types of goals: mission, vision, values statements and objectives

decision-making the process of making a choice between two or more alternatives

Decision-making is a process that requires a choice to be made from a number of alternatives. The ability to make clear decisions that are informed and future oriented is an essential leadership skill. It is required from the conception of the business idea through to the business start-up-from establishment to expansion by increasing market share.

Without decisive decision-making a business will have no idea about where it is at or to where it is heading. It is likely to maintain the status quo (existing state of affairs), which will lead to the business falling behind. Leaders with solid decision-making skills are necessary to build an organisation that will stand the test of time and keep ahead of its competition.



Figure 2.1 Decision-making is a vital skill for business owners.

Making the right decisions is crucial to the success of any business. Decision-making is proactive and aims to resolve a problem to prevent further issues or to pursue a potential opportunity. Gathering the right information from reliable sources and from those impacted by business activity, such as employees, suppliers and customers, assists in working towards making a good decision. A good decision will be transparent, and as a result of consultation with employees, suppliers and customers, good decisions are more likely to be accepted by those who are impacted and will be implemented with greater success.

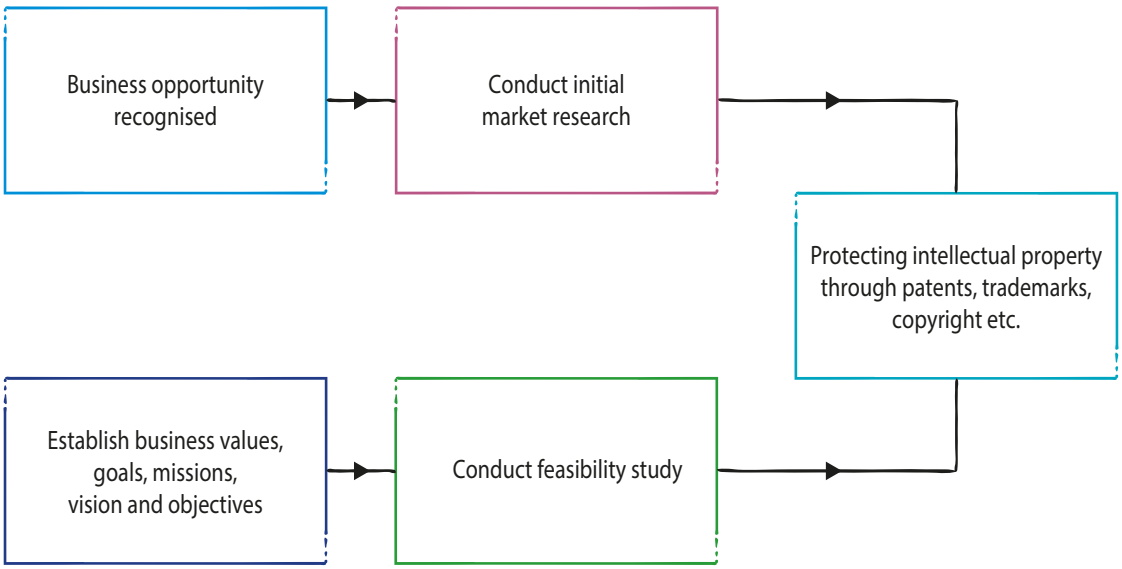


Figure 2.2 The business concept development process

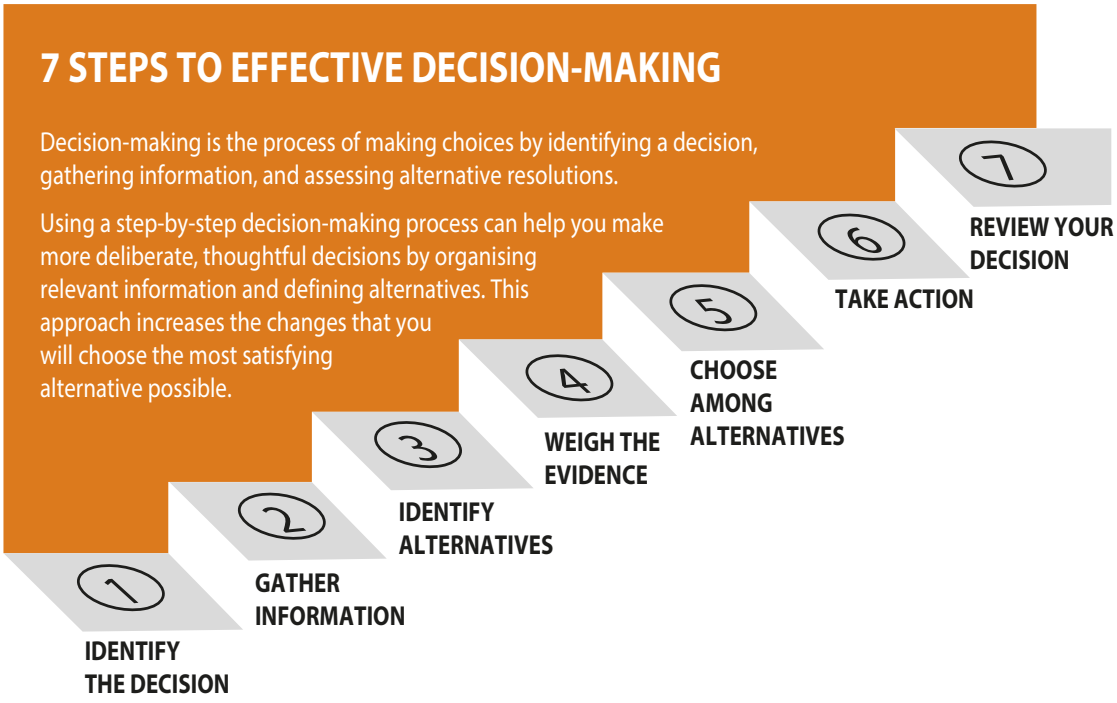


Figure 2.3 Effective decision-making includes analysing alternatives to inform the final decision.

Decision-making is more effective when it is aligned with the goals of the business. This provides consistency in approach and moves the business towards achieving its goals. **Business goals** are broad statements that set out where the business sees itself in the future. They represent the aspirations of the business and its owners. A business goal might be 'To be the largest seller of electronics in the country'. This optimistic but generalised statement is often focused on the customer and creates a corporate culture centred on meeting customers' needs.

business goals represent the aspirations of the business and describes what a business aims to accomplish

goal setting the process of identifying desired aims and the steps to achieve them

Without clear goals, a business will have no defined purpose and nothing to strive for. As a result, the business is likely to stagnate and struggle to achieve success. The absence of goals is akin to a person setting out on a journey with no destination in mind, which may work for some on a personal level, but will undoubtedly fail in a business setting.

Goals and how they are to be achieved must exist in every aspect of business planning, guiding decision-making and prioritising tasks. Goals provide a collective sense of purpose for a team to collaborate and motivate employees, and will help set targets for the business to work towards achieving. The first step of planning for a business is the establishment of clear goals that require smart decision-making by management. This process of developing and establishing goals is known as **goal setting**, and is reinforced up by the introduction of tangible objectives, which will be discussed later in the chapter.



Figure 2.4 All businesses must establish goals and objectives.

CASE STUDY
2.1

Brambles and its 2025 sustainability goals



Brambles helps move more goods to more people, in more places than any other organisation on Earth. Its pallets and containers form the invisible backbone of the global supply chain and the world's biggest brands trust Brambles to help them transport their goods more efficiently, sustainably and safely.

Brambles primarily serves the fast-moving consumer goods (e.g. dry food, grocery, and health and personal care), fresh produce, beverage, retail and general manufacturing industries. The [Brambles] Group employs approximately 11,000 people and owns approximately 630 million pallets, crates and containers through a network of more than 850 service centres. Brambles operates in more than 60 countries with its largest operations in North America and Western Europe.

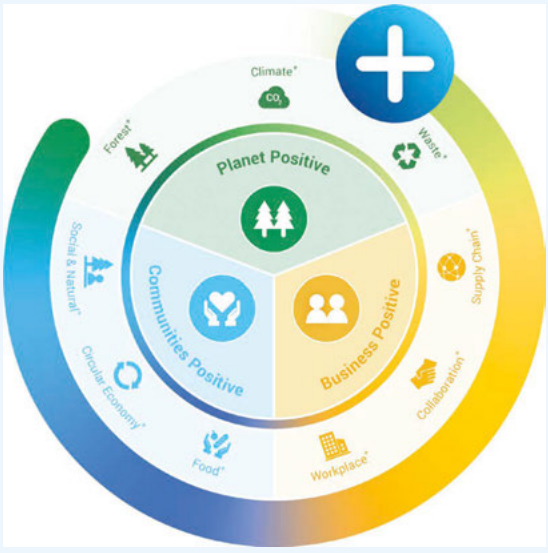


Figure 2.5 Brambles' 2025 Sustainability Goals

Goal 1: Planet Positive

Objectives: Forest Positive, Climate Positive, Waste Positive

- Sustainably grow two trees for every tree used
- 100% of electricity to be renewable and carbon neutral by 2025
- Zero product materials sent to landfill, innovate with closed loop products

Goal 2: Business Positive

Objectives: Supply Chain Positive, Positive Collaboration, Workplace Positive

- Implementation of 'share and reuse' model within the supply chain to increase environmental benefits
- Increase customer collaboration through Zero Waste World Initiative
- Create positivity in the workplace through diversity, increased number of women in management

Goal 3: Communities Positive

Objective: Food Positive, Circular Economy Transformation, Positive Impacts for People and Our Planet

- Collaborate with food banks to serve rescued food to 10 million people
- Advocate and educate one million people to be involved in the circular economy
- Develop natural and social capital accounting approaches to measure performance

Source: Extracted from information on Brambles website.

CASE STUDY ANALYSIS

1 Go to the Brambles Website and research Brambles' 2025 Sustainability Goals.
2 Select one of the three goals and **examine** and **outline** the strategies employed by Brambles that aim to support their 2025 Sustainability Goals.
3 Are these goals aspirational or realistic? **Justify** your response.
4 Research the term 'circular economy' and **outline** how Brambles aims to achieve this within their workforce.

Types of business goals

1 **Values statement:** this must be established as it details the priorities and principles important to the business and the people within it. A values statement demonstrates what the business stands for, its principles and beliefs. Core values often form part of the culture of a business, establishing expectations about how employees should work together to optimise outcomes.
2 **Mission statement:** this is a global statement that defines the purpose of the business, and the reason for its existence. The mission statement should be inspiring, catchy and timeless.
3 **Vision statement:** using the values of the business, the next step is to construct a vision statement that defines the long-term aspirations of the business and complements the mission statement by demonstrating the value of the purpose of the business.

A business must initially clarify its overall purpose or reason for existence. Business goals and objectives are both future-oriented. They both provide a focus and direction for the business. They both reflect the mission and vision of the business. The difference is that goals describe the intended future direction of the business, and objectives describe how that goal may be achieved.

The purpose of the ABC (Australian Broadcasting Corporation), as an example, is to deliver valued services that reflect and contribute to Australian society, culture and identity. The ABC's vision is to be the independent home of Australian conversations, culture and stories. The organisation's values form the foundation of how employees are expected to work – with Integrity, Respect, Collegiality and Innovation. The business objectives for 2021 included strengthening local connections, investing in the future workforce and remaining as Australia's most trusted source of news and information.

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

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

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

business objectives the stated, measurable targets to determine how a business will achieve its goals

SMART objectives or goals that are Specific, Measurable, Attainable or Achievable, Relevant or Realistic, and Timely or Timebound

Business objectives

Business objectives are the steps a business must take to reach its goals and are used to measure the degree of success and progress towards goal achievement. As such, they are crucial for the goal setting process. To achieve the example of the goal 'To be the largest retailer of electronics in the country', an 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 2025'.

Business objectives are typically developed following the acronym **SMART** (Specific, Measurable, Attainable or Achievable, Relevant or Realistic, and Timely or Timebound). To be specific, business must determine what they wish to accomplish and stipulate the steps required to achieve its stated goals.

Goals or business objectives are typically measurable, such as the number of sales or the number of customer complaints. To be attainable and relevant encourages employees to get on board and work towards attaining achievement. Determining a time for completion or success assists in working towards achieving the end result.

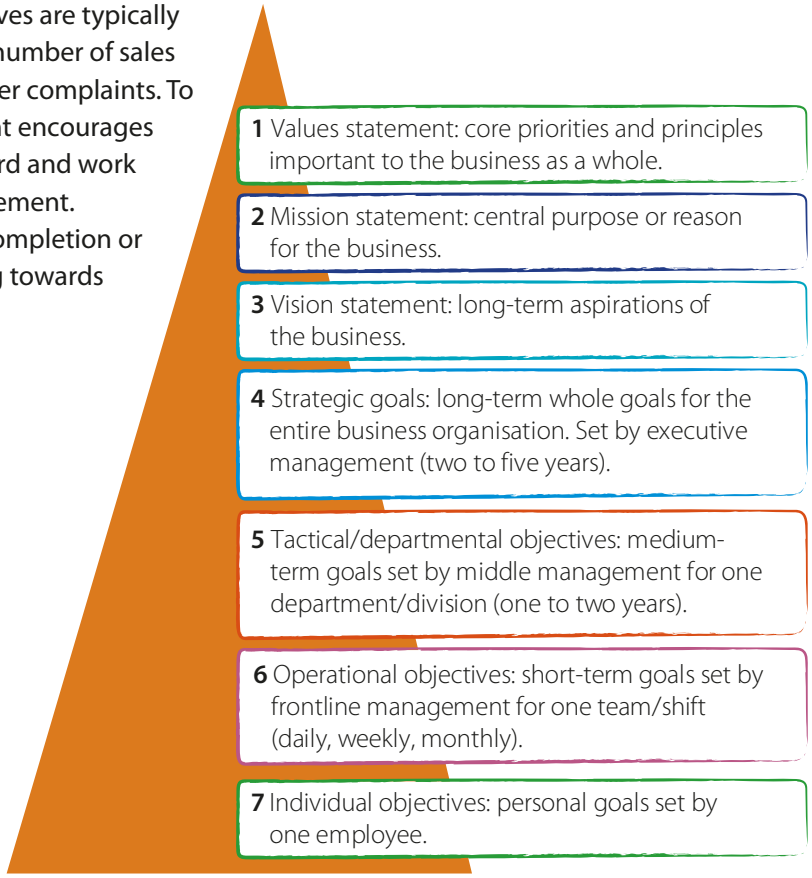


Figure 2.6 The hierarchy of objectives

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

- profit/profitability: targets for levels and projected growth in profit over a period of time
- efficiency: targets for improvements in the relation to the costs of production
- expansion goals: for example, to increase the number of outlets and open up in new markets
- meeting the needs of shareholders who will be most satisfied with increased dividends and improved share prices
- satisfaction levels of both customers and staff: for example, to achieve an annual staff turnover rate of less than 5 per cent
- corporate social responsibility and environmental sustainability goals, as outlined in Case studies 2.1 and 2.2.

Table 2.1 Examples of business goals and related objectives

Business goal	Related objectives
'We seek to be the leading manufacturer and supplier of uniforms in the Southern Hemisphere.'	• To increase sales by 10% annually over a four-year period • To achieve a 30% 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

CASE STUDY
2.2

Ramsay Australia



This case study is available in the Interactive Textbook.

ACTIVITY 2.1

Visit the website of two of the following businesses:

- Telstra
- Westpac
- David Jones
- Rio Tinto.

Locate the mission/vision and values statement. **Identify** the following for each:

a purpose of the organisation
b its basic philosophies and values
c the goods or services offered
d the target market.

REVIEW ACTIVITY 2.1

Part 1: Digital quiz
Please see the Interactive Textbook to access a digital activity.

Part 2: Short-answer questions
Answer these questions on paper or in the Interactive Textbook.

1 **Outline** the steps that can be undertaken in a decision-making process. **Explain** why effective decision-making is important for a business.
2 **Discuss** the differences and similarities between business goals and business objectives.
3 **Identify** and **explain** the relationship/link between business values, mission and vision statements.
4 Classify each of the following as a business goal or a business objective:
   a be the leading producer of hand-held devices in the world
   b increase sales by 30 per cent over two years
   c launch three new product lines by the end of the financial year
   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.
5 **Explain** why goal setting and decision-making are important in a business.

2.2 The importance of business concept development

Learning intentions – at the end of this chapter section I will be able to:	**2.2.1** Describe the process of business concept development
	2.2.2 Explain the importance of business concept development in a business

business concept an idea for a business including the actual product, the target market plus the proposed competitive advantage

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

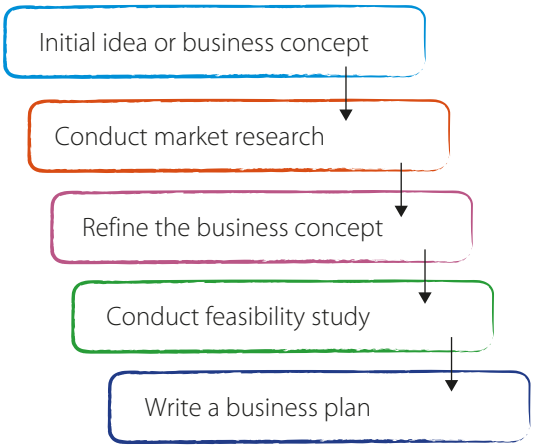


Figure 2.7 The business concept development process

Conducting market research assists in understanding the market, including the competition and the wants and needs of potential customers, and opens an opportunity to refine the original business idea. Results from market research can identify strengths, weaknesses and opportunities that will be useful for considered strategic planning.

viability whether the business is capable of developing and growing

Once an idea for a business has been determined, the products or services identified, and the initial industry research completed, the next stage should be to conduct a feasibility study, which includes an evaluation that considers the 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. Likely risks and rewards in establishing the business and the **viability** of the business need to be assessed through a feasibility study.

The business concept development process is important as it requires a business to thoroughly consider their idea from all angles, meaning that potential problems or difficulties can be prevented or minimised. Further to this, by conducting market research and feasibility studies it also ensures that the idea is in the best position to address consumer wants and sustain its place in the market. In these ways, the process works to give a business the best starting point possible.

REVIEW ACTIVITY 2.2

Part 1: Digital quiz
Please see the Interactive Textbook to access a digital activity.

Part 2: Short-answer questions
Answer these questions on paper or in the Interactive Textbook.

1 **Outline** the business concept development process.
2 **Explain** why business concept development is important for a business.

2.3 The relationship between business opportunities and business concept development

Learning intentions – at the end of this chapter section I will be able to:	**2.3.1** Describe the relationship between business opportunities and business concept development

Business opportunities can arise from a wide range of possibilities by taking advantage of market opportunities, changing customer needs and the pursuit of global markets. Research and development often provide opportunities that lead to innovation. Creating new business opportunities is often exciting, especially for entrepreneurs who have the resources to take risks in what they perceive are opportunities. Developing the business concept is a process that turns the potential business idea or opportunity into an actual business.



Figure 2.8 Market research provides important information and provides an opportunity for further refinement.

To progress from the initial idea to business concept development, market research needs to be undertaken to gain a general understanding of the industry that the business will be part of and to assess if there is a potential market. For instance, a would-be business owner who believes that opening a coffee shop could be a good idea should initially research into the general hospitality and fast-food industry. Following this, more targeted research should be undertaken such as analysing market trends in the cafe industry, 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 and biodegradable coffee pods). The information gained from market research supports the next stage of concept development: the feasibility study.

REVIEW ACTIVITY 2.3

Part 1: Digital quiz
Please see the Interactive Textbook to access a digital activity.

Part 2: Short-answer questions
Answer these questions on paper or in the Interactive Textbook.

1. **Explain** the relationship between business opportunities and business concept development.
2. Which process should come first: the business opportunity or business concept development? **Justify** your response.

2.4 Market research and feasibility studies

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

Learning intentions – at the end of this chapter section I will be able to:

2.4.1 Describe the role of market research and feasibility studies in business concept development



Figure 2.9 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. 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 be attractive to customers or clients?
- Who will be the potential customers or clients?
- Who will be the competition?
- In what potential areas or ways would the business be able to gain a competitive advantage?

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.

CASE STUDY **2.3**

The importance of market research



Market research is the process of gathering, recording and analysing qualitative and quantitative data. This data usually relates to a specific market's characteristics. Market researchers use techniques like feasibility studies, advertising evaluation, customer satisfaction surveys, mystery evaluations, tracking studies and so forth.

It has been established that the majority of product or company failures come from the fact that little to no market research was done beforehand. As it is said, failing to prepare is preparing to fail. So, wherein lies the importance of market research and what are the benefits associated with it?

1 Identifies new products or services

Market research can help you to discover what new products or services the market needs and how you can provide that. Key issues with developing a certain product or services can be identified and it can help you to avoid expensive mistakes with its development. It also helps you establish the factors that are most important to customers and how you can incorporate those factors into what you want to bring to the market.

2 Identifies potential customers

Demographic data such as gender, age, income, occupation and lifestyle can help you to understand your customer base in-depth. If you know what your current customers look like, you can know who to market your products or services to in the future. Marketing to the wrong type of customer can lead to the product performing poorly.

3 Establishes viability of a product or service

If your company is already planning on bringing a new product or service to the market, you need to first establish whether the market is open to it. Will the product be welcomed? Is the product needed by the customers you are targeting? Will it be viable and what is its potential to succeed?

4 Anticipates and discovers future market trends

By knowing your market and the trends that are arising in the future, you can develop strategies that will help you counteract any downward trends that may affect your business. Upward trends can, in turn, be utilised to progress your business.

5 Keeps your company ahead of competitors

Comparative studies are great for tracking the progress of your competitors in comparison with your company's progress. If they are moving far ahead of you, it is a great opportunity for you to learn what they are doing differently to you. Business strategies can be developed to move ahead of your competitors.

6 Helps to understand existing customers

Market research can help you to understand existing customers on a deeper level. Your customers are complex and what they may have needed before may not be what they need now. To be successful you need to check the pulse of your customer base regularly. What are their immediate needs? What are their thoughts on your company and products?

7 Assists in realistic goal setting

Real-time data about your market and your customer base can help set goals that are attainable. If unattainable goals are set, resources will be stretched [and] the business is likely to fail before it's started.

Source: Extracted from information Onsightapp website.

CASE STUDY ANALYSIS

1 **Describe** why market research is beneficial in developing a business concept.

2 Harry and Tegan have come up with a great business idea. They are convinced that creating a new vitamin-infused iced tea will be an absolute winner and are prepared to put all of their life savings into opening up a kiosk near the local train station. They're surprised to hear your suggestion to do some market research.

   a Suggest three reasons as to why market research is valuable in developing their business concept.

   b Predict how the business idea may further develop as a result of market research.

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 profitable. This is known as a **feasibility study**, and this is a crucial aspect of the initial research required to start a business.

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

A feasibility study includes an analysis of factors that are likely to impact the business, such as economic, technological and legal factors. A viable business has the potential to survive and be profitable. 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. The evaluation aspect of the feasibility study will assist in determining if a 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 are for the products to be sold and the 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.
- whether there is a threat of substitute products entering the market in the future
- an assessment of the competition, their strengths and weaknesses and how a competitive advantage might be gained
- an 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
- the personal circumstances of the person driving the business idea, including their financial situation, skill set, expertise and experience in the particular industry, as well as their level of commitment to the business idea
- a brief analysis of the proposed operation.



Figure 2.10 A feasibility study is vital in determining if the business idea is suitable.

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.

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

Protecting intellectual property

Once a business concept and associated original ideas, known as **intellectual property (IP)**, have been created and developed, it is important for the idea to be protected so that others do not copy or take the idea for their own pursuits. This involves registering the original ideas or an idea from the workplace as one's property. Registration of intellectual property must be made in every country where the business intends to trade.

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, shapes, logos, pictures, 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.



Figure 2.11 Without protecting ideas, businesses will not receive the full benefits of their ideas and inventions.

ACTIVITY 2.2

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

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.

REVIEW ACTIVITY 2.4

Part 1: Digital quiz
Please see the Interactive Textbook to access a digital activity.

Part 2: Short-answer questions
Answer these questions on paper or in the Interactive Textbook.

1 **Explain** what market research is. **Discuss** the purpose of market research in developing the business concept.
2 **Outline** the strategies that are used in market research.
3 Why does intellectual property need to be protected? Suggest two consequences that could occur if intellectual property was not protected.
4 **Describe** what a feasibility study is and **explain** why it is important in developing the business concept.



Figure 2.12 Nike secured a trademark for its Air Jordans in June 2021, preventing copies being manufactured by competitors.

Chapter 2 review

Summary

Create your own summary notes for this chapter on paper or in a digital document. A model summary is provided in the Area of Study review chapter for Unit 1 Area of Study 1, which can be used to compare with yours.

Developing clear definitions

By writing a brief explanation of each of the following terms, you will gradually build up a glossary of comprehensive terms for revision. Define these terms in your exercise book.

Key concepts

Decision-making	Business concept development	Goal setting
Mission statement	Vision statement	Values statement
Business objectives	Market research	Feasibility study

Extension questions

Julie and Adam are partners in their business, Chef's Night In: a service business where chefs can be booked to shop, prepare, cook and serve a restaurant-style meal in the comfort of their clients' home.
They have developed a values statement for the business with the guiding principles for Chef's Night In as follows:

- Integrity: to maintain the highest ethical standards and honesty in all our dealings and relationships with employees, customers, suppliers and the community
- Excellence: to use only the best-quality natural ingredients
- Environment: to adopt sustainable business practices
- Social: to strive to improve the quality of life for employees and their families.

1 Referring to the values statement of Chef's Night In, **propose**:
   a a mission statement
   b a vision statement.
2 **Propose** three business objectives using the SMART acronym.
3 Julie believes that Chef's Night In should expand its current services to offer a food box delivery service that contains all of the ingredients plus recipes for customers to cook a delicious meal at home. Advise Julie about next steps that should be followed as she explores the viability of her business idea.

Checklist

The success criteria are linked to the learning intentions from each section of this chapter, and have been written based on the key knowledge and skills of the VCE Business Management Study Design. Completing the linked questions per success criteria will thoroughly prepare you for success in this subject. Fill in, print, or photocopy this checklist and tick the boxes when you have answered the corresponding questions correctly.

Success criteria – I am now able to:		Linked questions	Completed (Y/N)
2.1 The importance of goal setting and decision-making	**2.1.1** Define goal setting and decision-making	Activity 2.1 Case study 2.1 Review activity 2.1: Part 1 & Part 2	Yes ☐ No ☐
	2.1.2 Explain their significance to business	Review activity 2.1: Part 1 & Part 2 (Q5)	Yes ☐ No ☐
	2.1.3 Describe types of goals: mission, vision, values statements and objectives	Activity 2.1 Review activity 2.1: Part 1 & Part 2 (Q2–4) Extension	Yes ☐ No ☐
2.2 The importance of business concept development	**2.2.1** Describe the process of business concept development	Review activity 2.2: Part 1 & Part 2	Yes ☐ No ☐
	2.2.2 Explain the importance of business concept development in a business	Review activity 2.2: Part 1 & Part 2 Extension	Yes ☐ No ☐
2.3 The relationship between business opportunities and business concept development	**2.3.1** Describe the relationship between business opportunities and business concept development	Review activity 2.3: Part 1 & Part 2	Yes ☐ No ☐
2.4 Market research and feasibility studies	**2.4.1** Describe the role of market research and feasibility studies in business concept development	Activity 2.2 Case study 2.3 Review activity 2.4: Part 1 & Part 2	Yes ☐ No ☐

Digital activities

- Access the Interactive Textbook via Cambridge GO to complete a Scorcher timed competitive quiz for this chapter.
- From their Cambridge GO account, your teacher can also assign practice VCAA-style assessment questions with model responses.

CHAPTER 3

Business contributions to society: innovation and entrepreneurship

'It's not about ideas. It's about making ideas happen.'

Scott Belsky (1980–)

About the author:
Scott Belsky is an American entrepreneur, author and early-stage investor best known for co-creating the online portfolio platform, Behance, Inc.





KICKSTARTER ACTIVITY

1 Why is it important for a person to have ideas if they want to start a business?
2 The quote states that it is 'about making ideas happen'. **Explain** why this is important when starting a business.

CHAPTER OVERVIEW

This chapter will examine the contributions that businesses can make to the economic and social wellbeing of a nation. It will also examine the methods used to foster a culture of business innovation and entrepreneurship in a nation, such as government investment in research and development, council grants for new businesses, school-based educational programs and the creation of regional start-up hubs.

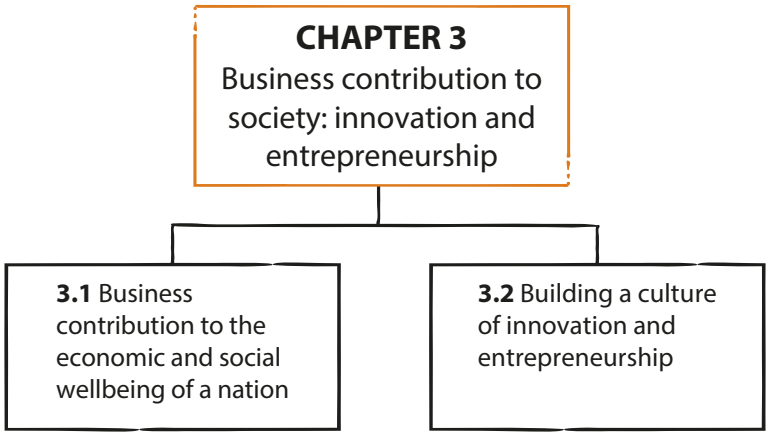
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Key knowledge and learning intentions

Key knowledge	Learning intentions – at the end of this chapter I will be able to:
Examine the contributions that businesses make to the economic and social wellbeing of a nation	**3.1 Business contribution to the economic and social wellbeing of a nation** 3.1.1 Examine, describe and discuss the contribution that businesses make to economic and social wellbeing including: • employment • economic growth • international trade • taxation revenue • infrastructure • research and development • social contribution
Describe 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, school-based educational programs in entrepreneurship, and the creation of regional business start-up hubs	**3.2 Building a culture of innovation and entrepreneurship** 3.2.1 Describe the methods by which a culture of business innovation and entrepreneurship may be fostered 3.2.2 Describe government investment in research and development 3.2.3 Examine council grants for new businesses 3.2.4 Describe school-based educational programs in entrepreneurship 3.2.5 Investigate the creation of regional business start-up hubs

Source: Adapted from VCE Business Management Study Design © *VCAA; reproduced by permission*

What's ahead



3.1 Business contribution to the economic and social wellbeing of a nation

wellbeing businesses contribute to the economic and social wellbeing of a nation. While GDP can be used to measure economic growth, there are also other measures that can be used.

Learning intentions – at the end of this chapter section I will be able to:

3.1.1 Examine, describe and discuss the contribution that businesses make to economic and social wellbeing including:

- employment
- economic growth
- international trade
- taxation revenue
- infrastructure
- research and development
- social contribution

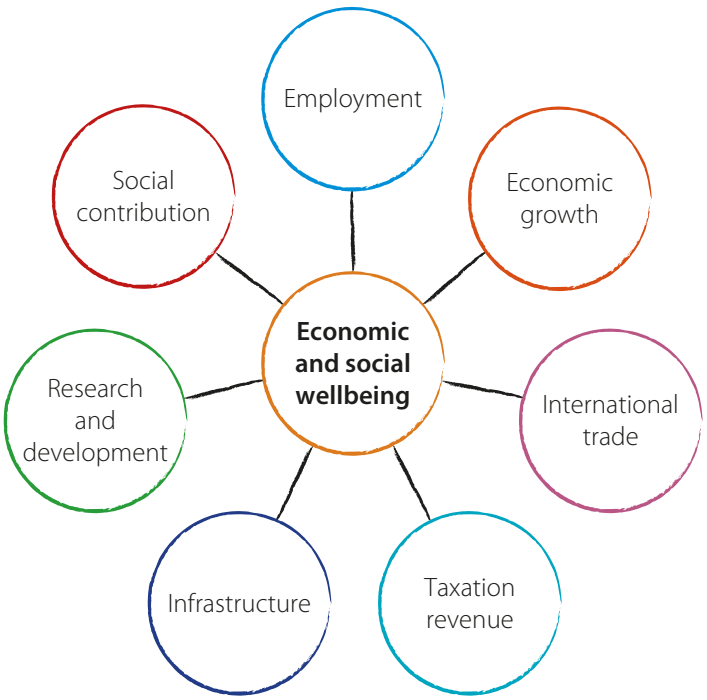


Figure 3.1 Businesses contribute to economic and social wellbeing in many ways.

Businesses, regardless of their size, contribute to the economic and social **wellbeing** of a nation in many ways, as shown in Figure 3.1. Australia's mixed market economy includes both public (government) sector and privately-owned businesses.

Employment

Businesses employ workers and provide them with an income to purchase goods and services. People employed by businesses also produce or deliver goods and services for others. Paid work is important, and employment levels are closely linked to economic growth and living standards. All new businesses, regardless of their size, can make a significant contribution to employment in Australia.

ACTIVITY 3.1

1. Using your favourite search engine, find the latest Australian Labour Force statistics online at the Australian Bureau of Statistics website. **Identify** trends in the employment rate between May 2021 and May 2022 and the current rate.
2. Using the same link that you used in Question 1, answer the following questions:
   a. What proportion of people are employed in full- and part-time work?
   b. Has the rate of unemployment increased or decreased in the past six months? Give one reason why this may have happened.
3. **Describe** the types of businesses that are being started.
4. What industries or sectors are they located in?

Economic growth

Economic growth can be defined as the increase in 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 measurement of the size of the economy of a nation, while economic growth is the percentage increase in GDP year on year. Economic growth is important as it provides an opportunity to improve the living standards of Australians. If the value of production increases each year, then the standard of living of people in Australia will also increase.

If businesses provide a wide variety of goods and services, people in the community will benefit from this. The standard of living will not be as high if there is limited choice and availability of goods and services.

Gross Domestic Product (GDP) the total value of production of goods and services in the economy in a given period of time. Increase in GDP is used to measure economic growth.

CASE STUDY
3.1

Australia and its GDP



In the quarter (3 months) ending June 2021:

- The Australian economy rose 0.7% in seasonally adjusted chain volume measures.
- GDP rose 1.4%.
- **Household saving ratio** decreased to 9.7% from 11.6%.

Source: Extracted from ABS.gov.au website.

household saving ratio is calculated by dividing household savings by household disposable income. A higher household savings ratio indicates households are spending less and saving more. Lower spending typically reduces demand for credit, negatively affecting industry operators.

CASE STUDY ANALYSIS

Visit the Australian Bureau of Statistics website, **examine** the data and answer the following questions:

1. **Outline** the trends in economic growth and GDP since 2020.
2. **Describe** the domestic factors that may have influenced economic growth in Australia.
3. **Analyse** the link between GDP, international trade, private investment and government expenditure.

International trade

International trade is important to a country as it gives businesses and individuals access to goods they may not otherwise be able to purchase, and provides them with revenue for exporting their goods and services. 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, which measures the net movement of money and capital in and out of a country.

international trade the exchange of goods and services between countries. It can be measured through the balance of payments.

imports goods and services that are brought in from another country to Australia to use

exports goods and services that are traded to another country from Australia

It includes total **imports** and **exports**. Over the past few years, the federal government has signed free trade agreements with a number of countries, which mean not taxing or limiting each others goods and services. Such agreements have been signed with countries including China, Japan, Thailand, Malaysia, New Zealand, South Korea and the United Kingdom. Agreements still in negotiation include those with the European Union and India.



Figure 3.2 Importing provides access to more goods and services.

ACTIVITY 3.2

1. Find the DFAT webpage 'Australia's trade statistics at a glance'. **Examine** the trade with different countries and **list** the statistics for each country in order of importance.
2. Using the same page as Question 1, click the 'Top 10 Exports/Imports' tab at the top of the page and answer the following questions:
   a. **Identify** Australia's top three imports and exports.
   b. **Explain** how these goods contribute to the wellbeing of Australia.
   c. **List** the reasons why countries trade with other countries.

CASE STUDY
3.2

Australia's international trade



Video 3.1
Free trade agreements

This case study is available in the Interactive Textbook.

Taxation revenue

Businesses are a source of taxation revenue for the federal and state governments. If businesses make a profit, then they pay company tax and other business-related taxes. This money can then be used by governments to provide infrastructure and services to the population. Many businesses also collect tax, such as the goods and services tax (GST), and pass this on to the federal government. Businesses in Victoria that have a wages bill of more than $700 000 a year pay payroll tax. The rate for metropolitan businesses is 4.85 per cent, with a lower rate for regional businesses.

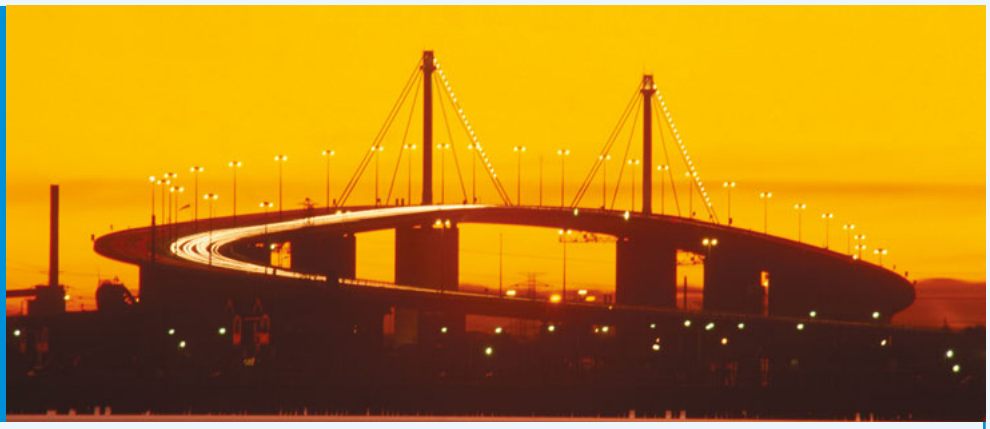
Infrastructure

Businesses all contribute to the provision of **infrastructure** in Australia. Various levels of government provide roads, transport, electricity, gas, internet and other essential services. While governments fund many of these projects, they often need businesses to build them, so governments sign contracts and establish partnerships with the private sector. Many of the new freeways in Victoria, for example, have tolls that go back to the businesses that built them to recoup some of their costs.

infrastructure roads, transport, electricity, gas, internet and other essential services provided by various levels of government

CASE STUDY
3.3

Transurban's partnerships with governments



Transurban manages and develops urban toll road networks in Australia and North America and is listed as a top 20 company in Australia. It partners with governments to provide transport solutions and infrastructure through the management of new and existing road networks and involvement in transport policy debate.

In 2018, it started work on the West Gate Tunnel, a 17km road and an alternative to the West Gate Bridge due to open in 2025.

CASE STUDY ANALYSIS

1. **Identify** and **explain** why it is important for businesses such as Transurban to work with governments on infrastructure projects.
2. **Discuss** the benefits for communities, governments and Transurban in these types of partnerships.

Research and development

research and development new and improved ways to conduct business and develop goods and services to support the standard of living of Australians

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 Chapter 1 for more information on research and development).

Social contribution



Figure 3.3 Businesses often invent and innovate to benefit society.

While many of the benefits already discussed have an economic or financial focus, businesses also contribute to the social wellbeing of a nation. When businesses function, 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 natural and human resources available to all businesses. While increase in GDP can be used to measure economic growth, there are also other measures that can be used to provide a more holistic measure of social wellbeing.

The Organisation for Economic Co-operation and Development (OECD) publishes a survey every year looking at a range of measures of 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)**.

Better Life Index (BLI) a measure established by the OECD that measures the quality of life of countries in a range of economic, social and health areas

Australia's overall wellbeing as measured by the BLI is very strong, relative to most other countries. Australia's civic engagement is top-ranking, and it also enjoys an above-average rating in health status, environmental quality, personal security, jobs and earnings, education and skills, subjective wellbeing (general happiness) and social connections. In general, Australians are more satisfied with their lives than the OECD average. Australia does, however, have a below-average rating in work–life balance, as Australians work long hours when compared to many other countries.

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

ACTIVITY 3.3

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 five of the indicators you have examined.
2. **Identify** and **explain** any areas that may adversely impact on the quality of life of Australians.
3. **Evaluate** how businesses have contributed to these results.

ACTIVITY 3.4



Copy and complete the table below. Some answers have been provided.

Contributions of businesses to the economy		
Contribution	**Positive**	**Negative**
Economic growth	Businesses produce goods and provide services to the economy.	
Employment		When businesses reduce their workforce, this can lead to greater unemployment.
International trade		
Taxation revenue		
Research and development (innovation)	Businesses can encourage employees to discover new ways of doing things, which benefits society.	
Infrastructure		
Social contribution		

REVIEW ACTIVITY 3.1



Part 1: Digital quiz
Please see the Interactive Textbook to access a digital activity.

Part 2: Short-answer questions
Answer these questions on paper or in the Interactive Textbook.

1. Why are businesses important to the social wellbeing of Australia?
2. **Explain** how businesses contribute to research and development and taxation revenue.
3. 'Businesses, regardless of their size, contribute to the economic wellbeing of a nation.' **Discuss** this quote.

3.2 Building a culture of innovation and entrepreneurship

Learning intentions – at the end of this chapter section I will be able to:	
	3.2.1 Describe the methods by which a culture of business innovation and entrepreneurship may be fostered
	3.2.2 Describe government investment in research and development
	3.2.3 Examine council grants for new businesses
	3.2.4 Describe school-based educational programs in entrepreneurship
	3.2.5 Investigate the creation of regional business start-up hubs

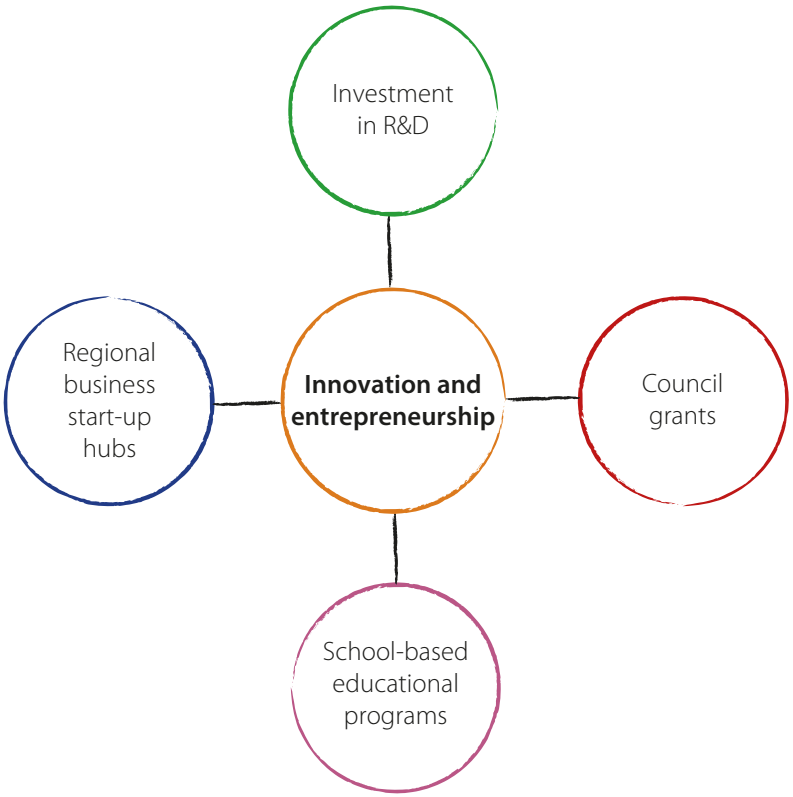


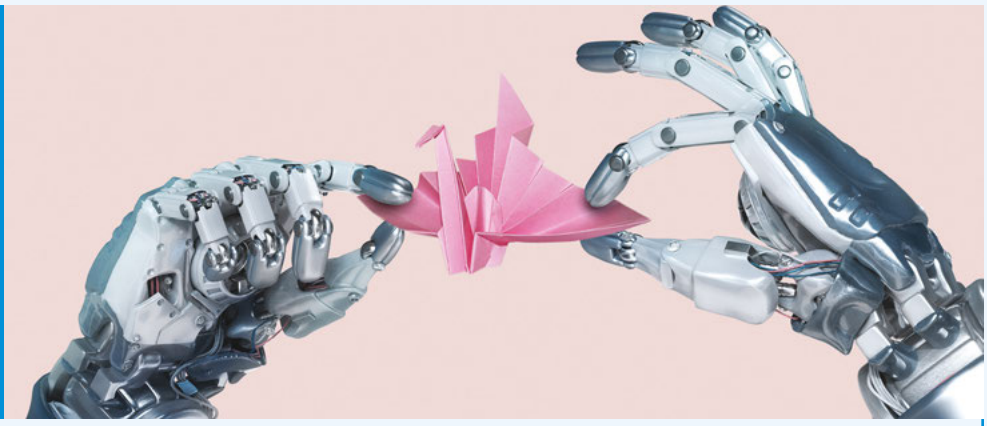
Figure 3.4 There are a number of ways a culture of innovation and entrepreneurship can be fostered.

There are a several ways that a culture of innovation and entrepreneurship can be built and developed.

All businesses need to ensure they develop innovative practices so that they can continue to grow and prosper. A sense of entrepreneurship may also instil a positive corporate culture (the values, beliefs and attitudes of people involved in a business), which encourages employees to take the risk of trying something new and look at ways to continually improve products and processes (see Chapter 2).

Innovation can be defined as an improvement or invention that enhances or extends a business and provides another product or service. Australian businesses and individuals have an excellent record for new ideas and inventions. For example, Australia has invented many important and significant products including the lifesaving reel, the car-like utility vehicle (or 'ute'), the Hills Hoist rotary clothesline, the Victa lawn mower, the black box flight recorder the bionic ear (cochlear implant), the baby capsule for motor vehicles.

CASE STUDY
3.4



Innovation: AI

The pace of innovation is moving at a rate rarely seen in history. The invention of the printing press and the ascension of the internet come to mind as similar inflection (turning) points. Current innovation trends are being driven aggressively by machine learning and artificial intelligence (AI). AI is enabling rapid technology advances in many areas, from personal devices to the data centre and the design of computer chips. At the same time, the demand for intelligent machines and automation is increasing. Examples of AI include driver assist technologies, speech recognition input and smart home technologies.

Many market leaders have demonstrated that innovation can be achieved by combining this with software development and hardware chip-level design.

Companies such as Apple and Tesla have huge resources and big budgets to allow them to develop their own in-house software, such as AI programs, and chips. However, new tools are emerging, bolstered by advances in AI, which allow smaller design teams and budgets to develop their own products.

Sassine Ghazi, President and Chief Operating Officer (COO) of Synopsys, stated that 'Today's technology inflection point is demanding us to rethink design approaches, and ... to drive innovation ... '.

Ghazi also notes that her company is working on harnessing AI to accelerate and automate the design verification and validation process of chips before they are sent to mass production and deployment. 'Validation and verification are great opportunities for machine learning, where the AI can help not only time to market, but also expand the test coverage area, which can be especially critical for general purpose silicon that needs broader confidence in a wider range of applications.'

Source: Extracted from Forbes.com website, 'Future chip innovation will be driven by AI powered co-optimization of hardware and software'.

CASE STUDY ANALYSIS

1 **Describe** why innovation is important for businesses.
2 **Explain** how AI can assist a business in developing new products and services.

Entrepreneurship

Entrepreneurship involves planning, designing, launching and running a business to make a profit. This requires initiative and often involves considerable risk (see Chapter 2).

Individuals, businesses and countries need the right skills to succeed in the global economy. As the economy has changed, knowledge has become increasingly important – successfully acquiring, managing and applying knowledge to business practices is the key to growth. Australia generally performs well in the creation of knowledge when compared to developed countries around the world.

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 greater innovative activity. One way to help Australian businesses to become more innovative and entrepreneurial is for programs and support mechanisms to be established by governmental and financial investors.

CASE STUDY
3.5

Entrepreneurship: Black Soldier flies



In a production facility in a Melbourne suburb, Ms Gardner and her partner and Bardee co-founder Alex Arnold are the custodians of about 1 billion Black Soldier Flies.

These fly larvae work in a vertical farming system to transform food waste into nutrient-rich fertiliser and pet products.

Ms Gardner, a trained architect, and Mr Arnold, an entomologist, have been toying with business ideas to tackle the climate crisis and global food waste. The technology they have developed can transform waste from supermarkets and food manufacturers into new products.

Bardee, which has been quietly operating for the past two years, has swiftly captured the attention of some of the nation's best-known start-up investors. The company has secured money from a venture company. It has continued to grow and aims to grow and move into the global market.

Beyond fertilisers and pet foods, the flies could also become human food in the near future, with the Bardee team anticipating that the Black Soldier Fly will be the next insect approved by food standards regulators in Australia and New Zealand to be sold as a protein product.

Ms Gardner has observed there are 10,000 cities across the world all in need of a more efficient and carbon-neutral way to break down food waste.

Source: Extracted from Emma Koehn, 'It's a bugs life – Aussie startup enlists insect army to tackle food waste', The Age, *18 November 2021.*

CASE STUDY ANALYSIS

1. Why is entrepreneurship important to an economy?
2. **Describe** how this business idea developed.
3. **Explain** how this business idea could support cities and people across the world.

CASE STUDY
3.6

Australia's top 10 young entrepreneurs



Imagine a business operating normally until a large customer puts a major contract on hold and the owners are unsure as to how they will pay their workforce.

Many of Australia's leading young entrepreneurs in the table below faced these very challenges, but were able to survive and often capitalised on new opportunities. The pandemic enabled entrepreneurs to thrive and start new ventures or increase the size of their businesses.

Table 3.1 The top 10 young entrepreneurs

Name	Age	Company
Nick Molnar	30	*Afterpay* This is a 'buy-now-pay-later' company which has grown rapidly since 2020. It has impacted on the way customers buy goods and services.
Cliff Obrecht Melanie Perkins Cameron Adams	34 34 40	*Canva* The move to teams and employees working remotely and looking at new ways to collaborate has seen Canva's platform increase in popularity. The business extended to Canva for Education, which gives classrooms free design tools.
Ruslan Kogan	38	*Kogan.com* With the increased demand and use of online shopping Kogan has been in a position to take advantage of the trend.
Fung Lam	39	*New Aim* This is one of Australia's fastest growing companies and it is revolutionising the way people shop. The company started trading on eBay and has grown into one of Australia's largest dropshipping businesses, interacting with major retailers both on and offline. (A 'dropshipping' company acts as a stock-holding intermediary between the supplier and the customer.)
Larry Diamond	38	*Zip Co* This is another business operating in the buy-now-pay-later sector. It has tapped into the demands and needs of customers who are using this method rather than a credit card. Zip is expanding into the US market.

(continued)

(continued)

Izhar Basha	37	*EHP Holdings, EHPlabs, Blessed Plant Protein, Lust Natural Protein Bars* Izhar was diagnosed with a life-threatening auto-immune disease. He vowed if he survived, he would try to improve the health and wellbeing of others. He set up a small supplements store but became frustrated and started producing products. He has expanded into the US market through The Vitamin Shoppe and has retail stores in Australia and New Zealand.
Anson Zhang Jeff Yu	38 38	*One Stop Warehouse, Discover Energy* This company is a leading wholesale solar panel distributor. It also has customers who sign up for their electricity accounts.
Rael Ross	38	*Butn, Australian Factoring Company* This company can quickly process and give funds to businesses and can be used almost anywhere. It is similar to Afterpay but for businesses.
Dr Sean Parsons	40	*Ellume* The business is able to use nanoparticle technology to detect viruses. The business developed at-home tests which could be purchased over the counter. The technology was developed to detect influenza, respiratory viruses and moved into producing rapid COVID-19 tests.
Carlos Ferri	39	*Zapala Corp, Zapala Go, Zapala People, Zapala Fleet, Shipeezi, Educafy, LIDE Australia, Studio7, Bhold Creative, Referencia Business* These companies operate in the logistics area and Ferri describes them as offering 'brains' for freight forwarding and transport companies.

Source: Extracted from article on Business News Australia website, 'Australia's top 100 young entrepreneurs'.

CASE STUDY ANALYSIS

Examine the examples in the table. To answer the following questions search for information on them from the Internet.

1. Why do you believe these entrepreneurs were successful? What characteristics does an entrepreneur need to have?
2. Find out three pieces of information about one of the successful entrepreneurs (for example, how long the business has been running and whether the business has expanded into other areas).
3. Is there anything the entrepreneurs have in common? If so, what is it?

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

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

council grants funds provided by local councils to businesses and individuals to encourage new businesses to establish and provide employment in the local government area

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.

Government procedures and programs that support entrepreneurial systems result in countries with elevated levels of technological entrepreneurship. For example, the United States, United Kingdom, Israel and South Korea share a number of features, including:

- delivering entrepreneurship in schools and engaging university students in a variety of entrepreneurship offerings
- ensuring that on a national scale, technology entrepreneurship is of significance
- ensuring that entrepreneurs think globally, through including policies that educate and introduce youth to the finest international business ecosystems and cultures.

Singapore invests about $5 billion a year 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.

The Australian federal government has a National Innovation and Science Agenda, which encourages entrepreneurs and innovation in Australia and offers a number of key programs.

The Agenda focuses on four key pillars:

- Taking the leap: backing Australian entrepreneurs by opening up new sources of finance, embracing risk, taking on innovative ideas, and making more of public research.
- Working together: increasing collaboration between industry and researchers to find solutions to real world problems and to create jobs and growth.
- Best and brightest: developing and attracting world-class talent for the jobs of the future.
- Leading by example: the Australian Government will lead by example, embracing innovation and agility in the way we do business.

There are a wide range of different programs, such as advancing quantum computing, data sharing for innovation, cyber security growth centre, and a global innovation strategy.

Source: 'Boosting innovation and science', Department of Industry, Science, Energy and Resources.

The National Innovation and Science Agenda assists innovators with access to funding and provides grants to businesses to develop ideas. It also provides access to networks to support businesses and provides tax breaks to businesses to allow them to invest in research and development.

The Victorian Government also supports businesses to innovate. There are grants and programs available for businesses that establish operations in Melbourne. The 2020–21 state budget supported innovation with initiatives such as Research and Development Cash Flow Loans and the Venture Growth Fund.

Source: 'Incentives, grants and programs', Invest Victoria.

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.

CASE STUDY
3.7

Investment in research and development



Each dollar invested in research and development (R&D) would earn an average of A$3.50 in economy-wide benefits for Australia, according to evidence compiled in a new report from CSIRO.

Many Australians know research and development drives economic growth and improves our wellbeing and prosperity. However, few could describe the size of the relationship between Australia's research and development spending and economic growth, or compare this to performance on other typical investment returns.

Quantum technology and hydrogen industries are examples of future industries that could be unlocked by research and development in Australia. Emerging technologies that could change the way Australians work and live include artificial intelligence and robotics. This is significant, given recent figures from the

Quantifying Australia´s returns on innovation

CSIRO has quantified the relationship between	The most conservative estimates state that
domestic gross expenditure on research and development (**GERD**) and	**$1 of R&D investment** in Australia
GDP per capita growth	creates an average of **$3.50 in economy-wide benefits** in today´s dollars
to estimate the return on investment **(ROI) in innovation** for Australia	and a **10% average annual return**

Figure 3.5 Australia's returns on innovation

Australian Bureau of Statistics show business spending on research and development as a proportion of GDP is just half the OECD average, and the lowest it has been since 2003.

We hope our analysis will raise awareness of the value of this kind of spending, and its importance for Australia's economic recovery and long-term resilience. Investing in innovation now is crucial for the future.

In consultation with government and academic stakeholders, our team at CSIRO Futures, the strategic and economic advisory arm of Australia's national science agency, used a new yet simple economic approach to quantify the return on investment in overall research and development spending for Australia.

By adapting a method originally developed in the US, we calculated return on investment by defining the relationship between domestic gross spending on research and development, and the growth in per capita gross domestic product (GDP) that follows as a result. This method encompasses both successful and unsuccessful research and development investments and quantifies only monetary benefits (excluding non-monetary social and environmental benefits).

Our approach also accounts for delays between research and development investments and payoffs, and for the capital costs of integrating research and development into the economy. For example, an innovation of new computer software must be built into existing computer systems and might therefore take a decade before its use becomes widespread.

Overall, we calculate that $1 of research and development investment creates an average of $3.50 in economy-wide benefits in today's dollars, and a 10% average annual return for Australia.

By removing the considerations of delays and capital costs, we can also calculate an upper boundary on our estimate – that is, the maximum theoretical return on investment barring any hurdles along the way.

This unadjusted result, which does not account for the additional time and costs associated with integrating research and development into the economy, is estimated as creating $20.80 in economy-wide benefits, and a 104% average annual return for every dollar spent on research and development in Australia.

Even with our conservative estimate of $3.50 return on the dollar, the expected benefits of investing in innovation are high compared with many other types of investments. For example, Australia's 10-year government bond returns have historically averaged around 7% per year.

Australia´s returns to innovation estimates	Average economy-wide benefit-cost ratio	Average economy-wide rate of return
Baseline results Unadjusted for delays and capital costs of integrating R&D.	20.8	104%
Delay in R&D benefits realisation Incorporates a 15-year lag between R&D investments and payoffs.	12.7	15%
Embodied capital deepening Assumes R&D must be built into new capital inputs.	4.9	24%
Combined adjustment Delay in R&D benefits realisation (10-year lag) and embodied capital deepening.	3.5	10%

Figure 3.6 Estimates of Australia's returns due to innovation

Private investments in the ASX200 stock index have typically yielded around 10% annually.

Perhaps even more significantly, even our conservative estimate of $3.50 return on investment suggests research and development has a cost/benefit ratio well in excess of $1 to $1. This means there is a strong economic case for this kind of spending.

But research and development investment is risky, right? This may be much less of a problem at a national level. While cost or time overruns are never favourable for any investment, building this uncertainty into our findings shows research and development investment remains economically viable even if this happens.

Results from sensitivity analysis demonstrate that if the costs of research and development spending or delays of payoffs increase by 20%, the most conservative (combined adjustment) results only fall to $3.30 return on investment, with annual yields of 9.5% (at lowest). These are still strong returns.

Our findings imply that so far, Australian innovation investments – whether they be in new products and services or in creating new industries – have been well worthwhile, and that increasing future investment could capture substantial economy-wide returns.

As our estimates only capture the economic benefits of innovation, actual returns are likely to be much higher when also considering the broader social and environmental benefits of Australian research and development.

Source: Katherine Wynn, Jasmine Cohen & Mingji Kiu, 'Every dollar invested in research and development creates $3.50 in benefits for Australia, says new CSIRO analysis', The Conversation*, 22 November 2021. Read the full article on The Conversation: https://cambridge.edu.au/redirect/9895.*

CASE STUDY ANALYSIS

1. **Explain** what research and development is.
2. Give three reasons why research and development is important for the economy.
3. **Describe** some of the future areas or industries where research and development is likely to have the greatest returns for businesses and the economy.

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. The council also provides grants to businesses to support cutting waste, reducing emissions and encouraging more efficient waste solutions to reduce costs and increase sustainability. These council grants are available for start-ups, business growth, and relocation and expansion.

Other opportunities include 'grants and assistance finders' – online tools that help a business owner locate grants. An example of a program for businesses is Grants Victoria, where a business owner can search for government grants and assistance.

The Shire of Nillumbik in Melbourne's north developed an economic strategy to support sustainable economic development. The focus is on creating vibrant activity centres and improve economic development practices.

ACTIVITY 3.6

Go to the website of your local government (city or shire) and **identify** and **describe** one innovation or entrepreneur program offered to businesses in the council area.

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 at universities for business and commerce students.

STEM (Science, Technology, Engineering and Mathematics) jobs are growing almost twice as fast as other jobs. Therefore, it is important that students are able to access programs to support their future careers and business pathways.

By May 2024, the Australian Department of Education, Skills and Employment predicts that STEM occupations will grow by 11.6 per cent (303 200 people), whereas all other jobs are projected to grow at 7.5 per cent (771 800 people) over the same period (DESE, 'Stem jobs growing almost twice as fast as other jobs', 16 January 2020).

To meet the needs of these industries, the federal government has allocated money to support several programs, including:

- Supporting Artificial Intelligence in Schools
- Curious Minds (Summer school for STEM students)
- Australian Digital Technologies Challenges and Dive into Code
- STEM professional partners in schools
- Digital Technologies Massive Open Online Courses
- Digital Technologies in Focus
- Digital Literacy School Grants
- digIT (ICT Summer Schools)
- Science by Doing
- Primary Connections: Linking Science with Literacy
- reSolve: Maths by Inquiry
- Digital Technologies Hub
- resources for teachers, such as access to real data to support student learning through real-life examples
- VET (Vocational Education and Training) – students can be involved in industry-based training as part of their studies.



Figure 3.7 A large number of future jobs will require STEM skills.

Australian schools are also increasingly moving to introduce specialised entrepreneurship programs. In Australia, there are programs such as the Plan Your Own Enterprise (PYOE) competition where students work, either individually or in groups, to develop a business idea; and the $20 Boss Program (Foundation of Young Australians) where students are provided with $20 of start-up money to plan, budget and market their business idea over a month.

Students from every state and territory in Australia can be involved in this in-school challenge.

business hub physical space such as an office where businesses and individuals can meet for work

start-up hubs set up to allow people to use a workspace and network with others when starting up their own business

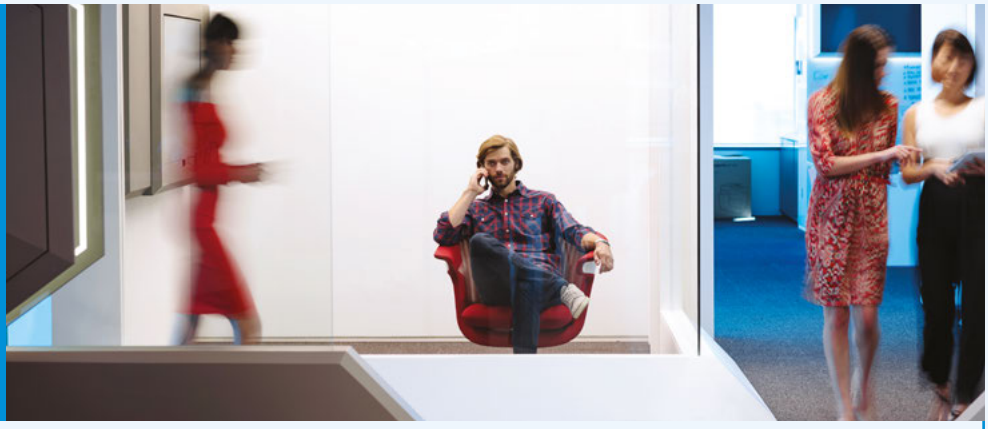
Creation of regional business start-up hubs

A **business hub** can be described as a place where businesses and individuals are able to go for work and networking in shared office space. These spaces can be used for meeting clients, meeting other business people, or accessing technology that might not be possible from home; some hubs also provide child-care services. Sometimes it is as simple as someone wanting a different place to work to get out of the home office space. In many cities in Australia and around the world there are hubs for small businesses to use.

As the economy is changing, the faces of agriculture and regional industries are also changing. Regional **start-up hubs** offer individuals the same opportunities as their city counterparts, such as networking and communication opportunities, particularly when distance can be a limiting factor.

CASE STUDY
3.8

Hub for entrepreneurs: Warrnambool



Budding entrepreneurs now have a place to develop their business idea with the opening of The Hive at South West TAFE.

The new co-working innovation hub allows people to interact, share and build their ideas.

'People who work from home can find it isolating, but in The Hive you have a community and network behind you,' coordinator Mairead Whelan said.

The idea behind the hub is for like-minded people to come together and is open to everyone in the community.

The Hive features a meeting room, hot desks, communal space, a podcast studio, a smart board and a green screen. Desks and spaces are available for hire and the space will host events, workshops, and masterclasses on a range of topics and industries, and can provide support in their fields.

Source: Adapted from Kimberley Price, 'Warrnambool hub for entrepreneurs 'The Hive' opens in South West TAFE', The Standard, Standard.net.au website, 12 March 2020.

CASE STUDY ANALYSIS

1. **Describe** the concept of a 'business hub'.
2. **Outline** the benefits for entrepreneurs of sharing a space.
3. **Explain** why business hubs are being implemented in rural and regional areas in Victoria.

REVIEW ACTIVITY 3.2



Part 1: Digital quiz
Please see the Interactive Textbook to access a digital activity.

Part 2: Short-answer questions
Answer these questions on paper or in the Interactive Textbook.

1. **Describe** why it is important for businesses and governments to promote and support innovation and entrepreneurship.
2. **Explain** why local councils offer programs to support new businesses in their area.
3. **Describe** why STEM is important for the future of the Australian economy.
4. Read the article below and answer the questions that follow.

Elain Younn became an entrepreneur by accident, and it's something that she's since made a habit of doing.

Before setting up her therapy and wellness platform, SoulAdvisor, in 2020, Ms Younn had started four other businesses. Each one was brought into existence as a result of a problem that she had to solve. She started a school, was a property developer and created a not-for-profit organisation to support children and local communities to enable them to sing. She also led the BraveHearts Program, a centre for children with special needs.

'It's important to do something that is from your heart, that you're passionate about. I think, then, everything works out well. It becomes effortless,' she said. 'That's always been my philosophy … you don't have to try so hard and struggle. If it was meant to be, it should be effortless.'

The idea for SoulAdvisor came to her fully formed after she signed up to a two-week sound healing practitioners' retreat in Bali in 2014, having mistaken it as a two-week retreat for consumers.

'I felt compelled to try and create a way to bring this community of practitioners to the world.'

SoulAdvisor was her first foray into creating a purely digital platform. She made multiple attempts to engage various web design agencies, but none of them were building quite what she had in mind. In the end, she decided to hire a team of web designers to build the platform from scratch.

The start-up is now a multimillion-dollar business with a team of 12. It allows people to find practitioners from dozens and dozens of different therapy types according to a person's location, or symptoms.

When the pandemic hit and everyone's mental health plummeted, SoulAdvisor was up for the challenge; three-quarters of the practitioners of the platform offer online services. Ms Younn has set her sights on expanding into the USA and the UK.

Source: Adapted from Jessica Yun, 'Straight from the heart: Mantra of the accidental entrepreneur', The Age, *6 December 2021.*

a **Explain** why Ms Younn set up each of her businesses.
b **Describe** how the SoulAdvisor business was established.
c **Identify** and **explain** three skills she would have needed to establish her businesses.

Chapter 3 review

Summary

Create your own summary notes for this chapter on paper or in a digital document. A model summary is provided in the Area of Study review chapter for Unit 1 Area of Study 1, which can be used to compare with yours.

Developing clear definitions

By writing a brief explanation of each of the following terms, you will gradually build up a glossary of comprehensive terms for revision. Define these terms in your exercise book.

Key concepts

Wellbeing	Economic growth	Gross Domestic Product (GDP)
International trade	Exports	Imports
Infrastructure	Research and development	Better Life Index (BLI)
Start-up hubs	Innovation	Council grants

Extension questions

1 You have been employed as a reporter for Excellence 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, podcast, or video to make your presentation.

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

a 'If you are not embarrassed by the first version of your product, you've launched too late.' – Reid Hoffman, LinkedIn co-founder

b 'If you're competitor-focused, you have to wait until there is a competitor doing something. Being customer-focused allows you to be more pioneering.' – Jeff Bezos, Amazon

c 'Failure is an option here. If things are not failing, you are not innovating enough.' – Elon Musk, Tesla

Checklist

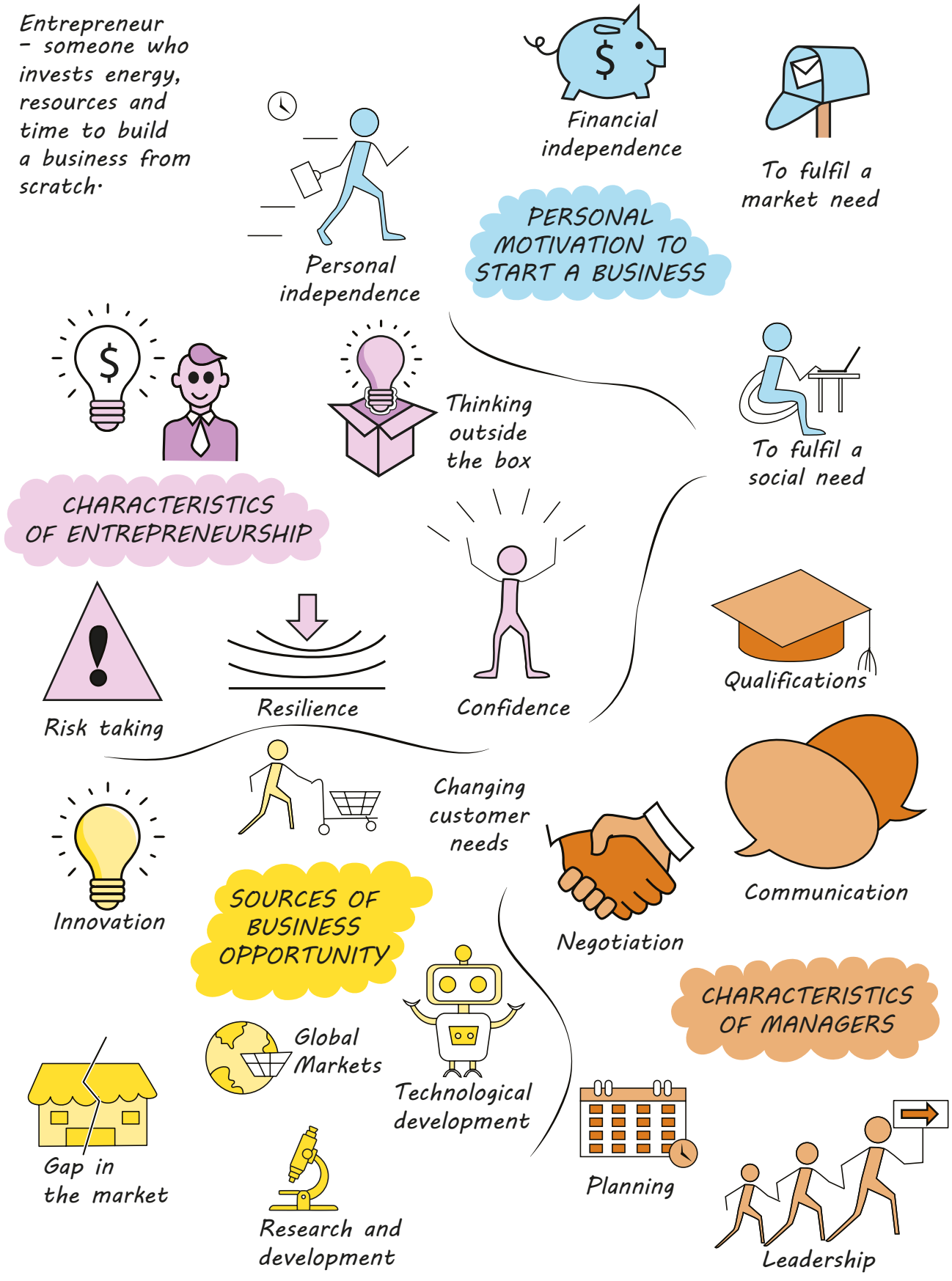
The success criteria are linked to the learning intentions from each section of this chapter, and have been written based on the key knowledge and skills of the VCE Business Management Study Design. Completing the linked questions per success criteria will thoroughly prepare you for success in this subject. Fill in, print or photocopy this checklist and tick the boxes when you have answered the corresponding questions correctly.

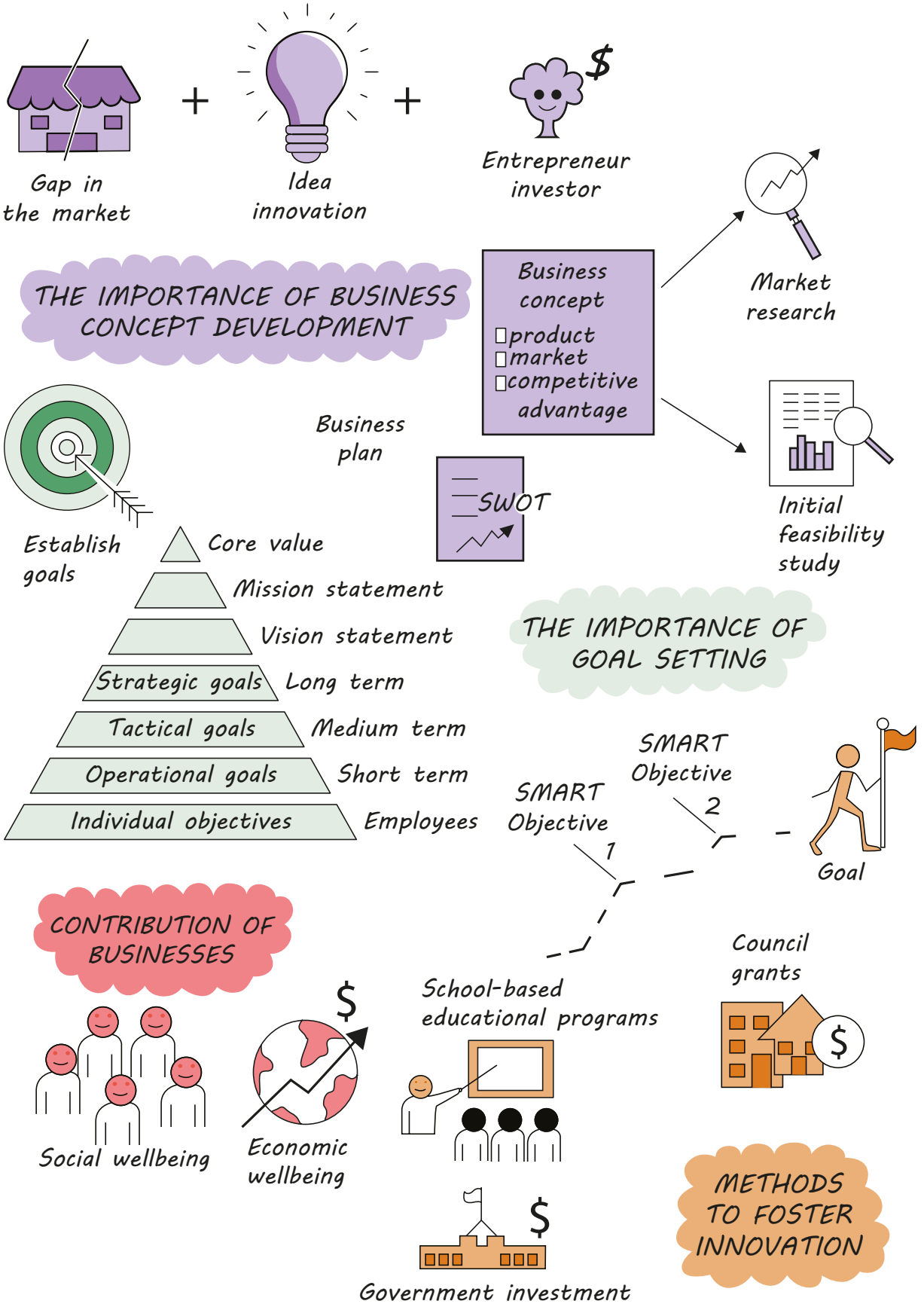
Success criteria – I am now able to:		Linked questions	Completed (Y/N)
3.1 Business contribution to the economic and social wellbeing of a nation	**3.1.1** Examine, describe and discuss the contribution that businesses make to economic and social wellbeing including: • employment • economic growth • international trade • taxation revenue • infrastructure • research and development • social contribution	Activity 3.1 Activity 3.2: Q2 Activity 3.3 Case study 3.1 Case study 3.2 Case study 3.3: Q1–2 Review activity 3.1: Part 1 & Part 2 Extension: Q1	Yes ☐ No ☐
3.2 Building a culture of innovation and entrepreneurship	**3.2.1** Describe the methods by which a culture of business innovation and entrepreneurship may be fostered	Case study 3.4 Case study 3.5 Case study 3.6 Case study 3.8 Review activity 3.2: Part 1 & Part 2 (Q1–3) Extension: Q2	Yes ☐ No ☐
	3.2.2 Describe government investment in research and development	Activity 3.5 Case study 3.7	Yes ☐ No ☐
	3.2.3 Examine council grants for new businesses	Activity 3.6 Review activity 3.2: Part 1 & Part 2 (Q2)	Yes ☐ No ☐
	3.2.4 Describe school-based educational programs in entrepreneurship	Review activity 3.2: Part 1 & Part 2	Yes ☐ No ☐
	3.2.5 Investigate the creation of regional business start-up hubs	Case study 3.8	Yes ☐ No ☐

Digital activities

- Access the Interactive Textbook via Cambridge GO to complete a Scorcher timed competitive quiz for this chapter.
- From their Cambridge GO account, your teacher can also assign practice VCAA-style assessment questions with model responses.

Unit 1 Area of Study 1 review Conceptual summary



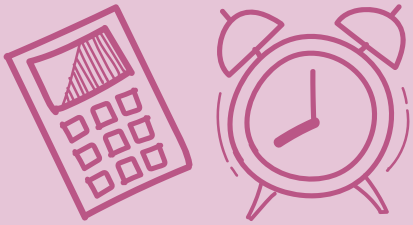

Gap in the market
Idea innovation
Entrepreneur investor
THE IMPORTANCE OF BUSINESS CONCEPT DEVELOPMENT
Business concept
product
market
competitive advantage
Market research
Business plan
SWOT
Initial feasibility study
Establish goals
Core value
Mission statement
Vision statement
Strategic goals
Long term
Tactical goals
Medium term
Operational goals
Short term
Individual objectives
Employees
THE IMPORTANCE OF GOAL SETTING
SMART Objective 1
SMART Objective 2
Goal
CONTRIBUTION OF BUSINESSES
Social wellbeing
Economic wellbeing
School-based educational programs
Council grants
Government investment
METHODS TO FOSTER INNOVATION

Key knowledge summary: Unit 1 Area of Study 1

Key knowledge	Summary
• The concept of entrepreneurship	• Entrepreneurship and entrepreneurs are important for the economy and society as they allow new ideas and can improve the standard of living of many people.
• The personal motivation behind starting a business, such as the desire for financial and personal independence, to make a profit and to fulfil a market and/or social need	• Some reasons why people decide to start a business are: – success and wealth – flexible hours – independence – to be their own boss.
• The characteristics of successful business managers and business entrepreneurs and how these characteristics contribute to business success	• There are a number of characteristics of successful business managers and entrepreneurs including: – risk taking – ability to think 'outside the square' – innovative – resilient – visionary – confident – ability to work independently – able to set goals – flexibility – capacity and drive – ambitious – ethical. • Entrepreneurs have a range of skills: – technical – communication and negotiation – leadership – planning – financial management – marketing – technology.
• Sources of business opportunity such as innovation, recognising and taking advantage of market opportunities, changing customer needs, research and development, technological development and global markets	• Sources of business opportunity include: – innovation – market opportunities – research and development – global markets – technological development – customer needs.



Key knowledge	Summary
• The importance of goal setting and decision-making in business	• Decision-making is an essential skill for successful managers that requires analysing alternatives and making a decision that requires future action. Considering the goals of a business in decision-making assists in the alignment in actions. • All businesses must establish goals to set the direction for the business. There are several types of goals for businesses to establish: – **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 – **vision statement** a statement that outlines the aspirations and values of the business – **business objectives** the steps a business must take to reach its goals.
• The importance of business concept development	• Business concept development is the next step after the business idea is generated and is a process that includes market research and a feasibility study. • Business concept development aims to establish the viability of a business idea.
• The relationship between business opportunities and business concept development	• Developing the business concept is a process that turns the potential business idea or opportunity into an actual business.
• Market research and initial feasibility studies	• Initial market research is essential to gaining an understanding of the industry and potential market. • The next 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.



Key knowledge	Summary
• The contribution that businesses make to the economic and social wellbeing of a nation	• Businesses contribute to the economic and social wellbeing of a nation or country. • Businesses contribute to the economy through: – employment – economic growth – international trade – taxation revenue – infrastructure – research and development. • Businesses also contribute to the general wellbeing of society.
• 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, school-based educational programs in entrepreneurship, and the creation of regional business start-up hubs	• Innovation and entrepreneurial 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 – school-based educational programs in entrepreneurship – regional business start-up hubs.

Source: Adapted from VCE Business Management Study Design © *VCAA; reproduced by permission*

Sample assessment questions and advice

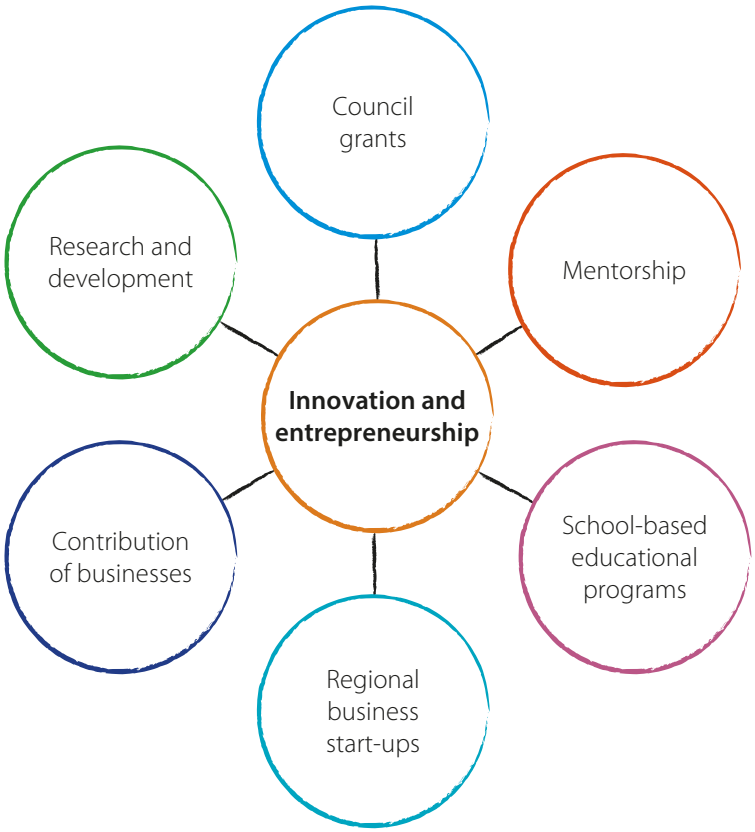
Unit 1 Area of Study 1: The business idea

In this section we will look at some sample assessment-style questions. Although there is no external examination for Units 1&2, the following questions are written in a VCAA-examination style to prepare you for these types of questions, and your school may use exam-style questions in SACs.

There are a number of key skills covered in Area of Study 1. Here we will focus on those covered in Chapter 3, Business contributions to society: innovation and entrepreneurship.

Namely:
- identify business opportunities
- define, describe and apply relevant business management concepts and terms.

Concepts related to innovation and entrepreneurship include:

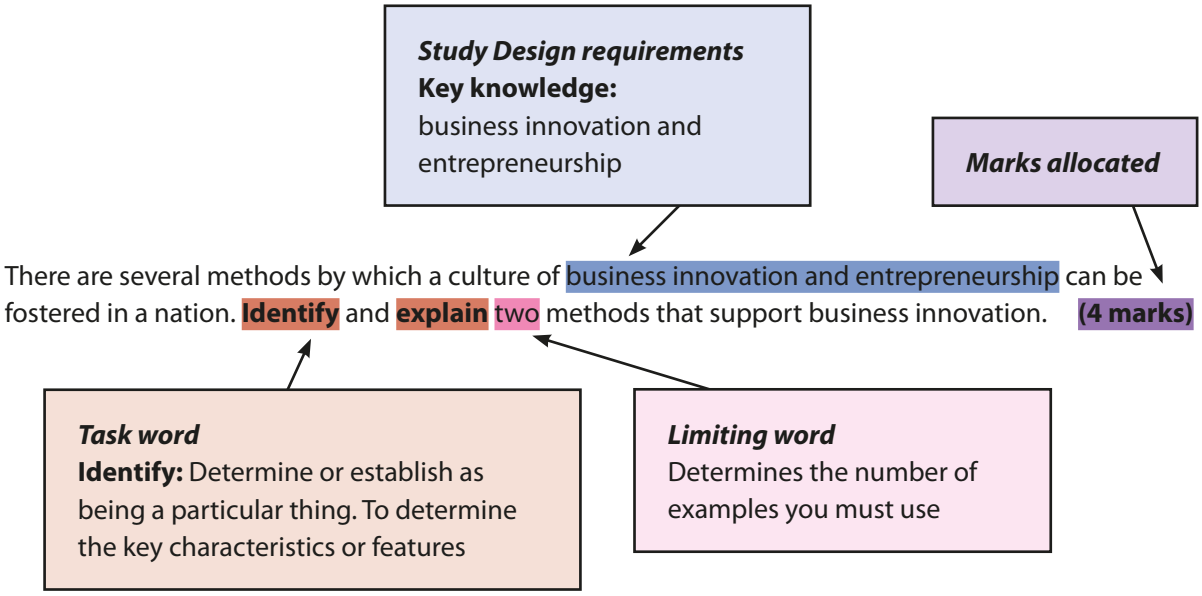


Let's explore how this content might be assessed through the following two example questions.

Question 1

There are several methods by which a culture of business innovation and entrepreneurship can be fostered in a nation. **Identify** and **explain** two methods that support business innovation. **(4 marks)**

Extended response question – let's unpack it



Hints:

- Firstly, you need to **define** the concept of innovation and entrepreneurship.
- **Identify** and **explain** ONE method of innovation or entrepreneurship.
- **Identify** and **explain** a second method of innovation or entrepreneurship that can foster this culture.

A possible answer to the question might be:

Sample response

Innovation and entrepreneurship are important for an economy, and also for businesses, if a country is to remain competitive and achieve economic growth. There are a number of ways entrepreneurship and innovation can be fostered and developed. Two methods include government investment in research and development and school-based educational programs.

Government procedures and programs that support entrepreneurial systems ensure that universities provide programs and technology is developed to support innovation. The federal government has developed a National Innovation and Science Agenda to assist businesses.

Another method to foster innovation and entrepreneurship is through school-based educational programs. These programs run in schools and universities. Programs include competitions for students to enter (and there is also money allocated to STEM and artificial intelligence programs in schools), resources to assist teachers, and Science and Maths programs and competitions.

Marking guide:

Note: there are other methods that could be explained, including council grants, business mentorships and regional business start-ups.

- 1 mark for identification of business innovation and entrepreneurship
- 2 marks for identification and explanation of one method
- 3 marks for identification and explanation of two methods
- 4 marks for identification and explanation of two methods and a link to both innovation and entrepreneurship

Total 4 marks

Question 2

Explain the contribution of businesses to the economic and social wellbeing of a country. **Identify** and **describe** one specific contribution. **(4 marks)**

Extended response question – let's unpack it

Limiting word
Determines the number of examples you must use

Study Design requirements
Key knowledge: contribution of businesses to the economic and social wellbeing of a nation

Explain the contribution of businesses to the economic and social wellbeing of a country. **Identify** and **describe** one specific contribution. **(4 marks)**

Task words
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
Describe: Provide a detailed account of something

Marks allocated

Hints:

- This question asks you to outline the general contribution of businesses to the economy.
- Make sure that you identify and describe just one contribution.
- With your answer, remember to describe the contribution of businesses to the economy. It does not matter which factor or contribution you include.

A possible answer to the question might be:

Sample response

Businesses contribute significantly to the wellbeing of the population. Businesses enhance economic and social wellbeing in a number of ways, such as employment, economic growth, trade and infrastructure.

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 general standard of living and wellbeing.

Businesses contribute to the economy by employing people, and this also 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.

Marking guide:

Note: Other contributions that could be described include economic growth/GDP, international trade, taxation revenue, infrastructure, and research and development.

- 1 to 2 marks for explanation of business contribution to economic and social wellbeing
- 3 marks as above and identification of one contribution
- 4 marks as above and explanation of one contribution.

Total 4 marks



AREA OF STUDY 2
INTERNAL BUSINESS ENVIRONMENT AND PLANNING

AREA OF STUDY DESCRIPTION

The internal environment affects the approach a business takes to planning and the extent to which planning is successful. A business owner will generally have more control over the activities, functions and pressures that occur within the business. These factors, such as business models, legal business structures and staffing, will also be influenced to some extent by the external environment. Students explore the factors within the internal business environment and consider how planning decisions involving these factors may affect the ultimate success of a business, with success being measured by the extent to which business objectives are met within a specific timeframe.

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OUTCOME 2

On completion of this unit the student should be able to describe the internal business environment and analyse how factors from within it may affect business planning.

To achieve this outcome the student will draw on key knowledge and key skills outlined in Area of Study 2. [These are listed at the start of each chapter.]

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CHAPTERS IN THIS AREA OF STUDY	
	4 The internal business environment: planning business structures and models
	5 Resourcing, locating, financing and support services for a business
	6 Business planning and corporate social responsibility (CSR)

CHAPTER 4

The internal business environment: planning business structures and models

'You don't need to have a 100-person company to develop that idea.'

Larry Page (1973–)

About the author:
Larry Page is an American computer scientists and entrepreneur, best known as one of the co-founders of Google.





KICKSTARTER ACTIVITY

1 What does this quote suggest about the development of the business idea for a business?
2 Brainstorm a list of skills and personal attributes that people such as Larry Page are likely to draw upon in the early stages of business development.

CHAPTER OVERVIEW

The internal business environment requires businesses to be focused on balancing the expectations of key players such as employees and shareholders with the strategic direction set by management. Businesses also have to consider a range of factors from the external environment (macro and operating) when planning a business. These factors are important and can be outside the control or influence of a business, and therefore require a proactive or reactive response.

The prospective business owner is required to make numerous crucial decisions before a business actually opens its doors. Owners will need to decide which type of legal ownership structure will best suit. Decisions regarding an appropriate business model must be researched with the final decision being influenced by which model is most likely to generate profit. An additional decision facing many new business owners is to weigh the costs and benefits in choosing whether to start a new business from scratch or purchase an established business.

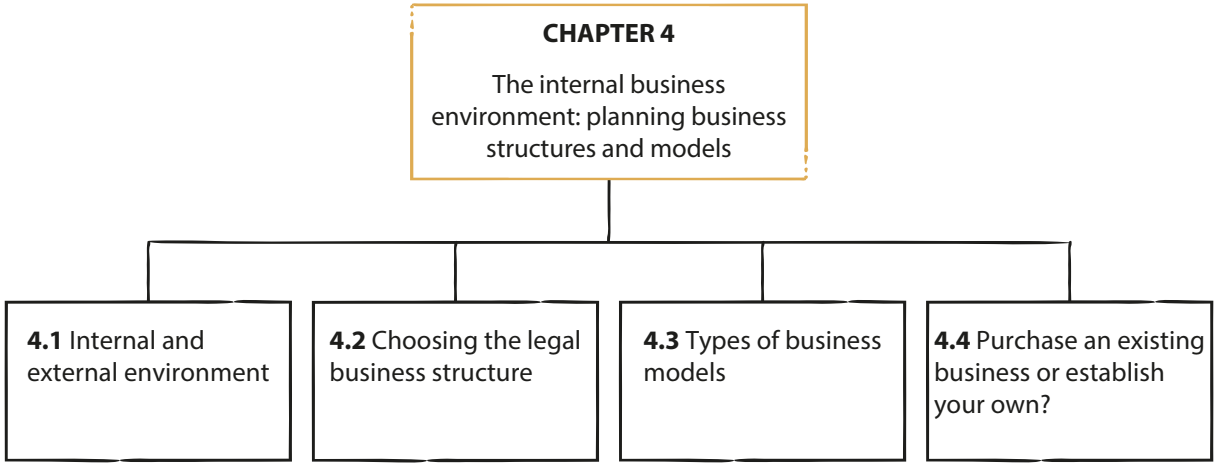
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Key knowledge and learning intentions

Key knowledge	Learning intentions – at the end of this chapter I will be able to:
The relationship between the internal environment and the external environment of a business	**4.1 Internal and external environment** 4.1.1 Define internal and external business environments 4.1.2 Describe the relationship between internal and external business environments
The types of businesses such as sole trader, partnership, private limited company, public listed company, social enterprises and government business enterprises, and the factors affecting the choice of business structure	**4.2 Choosing the legal business structure** 4.2.1 Describe the key characteristics of different types of business structures 4.2.2 Analyse the factors associated in deciding the suitability of a business structure
Types of business models such as online business, direct-to-consumer business, bricks-and-mortar business, franchise, importer and exporter	**4.3 Types of business models** 4.3.1 Describe and compare types of business models available to Australian business
Costs and benefits of purchasing an existing business compared with establishing a new business	**4.4 Purchase an existing business or establish your own?** 4.4.1 Analyse the costs and benefits in purchasing an existing business compared to a new business

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What's ahead



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4.1 Internal and external environment

Learning intentions – at the end of this chapter section I will be able to:	**4.1.1** Define internal and external business environments
	4.1.2 Describe the relationship between internal and external business environments

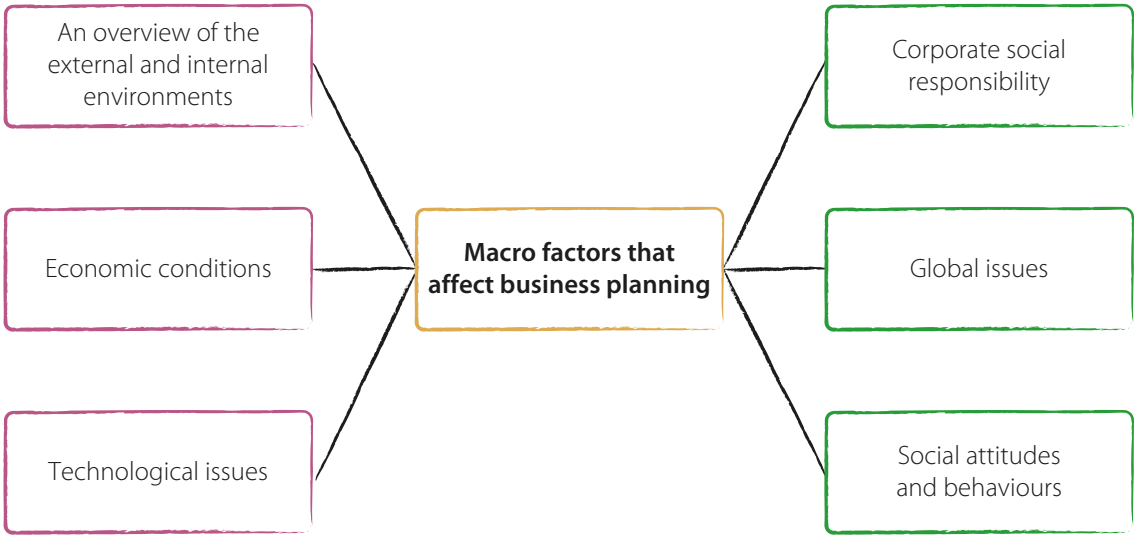


Figure 4.1 Macro factors that affect business planning

All businesses are impacted by a wide range of issues and conditions that they must consider in all areas of decision-making, including strategic planning. It is important to understand the range of conditions and factors that may impact on the development of the business. In understanding these influences, the business can plan appropriate strategies and solutions to meet demands. Businesses that operate in a vacuum by avoiding or ignoring aspects of their internal and external surroundings will inevitably fail, as they need to be responsive to the pressures to understand and successfully work in their context and remain competitive.

internal environment comprises all of the elements within a business

stakeholders people who have a vested interest in a business

The **internal environment** comprises all of the elements within the business. The legal business structure, the selected business model and corporate culture that establishes employee behaviour are part of the internal environment. **Stakeholders** who have a vested interest in the business are also part of the internal environment – these include shareholders, management and employees:

- Shareholders – exert pressure to maximise the dividend benefit and increased share value of their invested shareholding
- Management – are instrumental in determining the strategic direction of a business with a focus on meeting business objectives
- Employees – receive financial benefits as a result of working for a business. They aim to negotiate improved pay and conditions in exchange for their productive and skilled efforts in supporting a business to meet its objectives.

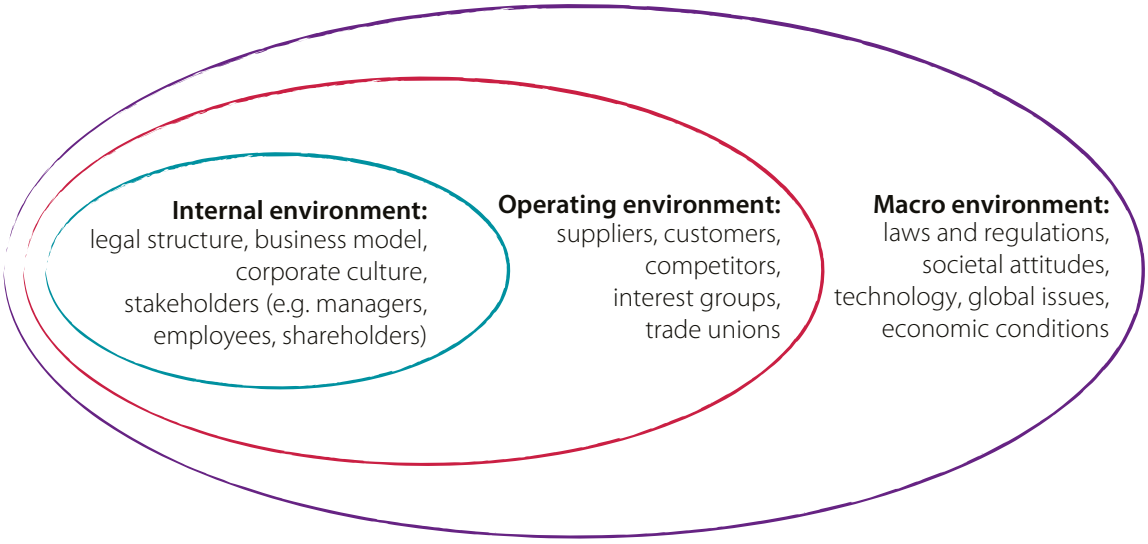


Figure 4.2 Part of good management is possessing high-level knowledge and skills about the business and a solid understanding of the operational and macro environments in which the business must compete.

The **external environment** consists of both the operating and macro environments. The **operating environment** has a great deal of interaction with the internal environment. Both environments may exert pressure that impact each other to react and introduce change in response to meeting expectations. The operating environment includes the following:

- Customers – expect quality goods and service, and for a business to be operating in a socially responsible manner.
- Suppliers – businesses that supply the required materials and components to a business. They must be reliable or jeopardise their own business as well as those to whom they supply.
- Competitors – add pressure in terms of innovation, differentiation, quality and price to businesses within their market.
- Interest groups – groups of people with a special focus that aim to influence businesses and governments to adopt the measures they are seeking.

The **macro environment** consists of elements external to the business which impact the internal environment and those in direct relation to the business. Factors such as changes to the law, shifts in societal attitudes, changes in technology and the economy are examples that impact a business. Unlike the operating environment and the internal environment, the business has no control over the macro environment and needs to determine if the business will take action that is reactive or proactive. The pressing factors of the external environment should not be overlooked in business planning. The macro environment includes the following:

- Laws and regulations – federal and state laws that require businesses to follow and enforce, establishing consistent requirements to protect employees and consumers.
- Economic conditions – positive economic conditions impact on consumer behaviour and, as a result, impact the potential to make profit for a business.
- Societal attitudes – businesses need to respond to changing views in order to keep competitive and meet the demands of customers as well as creating the opportunity to increase sales that will raise profits.
- Technological issues – challenges relate to meeting rapid changes and balancing the potentially high costs of implementing new technologies impacting on profit.
- Global issues – as businesses move to source new opportunities globally, they are confronted with a new range of issues that must be navigated.

external environment consists of two environments, the operating and the macro environment

operating environment the environment immediately external to a business

macro environment consists of factors directly affecting businesses that are outside their control

CASE STUDY
4.1

How much longer do we need to wait for Australia to implement a sugary drinks tax?



Given the strong evidence linking sugary drink consumption with tooth decay, weight gain, increased risk of developing obesity and type 2 diabetes, the Australian Medical Association (AMA) supports the introduction of a sugary drinks tax.

The AMA proposed tax is in line with international evidence that sugary drink taxes are most effective when the tax rate is based on sugar content. Consumers are more likely to change their purchasing habits to healthier, lower sugar drinks at the same time that manufacturers reformulate their products to avoid a higher tax rate.

Some would argue that the failure of the Australian federal government to introduce a sugary health tax is placing corporate interests ahead of public health. However, the AMA claims that the impact on Australia's sugar industry would be minimal as 80% of Australia's domestic sugar production is exported.

Source: Abridged from Gary Sacks, 'How much longer do we need to wait for Australia to implement a sugary drinks tax?', The Conversation, *10 June 2021. Read the full article on The Conversation: https://cambridge.edu.au/redirect/9896.*

CASE STUDY ANALYSIS

1. **Identify** which external environment the AMA is a part of. **Explain** why the AMA is regarded as influential.
2. **Identify** which external environment the Australian government works in. Propose why the AMA is seeking action from the federal government.
3. **Identify** the groups that will be impacted should a sugary drink tax be introduced.
4. **Discuss** the advantages and disadvantages for the introduction of a sugary drinks tax on the internal and operating environment.

REVIEW ACTIVITY 4.1

Part 1: Digital quiz
Please see the Interactive Textbook to access a digital activity.

Part 2: Short-answer questions
Answer these questions on paper or in the Interactive Textbook.

1. **Describe** the relationship between the internal and external business environments.
2. **Distinguish** between the operating and macro environments.
3. For the following scenarios, **identify** two stakeholders from each of the three business environments and **outline** the potential impact on the business:
   a. Young and Co Real Estate in Shepparton
   b. The Provincial Hotel in Ballarat
   c. Robert Gordon Pottery in Pakenham
   d. Bega Cheese located in Bega.

4.2 Choosing the legal business structure

Learning intentions – at the end of this chapter section I will be able to:	**4.2.1** Describe the key characteristics of different types of business structures
	4.2.2 Analyse the factors associated in deciding the suitability of a business structure

The decision to determine the most suitable business structure will affect day-to-day operations, taxes and personal liability. Legal structure will impact business goals and affect the ability to raise funds. 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.

Choosing wisely may avoid difficult situations and decisions in the future. Some businesses may change their legal structure depending on the growth of the business and change business goals to accommodate continued growth.

sole trader an individual who exclusively owns and runs a business and retains all profits, but who is responsible for all losses and legal aspects of the business

unlimited liability full liability of owner (if their business fails) to the extent that their personal assets could be seized to pay debts

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 usually the most affordable form of business structure to establish. A **sole trader** (also called a sole proprietor) 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.



Figure 4.3 A sole trader has more independence but carries more risk.

Partnerships

partnership a legal form of business ownership where two or more people (partners) work together

general partnership where 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

partnership agreement a formal document that outlines the duties and responsibilities of the parties to a partnership

A business **partnership** combines the expertise and resources of between two and 20 people. Each partner is jointly liable for all debts incurred by the business, meaning they have unlimited liability.

There are two forms of partnerships:

- **general partnership**: all partners are deemed to hold equal responsibility regarding business management, and all hold unlimited liability for obligations and debts
- **limited partnership**: liability of one or more of the partners is limited. These limited partners are often referred to as a 'silent partner', as they provide financial input into the business but do not actively participate in the business operations.

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. 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 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. 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.

Figure 4.4 A business partnership is usually set out in a partnership agreement.



ACTIVITY 4.1



Rithvik, Jason and Omar are intending to enter into a business partnership. They are going to establish a driving school.

Rithvik 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. Jason will contribute 20 per cent of the capital. He will work part time in the business as the financial officer. Omar is not intending to work in the business, but will contribute 30 per cent of the working capital.

Suggest what should be included in the agreement in each of the following categories, and **justify** your answers:

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.

Company

Another legal business structure to consider forming is a **company**, otherwise known as **incorporation**. Companies have their own independent legal entity, separate from their owners. They are formed according to legislation and are registered with the Australian Securities and Investments Commission (ASIC). The owners of a company are referred to as **shareholders** and appoint company directors to manage the company.

A company structure offers the protection of **limited liability**, whereby liability of the shareholders is limited to the value of their shareholding. Unlike a sole proprietorship or partnership, a company has perpetuity. In other words, the company will continue to exist despite directors who may leave or possibly die while working in their position.

There are two forms of company: private and public. Each is discussed on the following page.

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

incorporation the process in which a business or corporate entity is legally declared separate from its owners

shareholder owner of a company

limited liability where shareholders are only personally liable to the level of their original investment in the company

ACTIVITY 4.2



Data from the Australian Bureau of Statistics, which counts the number of Australian businesses, found that in 2020–21 there was a 3.8 per cent increase in the number of businesses. This included a 15.8 per cent entry rate and 12 per cent exit rate.

The number of new businesses started in 2020–21 was 356 480, higher than it has been in the past three years, and up from a low of 336 499 new businesses in 2019–20. At the same time, there were 277 674 business exits in 2020–21, the lowest it has been in three years, since 2017–18 recorded 273 237 exits.

Source: Australian Bureau of Statistics website.

1. ABS data finds that the number of registered Australian businesses grew during the COVID-19 epidemic. Suggest two possible reasons for this to occur.
2. **Propose** one reason as to why the number of business exits declined during the same time.
3. **Propose** two benefits to the Australian economy as a result of less businesses shutting their doors while more businesses are starting.

Private company

private company a company where the shareholding is limited with shares being sold privately

public (listed) company a larger company with unlimited shareholders; shares are freely traded on the stock exchange

The main feature of a **private company** is that it is restricted to a maximum of 50 shareholders and these 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, but not always, family companies.

Public (listed) company

Larger companies are usually **public (listed) companies**. These have an unlimited number of shareholders. Other features are that a company initially issues a prospectus inviting the public to purchase shares. The shares are freely traded on the stock exchange. In contrast with a private company, public companies can be recognised by only the word 'Limited' (Ltd) after their name, showing that they offer limited liability to their shareholders. Public companies are also legally obliged to publicly report on their activities.











Figure 4.5 Public listed companies, such as those shown above, are identifiable by the letters 'Ltd'.

Table 4.1 Features, advantages and disadvantages of ownership structures

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 • 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 • Has an ABN • Operates under an RBN	• 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 • Potential for disputes and personality clashes

(continued)

Registered Business Name (RBN) a trading name under which a person (sole trader) or partnership conducts its business or trade

Australian Business Number (ABN) an 11-digit identifier of a company

Australian Company Number (ACN) a nine-digit number to be used on a company's common seal and all public documents involving the company

(continued)

Public company (Limited or Ltd)	• Unlimited number of shareholders • Shares can be bought and sold on stock exchange • Has an ABN and ACN • Regulated by ASIC	• 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)

accountability the extent to which a business takes responsibility for its actions and is willing to reveal its actions and processes in a clear, transparent manner

CASE STUDY
4.2

Alcohol-free start up: 'too good to be wasted'



The origin story of alcohol-free start-up Heaps Normal begins, ironically, over a round of beers.

It was November 2019. Heaps Normal chief executive Andy Miller, then working as a marketing consultant, was catching up with friend and graphic designer Peter Brennan, lamenting lack of availability of quality non-alcoholic beer. Miller says, 'People associated non-alcoholic beer with this kind of watery, malty, very sweet beverage that didn't resemble beer at all.'

So, the pair decided to have a crack at making their own. They called on brewing expert Ben Holdstock, who was excited by the challenge. Next came Jordy Smith, a professional surfer who wanted non-alcoholic options when he was off the booze during training season.

Miller and his fellow founders weren't just trying to launch a new product in a crowded market of beloved brands: they were gently challenging the consumption of alcohol altogether by suggesting an alternative. 'Beer doesn't have to mean alcohol. Beer doesn't have to mean getting wasted,' Miller says. 'Beer can also taste great without having those side effects.'

The name Heaps Normal points to this mission of normalising drinking without getting drunk in the very social contexts where having a good time entails having a cold one in hand. 'All those activities you'd normally associate with alcohol … music, going to the pub, watching a sports game… we saw the opportunity to create a brand that we were proud to take to a barbeque or a standard gig.'

Rewriting the recipe

Heaps Normal brews beer with none of the alcohol using the same four ingredients as traditional beer (water, malt, yeast and hops). But all the details in the 15-step process had

to be changed to ensure the end product tasted like beer but without any alcohol. It took Holdstock and the team six months to brew and perfect a winning formula that would pass the pub test – literally. When food writers, brewers, bartenders and friends from the industry sampled Heaps Normal, only one in ten guessed that the brew was non-alcoholic.

Two and a half years later, the quartet has grown to a team of 20 that Miller oversees from his new base in Bangkok, Thailand. Heaps Normal has catapulted into a $57.5 million business with over 2000 wholesale customers.

Source: Adapted from Jessica Yun, 'How Heaps Normal CEO Andy Miller is brewing change in beer culture', The Age, *25 April 2022.*

CASE STUDY ANALYSIS

1. **Outline** the gap in the market identified by the founders of Heaps Normal and explain why this has become a profitable opportunity.
2. **Propose** and **justify** the likely legal business structure of this business.
3. a **Identify** one potential issue of this business structure that may impact Heaps Normal.
   b **Propose** one strategy that the owners could implement to assist in overcoming this issue.
4. **Identify** three elements in the operating and macro environments that impact Heaps Normal.
5. Select your preferred search engine and research how the business has continued to develop.

ACTIVITY 4.3



Construct the following table in your notebook and complete it:

	Private company (Pty Ltd)	Public listed company (Ltd)
Features		
Differences		
Similarities		

REVIEW ACTIVITY 4.2



Part 1: Digital quiz
Please see the Interactive Textbook to access a digital activity.

Part 2: Short-answer questions
Answer these questions on paper or in the Interactive Textbook.

1. **Distinguish** between limited and unlimited liability and provide two examples of business structures for each type of liability.
2. **Compare** the features of a sole trader business to a partnership.
3. Suggest and **justify** the most appropriate method of entering into business for each of the following:
   a Zaynab has a limited budget but plans to run a small cafe in her local area despite several other cafes that are already established.
   b Jordan has developed an innovative new product that he intends to market.
4. **Identify** the ownership structure of each of the following businesses and **justify** your response.
   a Lim's Kitchen Pty Ltd
   b Iman and Thomas Kitchens
   c Rosie's Cupcakes
   d Northeast Ltd.

4.3 Types of business models

Learning intentions – at the end of this chapter section I will be able to:	**4.3.1** Describe and compare types of business models available to Australian business

business model the plan implemented by a business to generate revenue and make a profit

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 how revenue will be generated and expenses incurred, as well as the components and functions of the business. An original or unique business model, or a variation on an existing one, can become a competitive advantage.



Figure 4.6 e-commerce is on its way to replacing traditional bricks-and-mortar businesses.

Online business models

Business enterprises with no physical presence that conduct business via the internet have become commonplace. Businesses in virtually every sector of the economy now rely on the internet in some form in order to reach customers, promote products and widen their customer base.

There are seven main **online business** models.

online business a business that conducts activities via the internet

brokerage the activity of buying and selling foreign money, shares in companies, etc.

1. *Direct to consumer or merchant model:* This model involves a business making direct sales to consumers via the internet in lieu of a bricks-and-mortar store. Amazon and most retail operations use this model.
2. *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.
3. *Affiliates model:* This model rewards the owner of a website every time a user clicks on a promotion and purchases a product.
4. **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.
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 Nine Publishing (*The Age*) use this model.
6. *Information model:* This model involves a website charging for information. Some digital academic journal libraries charge per article, for example.
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.

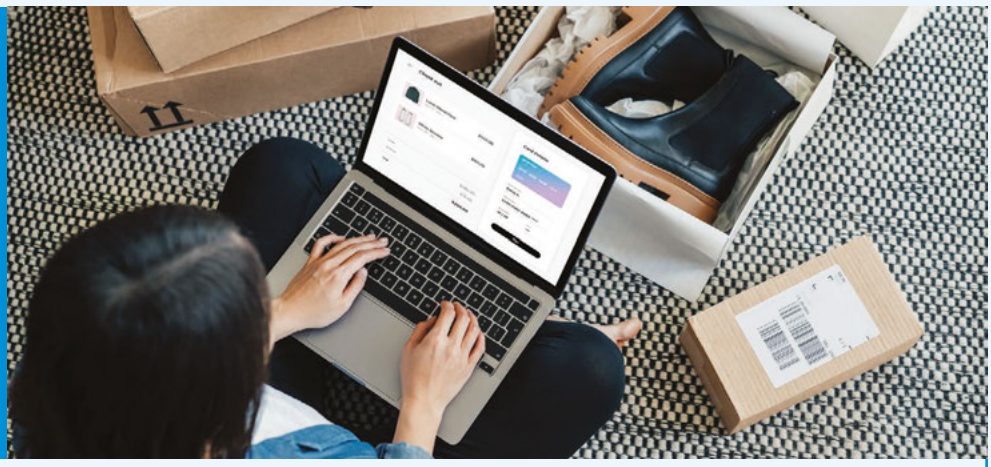
ACTIVITY 4.4

Go to the website of each of the following companies. Classify each according to the online business model/s used.

Kogan	Gumtree	YouTube
Twitter	Facebook	LinkedIn
My Careers	eBay	The Age
Wikipedia	Catch	Airbnb
Uber	Candy Crush	Netflix

CASE STUDY
4.3

Australian online shopping statistics that you should know



Few of us would have thought twenty years ago that the idea of logging onto a computer, finding a product to purchase, submitting your credit card details and to have the product delivered to your doorstep in just a few days would be possible. And yet here we are, with over 85 per cent of Australians on the internet and over 12 million Australians using social media.

Here is what has been happening:

- Global e-commerce sales reached $4.5 trillion in 2021.
- The online shopping industry has grown dramatically over the past five years due to changing consumer attitudes, where advertisers have benefited from consumers seeking variety and value in their purchases.
- More than 30% of Australian shoppers have tried new brands, and more than 20% have tried new retailers, stores and online shopping websites since the start of 2020.
- Nearly half of small businesses in Australia have pivoted their approach to business in response to the pandemic, with a distinct shift towards online to maintain market share.

The COVID-19 pandemic significantly boosted revenue growth, market share and sales for online retailers. The transition to online shopping has underpinned many of these developments – be it the change to remote work or the purchasing of online grocery and consumer goods. Even with retail sales rising

by 9% year-on-year from July to December 2020, more time spent at home due to the pandemic has accelerated the decline of bricks-and-mortar stores and the growth of e-commerce stores.

Source: Adapted from Commission Factory website, 'The Top E-commerce Australia Statistics for 2021 and Beyond', 3 May 2021.

CASE STUDY ANALYSIS

1. **Describe** the impact of the COVID-19 epidemic on consumer behaviour.
2. Do you think that bricks-and-mortar businesses will recover from the negative impact of the epidemic? **Justify** your response.

Table 4.2 Advantages and disadvantages in selecting an online business model

Advantages	Disadvantages
Offers an easy and instantaneous connection with customers, suppliers and other stakeholders. In effect, the business can operate 24 hours a day worldwide.	A personal relationship is usually not developed between buyers and sellers. As a result, repeat customers are more difficult to maintain.
Promotion and marketing are usually cheaper and accessible to a wider global market.	Costs of planning, designing, securing and maintaining a professional e-commerce website are considerable.
Costs/overheads are significantly less. There is no need to pay for premises, and overhead costs, such as bills and insurance, are less.	Customers may be reluctant to purchase online as they are unable to physically handle or try the products before purchase.
It is easy to keep track of competitors and change prices to match them.	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.

Bricks-and-mortar business model

bricks-and-mortar business a business with a physical presence such as a shopfront or an office, and involves face-to-face interaction with customers

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.



Figure 4.7 Online businesses are increasingly creative in their attempts to personalise their business to establish their customer base.

Table 4.3 Advantages and disadvantages in selecting a bricks-and-mortar business model

Advantages	Disadvantages
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.	Shopping is less convenient for customers with busy lifestyles or those who live in remote locations.
Customers can see, touch and try products before purchase.	There can be limitations in relation to the customers that are likely to go in store; i.e. a limited reach.
A physical presence with identifiable buildings and location makes it easier to build a trusted brand.	A wider range of stock can be provided online due to lower storage costs.
Customers get instant gratification, which also encourages impulse buying.	The potential market is smaller with higher overheads.

Combining models

Many businesses that have been trading using a traditional bricks-and-mortar business model before the development of the internet 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 shopfront and have always solely operated using an online model are often referred to as **e-commerce businesses**.

clicks-and-mortar business a business that has previously traded using a bricks-and-mortar business model and that has adopted online services and sales in addition to their traditional model

e-commerce business a business that has never owned a physical shopfront, and has always operated only online

Social enterprise model

A social enterprise often 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 existing. 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 4.8 Mildura Chocolate Company uses a social enterprise employment model aiming to increase community awareness and understanding of employees' abilities in place of focusing on their disabilities.

There are approximately 4000 social enterprises in Victoria contributing over $5.2 billion each year and employing thousands of people. Over 70 per cent of social enterprises operate as small businesses in service industries.

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. Fairtrade 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.

ACTIVITY 4.5

1. Classify each of the following social enterprises as one of the categories of social enterprise (employment, goods and services, investment or hybrid):
   - a CERES
   - b PonyUp for Good
   - c STREAT
   - d MADCOW Community Enterprises
   - e Mildura Chocolate Company
   - f Thankyou Group
   - g Etiko
   - h Cargo Crew.
2. Select one of the above social enterprises and undertake some online research to find out how the social enterprise first began and how it has developed in recent times.

CASE STUDY
4.4

Aussie toilet paper subscription start-up Who Gives a Crap donates $5.85 million to charity



This case study is available in the Interactive Textbook.

Franchise model

Australia is second in the world in franchising outlets per capita, with almost 90 per cent of these franchises being Australian developed. Australia has over 1000 franchises and close to 70 000 franchise units that contribute $128 billion dollars to the Australian economy.

A **franchise** 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 their reputation. The franchisee is basically paying for the right to replicate another business in its entirety. Usually, a one-time franchise fee is paid by the franchisee as well as a royalty – a percentage of sales revenue. In return, the franchisee then receives immediate name recognition, familiarity through décor and design, reliable and tested products, marketing, employee training, and ongoing support 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 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:

- an initial, upfront fee
- a percentage of sales income each month
- a regular advertising and marketing fee.

franchise where a business owner (franchisor) grants another (franchisee) the right to use their trademark or trade name, business systems and processes

franchisee an individual who opens what might be viewed as a branch of a company, purchasing the right to use trademarks, associated brands and access to proprietary information and strategy

franchisor the company or individual owning/controlling the rights to grant franchises to potential franchisees

franchise agreement a legal document that outlines the rights and responsibilities of the franchisor and franchisee



Figure 4.9 Some well-known franchises

Table 4.4 Advantages and disadvantages of owning a franchise

Advantages	Disadvantages
Significantly reduced risk of business failure	Far less independence – in effect, a franchisee performs the role of manager rather than owner
Avoidance of the franchisor's initial mistakes	A franchise owner is not able to utilise their own ideas
Opportunity to access franchisor-provided training	The franchise is judged by the performance of other franchisees. Poor service provided by someone else affects all.
A business system that has been tested and has usually succeeded with established policies and procedures and the expert assistance and advice from the franchisor	Risk of 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
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)	

Franchising: some history

The development of franchising as a business model has an interesting history. 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 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. This provided capital for ongoing manufacturing of new machines.

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 1000 stores, Midas Mufflers had 400 locations, Holiday Inn 1000 motels and Budget Car Rental 500 outlets.

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 37 000 worldwide.

In Australia, there was a similar pattern. After 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. In 1968, Kentucky Fried Chicken (now KFC) opened its first Australian store. Over the next few years, Pizza Hut, McDonald's and Hungry Jack's opened their first franchise outlets in Australia.

ACTIVITY 4.6

Investigate the history and development of one of the following franchised businesses operating in Australia:

- Boost Juice
- IGA supermarkets
- Chemist Warehouse
- OPSM
- Jim's Mowing (or another Jim's Group franchise).

Construct a brief report and **outline**:

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).

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 (DFAT), Australia's two-way trade in goods and services was worth $873 billion in 2019–20, with China, the United States, Japan, South Korea and the United Kingdom as our top five trading partners.

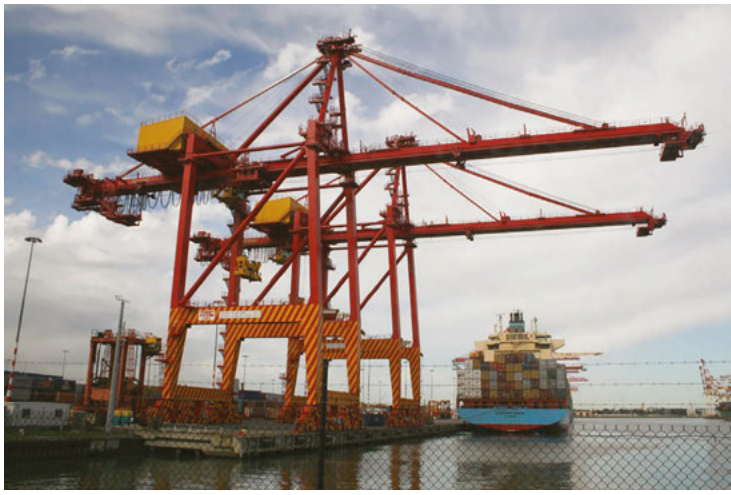


Figure 4.10 The Port of Melbourne is one of the largest ports in Australia.

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.

importer one who purchases overseas products for resale in their home country

exporter one who sells home-country products overseas

- 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.

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 4.7

Select two of the following companies. Locate the website of each using a search engine.

JTC Import Export	Aussie Imports	Leo's Imports & Distributors
DK Choices	Durmaz	Tamarr Imports

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.



REVIEW ACTIVITY 4.3

Part 1: Digital quiz
Please see the Interactive Textbook to access a digital activity.

Part 2: Short-answer questions
Answer these questions on paper or in the Interactive Textbook.

1. **Compare** the key features of an online business model to a bricks-and-mortar business model.
2. **Identify** and briefly **describe** the seven types of online business model. Name at least one online business that uses each model.
3. **Discuss** the advantages and disadvantages of a business adopting an online business model.
4. In aiming to predict the future of bricks-and-mortar businesses, **evaluate** if the advantages of bricks-and-mortar businesses will outweigh the disadvantages.
5. **Identify** two social enterprises that exist in your area. How does the community benefit from these enterprises?
6. Boost Juice founder Janine Allis claims that franchises are more successful than other small businesses. **Outline** two benefits and two issues for the:
   a. franchisor
   b. franchisee.
7. Brainstorm the names of businesses that you have purchased from in the last week. **Identify** which business model they are utilising.
8. **Describe** two reasons for adopting the exporter–importer model.

4.4 Purchase an existing business or establish your own?

Learning intentions – at the end of this chapter section I will be able to:	**4.4.1** Analyse the costs and benefits in purchasing an existing business compared to a new business

Once a decision has been made to enter into business, the next consideration is whether to start a completely new business 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.

goodwill the difference in value between the price that a business is sold for and its net asset value; reflects the value of the business reputation and trading contacts

intangible assets assets that lack physical substance and can be difficult to value, such as patents, trademarks, copyrights, franchises, trade names and goodwill

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 part of the overall purchase:

- premises, plant, equipment and inventories of unsold stock
- 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.

Table 4.5 Advantages and disadvantages of purchasing an existing business

Advantages	Disadvantages
Involves a simpler process as registration of business name and staffing have already been done.	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.
Total cost is agreed upon initially and less likely to blow out.	Be prepared to get what you paid for: a bargain may turn out to be a lemon (someone else's failure).
Ready access to business financial records will make it easier to secure finance. Immediate cash flow.	Goodwill can, in fact, be 'bad will' if a business has a poor reputation, and as result it will take time to develop reliable relationships with suppliers and a new customer base.
Start-up time will be significantly reduced with some inventory available, there are pre-existing relationships with suppliers, employees are trained, and customer base is established.	It can be difficult to make the new business owner's 'mark' on the business with employees, and potentially customers, resisting change.
Business operating procedures and practices are already in place and employees are familiar with the operations of the business.	Buying an existing business does not change the business owner who lacks industry experience and expertise in running a business. The learning curve is enormous and business owners must be involved and proactive as they learn all areas of the business.

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.
- 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 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?



Figure 4.11 Purchasing an established business may suit new business owners with limited experience.

Establishing a new business

This is usually the best option if the business involves developing a completely new concept currently unavailable on the market.

Table 4.6 Advantages and disadvantages of establishing a new business

Advantages	Disadvantages
Complete autonomy/control over the concept and form of the business – the owner is able to put their personal stamp on the business.	A far greater degree of uncertainty and risk with no previous sales history or figures to refer to.
The business price will not include the added cost of goodwill.	It will take longer to establish a client/customer base and, therefore, cash flow.
The freedom to implement personal ideas and have complete autonomy in operating the business and in establishment decisions.	More work initially as establishment of business systems, procedures and hiring and training of staff will be required from the ground up.
Original ideas and concepts belong to and will be associated with the business.	More difficult to obtain finance with an unproven venture.
Avoiding buying into the mistakes of others.	More scope for error with the new business owner being required to make more decisions.
Initial costs may be lower as intangible assets do not need to be purchased.	

Extra considerations when establishing a business from scratch include:

- registration of the new business name, plus relevant licensing and codes of practice requirements
- locating and obtaining suitable premises
- establishment of relations with reliable suppliers
- employment of staff
- registration of intellectual property.

REVIEW ACTIVITY 4.4



Part 1: Digital quiz
Please see the Interactive Textbook to access a digital activity.

Part 2: Short-answer questions
Answer these questions on paper or in the Interactive Textbook.

1. **Discuss** the potential issues in determining the value of goodwill in an established business.
2. Eleni has just completed a course in silversmithing and her tutor advises that her jewellery designs are unique and her craftsmanship is of an excellent standard. Eleni is thinking about opening her own business. Advise Eleni about the advantages and pitfalls that she should consider.
3. **Describe** three costs and three benefits in purchasing an existing business.

Chapter 4 review

Summary

Create your own summary notes for this chapter on paper or in a digital document. A model summary is provided in the Area of Study review chapter for Unit 1 Area of Study 2, which can be used to compare with yours.

Developing clear definitions

By writing a brief explanation of each of the following terms, you will gradually build up a glossary of comprehensive terms for revision. Define these terms in your exercise book.

Internal environment	External environment	Operating environment
Sole trader	Partnership	Unlimited liability
Social enterprise	Franchise	Importer and exporter
Direct to consumer model	Bricks and mortar	Limited liability
Stakeholder	Private company	Public company

Extension questions

The media has reported significant issues with franchises. **Investigate** and source two newspaper articles:

- one that reports a positive, profitable franchise
- a second article that presents a negative franchise experience.

1 **Compare** the two articles, clearly establishing similarities and differences.
2 For the first article, **evaluate** whether the franchisee or the franchisor has been more influential in creating the success of the franchise.
3 For the second article, **evaluate** whether the franchisee or the franchisor was responsible for the negative issue. **Propose** two actions that may prevent this occurring in the future.
4 **Discuss** whether the Australian Government should create further laws to protect franchisees.
5 Go to the Franchise Business website and answer the following questions:
   a **Outline** the services that are available via this website.
   b **Identify** and research two categories of franchise. For each category, select one franchise currently for sale.
   c For each franchise opportunity, name and **describe**:
   – the franchise and types of goods/services sold
   – the areas available for purchase.
   d If you were in a position to purchase one of the two franchises, which would you choose? **Justify** your response.

Checklist

The success criteria are linked to the learning intentions from each section of this chapter, and have been written based on the key knowledge and skills of the VCE Business Management Study Design. Completing the linked questions per success criteria will thoroughly prepare you for success in this subject. Fill in, print, or photocopy this checklist and tick the boxes when you have answered the corresponding questions correctly.

Success criteria – I am now able to:		Linked questions	Completed (Y/N)
4.1 Internal and external environment	**4.1.1** Define internal and external business environments	Case study 4.1: Q1–2	Yes ☐ No ☐
	4.1.2 Describe the relationship between internal and external business environments	Review activity 4.1: Part 1 & Part 2 (Q1)	Yes ☐ No ☐
4.2 Choosing the legal business structure	**4.2.1** Describe the key characteristics of different types of business structures	Activity 4.1 Activity 4.2	Yes ☐ No ☐
	4.2.2 Analyse the factors associated in deciding the suitability of a business structure	Case study 4.2: Q1–6 Review activity 4.2: Part 1 & Part 2 (Q1–4)	Yes ☐ No ☐
4.3 Types of business models	**4.3.1** Describe and compare types of business models available to Australian business	Activity 4.3 Activity 4.4 Activity 4.5 Case study 4.3: Q2 Case study 4.4: Q1 Review activity 4.3: Part 1 & Part 2 Extension	Yes ☐ No ☐
4.4 Purchase an existing business or establish your own?	**4.4.1** Analyse the costs and benefits in purchasing an existing business compared to a new business	Review activity 4.4: Part 1 & Part 2	Yes ☐ No ☐

Digital activities

- Access the Interactive Textbook via Cambridge GO to complete a Scorcher timed competitive quiz for this chapter.
- From their Cambridge GO account, your teacher can also assign practice VCAA-style assessment questions with model responses.

CHAPTER 5

Resourcing, locating, financing and support services for a business

'Spend time upfront to invest in systems and processes to make long-term growth sustainable.'

Jeff Platt (1986–)

About the author:
Jeff Platt is CEO of Sky Zone, a highly successful chain of American indoor trampoline parks.



KICKSTARTER ACTIVITY

1 **Discuss** how this statement by Jeff Platt can be applied to all businesses.
2 Suggest how setting up systems and processes can be used in the long-term growth of a business.

CHAPTER OVERVIEW

Business owners must 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. A decision about the most suitable location for a business requires several factors to be considered including the type and potential scope of the business.

Different sources of business finance and capital must also be assessed and a decision made about which is best for the particular business. There are many decisions for businesses to make and few business owners have the knowledge or experience required to make the right decision for all areas of their business. Potential and existing business operators in Australia have at their disposal a wide range of support services providing expert advice and assistance.

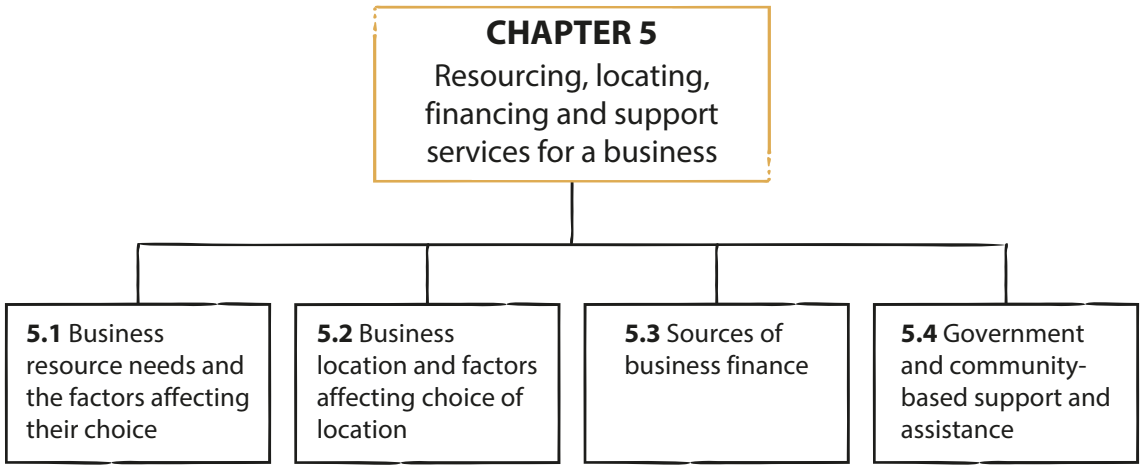
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Key knowledge and learning intentions

Key knowledge	Learning intentions – at the end of this chapter I will be able to:
Business resource needs (natural, labour and capital) and the factors affecting the use of business resources	**5.1 Business resource needs and the factors affecting their choice** 5.1.1 Describe the three types of business resources and the factors affecting their use
Business locations and the factors affecting choice of location	**5.2 Business location and factors affecting choice of location** 5.2.1 Describe and analyse the choices available in determining the location of a business
Sources of finance available to establish a business and the factors affecting the source of finance chosen	**5.3 Sources of business finance** 5.3.1 Examine the sources of finance available and examine the factors affecting their choice
Business support services such as legal, financial, technological, community-based, formal and informal networks and business mentors	**5.4 Government and community-based support and assistance** 5.4.1 Describe the role of business support services in their offerings to business

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What's ahead



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5.1 Business resource needs and the factors affecting their choice

Learning intentions – at the end of this chapter section I will be able to:	**5.1.1** Describe the three types of business resources and the factors affecting their use

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.

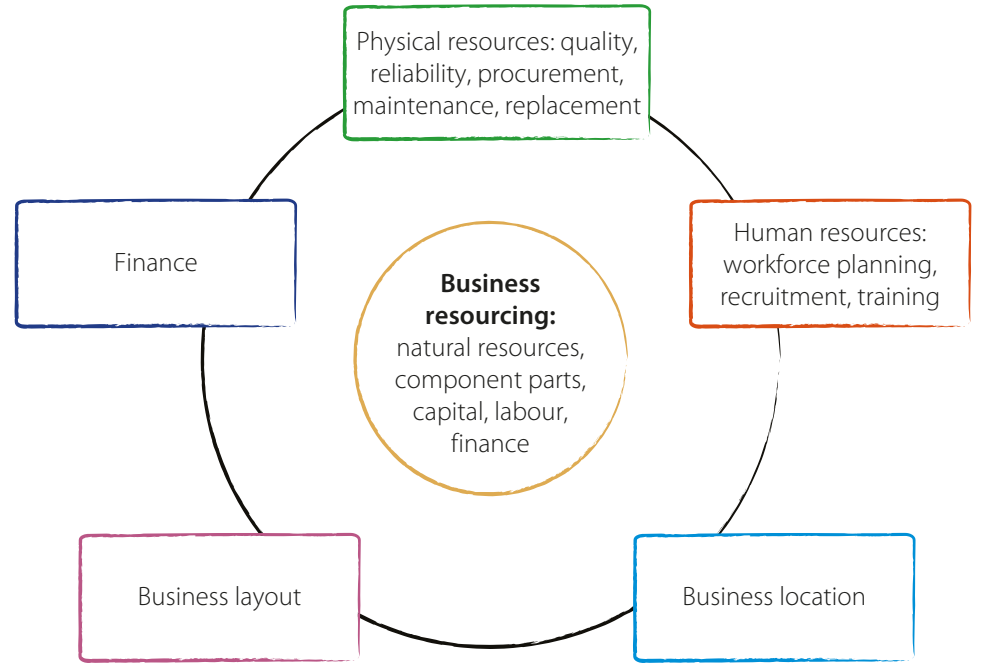


Figure 5.1 Business resourcing

Types of resources

Resources required by businesses can be divided into three main categories.

Natural resources are resources that have been extracted from the natural environment and are unprocessed. Examples of natural resources include water, oil, sunlight and timber. A potential list could continue with many more examples, but what is required is dependent on how a business aims to use these resources in the process of creating or manufacturing goods. A restaurant, for example, will need a supplier of fruit and vegetables.

A shift in community expectations, partnered with changes in laws established by governments, requires businesses these days to use resources that are sustainable and environmentally friendly. A procurement policy that reflects the values, vision and mission of the business will guide business decision-making regarding the selection of suppliers, to ensure supply of natural and sustainable items has been gained according to the standards of the procurement policy.

Labour refers to the human physical and mental effort (skills and knowledge) required to create products or offer services. For example, a restaurant might use an employment agency to employ waiting or kitchen staff.

The management of its human resources (labour force) is a key contributing factor to the success of a business and involves managing employees through all stages of the employment cycle. To manage human resources, businesses carry out **workforce planning**, which involves forecasting the likely future demand for employees and ensuring steps will be taken for this demand to be met. Businesses will aim to attract and maintain a sufficient and sustainable supply of labour with the skills required to keep the business operating at the required level.

Policies and procedures must also be developed regarding:

- employing staff with appropriate skills and qualifications while meeting legal requirements regarding equal opportunity, fair pay and safe working conditions
- training staff to ensure continued skill development to meet the needs of the business
- monitoring staff turnover and assessing reasons for staff departures.

Capital resources are human-made items used in the process of production. Machinery and equipment are examples. A restaurant would require capital resources such as kitchen equipment, point-of-sale technology, a coffee machine, tables and chairs.

Meeting the physical requirements of a business is an ongoing cycle requiring constant attention. The following actions will be required:

- negotiation of leasing and/or purchasing arrangements for buildings, equipment and other inputs
- 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.

natural resources raw, natural materials such as timber, mineral deposits, or fresh water that have economic value

labour a primary factor of production that involves the human physical and mental effort required to create products or services

workforce planning a continual process of assessing and forecasting the number of employees required for a business to meet demand

capital resources human-made items used in the process of production. Machinery and equipment are examples.



Figure 5.2 All businesses must plan to purchase equipment and maintain it on an ongoing basis.



Figure 5.3 It is imperative to select good-quality suppliers, who will provide high-quality goods.

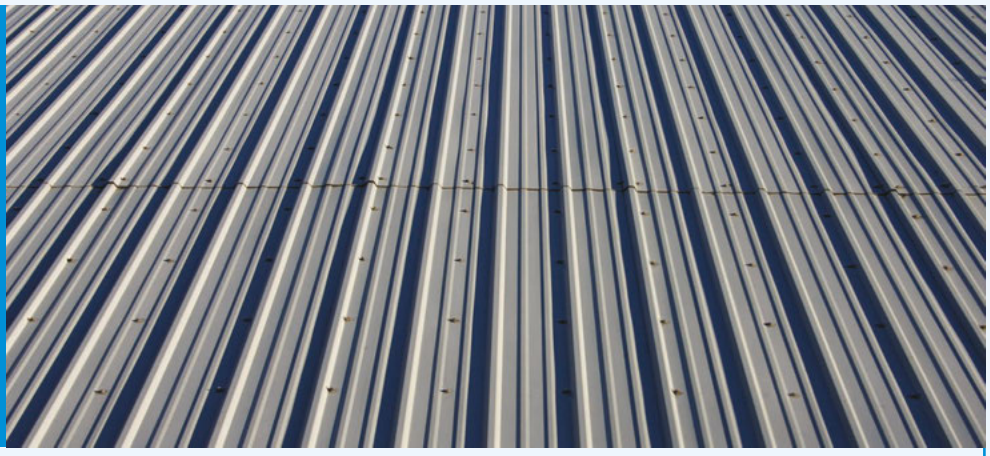
Factors affecting choice of resources

Planning to meet natural, human and capital requirements is an ongoing process. 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, which will 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 **Corporate 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.

CASE STUDY
5.1

Thomas Foods to create 2000 jobs at new plant in South Australia



This case study is available in the Interactive Textbook.

REVIEW ACTIVITY 5.1

Part 1: Digital quiz
Please see the Interactive Textbook to access a digital activity.

Part 2: Short-answer questions
Answer these questions on paper or in the Interactive Textbook.

1 **Describe** the three types of resources. Select a local business in your area and **identify** two examples of each type of resource that would be required by that business.
2 **Identify** three examples for each of the three types resources that might be required by a large hotel.
3 **Describe** what workforce planning is and outline its purpose.
4 **Explain** the three factors that a business needs to consider when selecting resources.

5.2 Business location and factors affecting choice of location

Learning intentions – at the end of this chapter section I will be able to:	**5.2.1** Describe and analyse the choices available in determining the location of a business.

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. Different business types have different location requirements. Determining business location requires planning and research.



Figure 5.4 Choosing the right location is crucial to business success.

Different businesses have different location needs

The best location for a business is dependent on the type of business. A business needing a physical presence to draw customers may choose retail shopping strips, both suburban and CBD; shopping centres/malls (large and small); or industrial parks of various types.

business location the geographical site of a business

Table 5.1 Location needs for different types of businesses

Retailers	Require a position that maximises visibility and therefore sales. Some retailers 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.
Manufacturers	Local councils typically zone for manufacturing. A factory will not be given any permits to operate in a residential area. Manufacturers require large amounts of floor space. Customers usually do not come directly to them; consequently, visibility and traffic flow are not important. Easy access to transport routes is important.
Wholesalers	Require less visibility but more space, with easy access to transport routes for deliveries and dispatch of large quantities. Warehouse or storage facility will be most suitable.
Service businesses	Require mainly office or commercial business space. Do not rely on **foot traffic**; however, easy access and client parking are required. Some businesses may operate from a home.
Online businesses	Not restricted in their location but must ensure access to fast and reliable internet access. If selling goods, an online business will require warehouse space, as well as an area for packing and dispatch.

foot traffic the number of people walking past a business

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:

complementary business a business that offers products that are related to or could enhance those of another business

- *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.
- *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. Factors to consider include:
  - area demographics: assessment of the population in regard to its age patterns, incomes, interests, ethnicity, education levels and so on, which will indicate whether there are sufficient potential customers in the area to maintain a viable business.
  - economic and social trends: assessment of changes occurring, such as demographic shifts in the area; for example, younger people moving into the area, or changes in the birth rate. How will the business fit with these trends?
- **Complementary businesses** – are there established 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.
- *Proximity to competitors* – 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 (such as furniture, cars and appliances). This is how specific locations gain reputations, such as precincts for restaurants or car sales. Proximity to other large businesses with 'pulling power' could be significant when considering location as 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.
- *Proximity to customers and suppliers* – aim for a location where there is potential for demand such as shopping strips and shopping centres for retailers and cafes. Reasonable proximity to suppliers provides greater opportunity for quick and reliable deliveries.
- *Local government by-laws* – especially zoning regulations: what developments, if any, are allowed in the area? Will permits be required to build, extend, or put up signage?

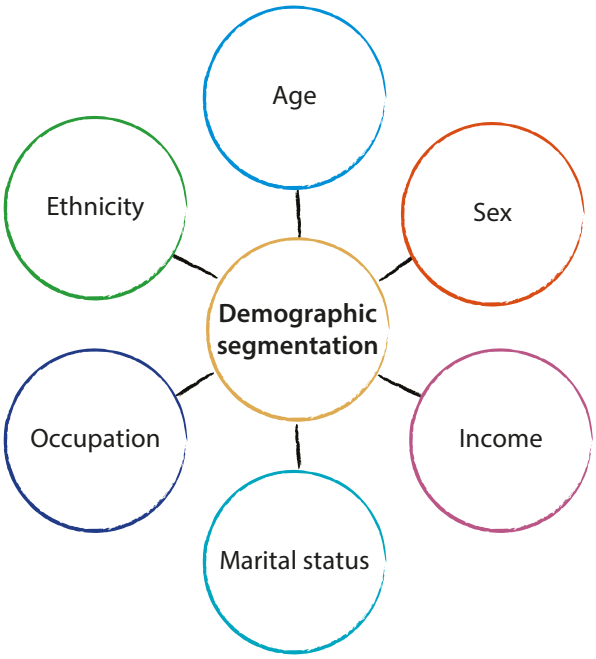


Figure 5.5 The demographics of an area are a major consideration when selecting a business location.



Figure 5.6 Few businesses are successful if located in isolated areas, so careful selection of a suitable location is essential to support the viability of a business.

- *Site accessibility and visibility* – are the required number of customers, staff and suppliers able to locate and access the business? Proximity to public transport could be a consideration, or checking that there is sufficient parking available. Consider the importance of being visible along a main street or the preference to be tucked away in a laneway.
- *Suitability of the buildings* – the actual buildings must meet the physical requirements of the business, such as building design, floor space, storage space and facilities.
- *Cost* – 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.
- *Accessibility to labour* – 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?

start-up commencement of business operations

ACTIVITY 5.1



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
Used car yard	Country town in dairy area
Pharmacy	Industrial area
Animal boarding kennel	Airport
Wholesale fish seller	Home based
Retail jewellery store	Suburban shopping centre
E-commerce business	Large shopping centre with high foot traffic
Factory	Busy fresh food market
High-end boutique	Outside supermarket
Italian restaurant	Beachside town
Milk processing plant	Foyer of maternity hospital

Table 5.2 Checklist for choosing a business location

Choosing a business location	Yes	No
1 Have you outlined your specific requirements (size, street frontage, services, etc.) 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.		
Customers		
1 Who is your target market? Is the site suitably located for them?		
2 Is your location adequately visible and accessible to foot and vehicle traffic as well as car parks?		
3 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?		
Financial		
1 Are the premises affordable? What are the alternatives?		
2 Are the terms of the lease suitable?		
Long term		
1 Does the site have scope/room to expand?		
2 Will zoning restrictions conflict with future needs or plans?		



Figure 5.7 The level of foot traffic is important for businesses that rely on unplanned or impulsive purchases.

ACTIVITY 5.2

Using the checklist in Table 5.2 for choosing a business location, interview a business owner and find out if each of the criteria was considered when they chose their business location. Present and **analyse** your findings in a report.

REVIEW ACTIVITY 5.2

Part 1: Digital quiz
Please see the Interactive Textbook to access a digital activity.

Part 2: Short-answer questions
Answer these questions on paper or in the Interactive Textbook.

1. **Propose** and **describe** four factors that should be taken into consideration when selecting a business location.
2. Suggest and **justify** an appropriate location for each of the following businesses.
   - a an auto service centre
   - b a child-care centre
   - c a manufacturer
   - d a marketing consultancy
   - e a dentist
3. **Identify** suitable complementary businesses for each of the following businesses. **Justify** your choice.
   - a a medical centre
   - b a jeweller
   - c a gymnasium
   - d a cafe

5.3 Sources of business finance

Learning intentions – at the end of this chapter section I will be able to:	**5.3.1** Examine the sources of finance available and examine the factors affecting their choice.

finance the management of money, or the money belonging to a person, group, or organisation

Finance is a crucial resource and may be a major factor in a business's success. Finance is required in all areas of business activity, including establishment costs when setting up a business, such as legal expenses and a feasibility study. Providing resources for business activities (operating costs) involves renting or purchasing premises, setting up the facility, paying and training staff, as well as the provision of capital resources essential for the running of the business. Finance can be sought for such things as purchasing a building or factory, motor vehicles, machinery, equipment and tools, and inventory.

Factors to consider when choosing a source of finance

There are a wide range of funding options available to a business and determining the most suitable can be a complex, time-consuming task. There are four factors that a business should consider when choosing a source of finance.

1 Risk

Businesses should consider the potential consequences if they are unable to meet their financial commitments associated with a particular source of finance. Businesses need to minimise financing-related risk when choosing the sources of finance.

2 Cost

Each source of finance offers some benefits as well as pitfalls. The overall aim is to minimise the cost of finance and to maximise the opportunity to create profit for the business. The financing decision must consider projections of future business growth, cash flows, and the business's ability to maintain repayment of any funds borrowed. A cost/benefit analysis would assist in decision-making.

3 Control

Some sources of finance may lead to diluting the ownership and control of the business. If the finance arrangement is for repayment over an agreed period, business control is not affected. If the funds are to be raised from an investor or through stock market activity, the business control and decision-making may be impacted.

4 Long-term versus short-term borrowing

Businesses need to decide whether long- or short-term borrowing will better suit their needs.

A finance agreement to be repaid over a longer period, such as bank loans and hire purchase, will suit if the funds are required for a piece of equipment that will be a permanent part of

operations. Short-term finance is used when a business needs to cover unexpected expenses, manage fluctuations in cash flow, or optimise a potential opportunity. Given that the finance is to be repaid in a short period of time, there is less risk involved for the business and the lender.

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.

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) and interest, and investors take their share of profits out. **Bootstrapping**, from the metaphor 'pulling yourself up by your own bootstraps', involves ways of financing operations without having to borrow a lot of cash or take on investors. Bootstrapping allows entrepreneurs to retain full ownership of their business. Bootstrapping methods can include the following:

bootstrapping a method of financing a new business with personal savings or invested funds from family or friends; can be supported by working to keep costs down and using revenue to grow rather than borrowing

- 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
  - leasing equipment, or obtaining it through hire purchase, rather than buying it with cash.



Figure 5.8 Bootstrapping methods reduce dependence on loans and investors.

Owners' equity

Many business owners draw from their personal savings to invest in their new business venture. Business owners who do this can retain full ownership and hence control of the business. It is often the easiest and most cost-effective way to begin; however, the initial costs of establishing and operating a business are high and few owners have enough personal equity, so they need to pursue other options.

Family or friends

A business owner must be careful should they feel the need to seek finance from family or friends. Often these arrangements are flexible, money may be lent interest free and a longer repayment period may be negotiated. However, any misunderstandings about the financial arrangement can damage personal relationships. This may be avoided through a debt finance arrangement undertaken formally through a solicitor, which will establish clear expectations.

Private investors/business angels

business angel an individual who provides a small business start-up with capital, generally in return for ownership equity or convertible debt

venture capital money that is given to start-ups and small businesses with perceived growth potential by investors

crowdfunding donations from the public to raise funds for a one-off project; typically used by artists and entrepreneurs

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 directly or as a mentor. They provide development capital, and also contribute their business skills and contacts to benefit a new business.

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. The Angel Investment Network (AIN) has an investor register so that businesses can be matched with suitable private investors.

Venture capitalists

Venture capital is generally supplied by large corporations that invest large sums in start-up businesses with the potential for high growth and large profits. Venture capitalists often take an active role in a company's performance by providing guidance and valuable industry connections. As the venture capitalist actively influences strategic direction, this may result in a loss of autonomy and control for the owner.

Crowdfunding

Crowdfunding is a method of gathering finance for a business through donations from the public for a one-off project. It is typically used by artists and entrepreneurs and involves setting a goal, providing details of the project and its budget, and then encouraging people to contribute.

Usually, the 'campaign idea' or business idea is posted onto a crowdfunding website with further details about the project. On some websites, a business owner might need to set a monetary goal and a time frame. Then, individuals who are interested in supporting the campaign, often called 'backers', can donate money to the business to help it achieve its campaign goal. Money is usually raised through fund raising websites such as Pozible, where contributors pay the amount they have pledged only if the campaign reaches its target.

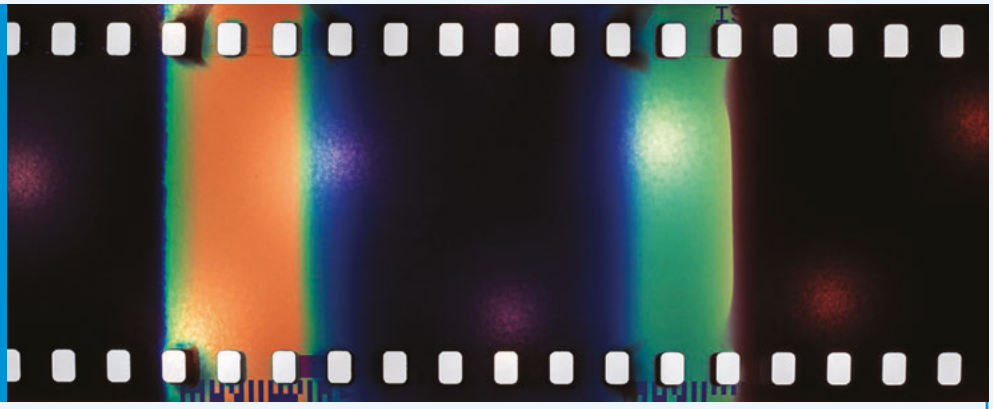


Figure 5.9 Crowdfunding involves sourcing public donations for a business start-up through the internet.

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 several disadvantages, including the need to campaign and present a product, the need to provide incentives and rewards, having to compete with other businesses also seeking crowdfunding for their ideas, and that that there is no guarantee the funding goal will be reached.

CASE STUDY
5.2

Crowdfunding campaign success with film and video



Maya Newell knew she had a big project on her hands, but at the beginning the audience didn't match the project size. Maya needed a substantial amount of money to make a full-length feature documentary film highlighting same-sex parenting. With a goal of $100k in mind, she had to have a great strategy. In all-or-nothing crowdfunding it's nearly impossible to start with no audience and reach a target so high.

How did she overcome this? She took things in two stages. First she launched a short film (of the same project) with a $10k target. She hit this target without too much struggle, then produced the short film. This initial campaign helped her to understand the audience of the film, what types of marketing worked for her crowdfunding and, most of all, helped her make a start on a smaller yet very engaged audience, who would be a massive asset for any future campaigns.

After screenings and film promotion of the short film she was empowered with information on what worked, the buzz behind the project was building and she could begin planning for another campaign. Maya's second campaign was for the exact same project, just a bigger and better version: a full-length film. Everything from the beginning was building up to this final campaign.

Maya ended up reaching that $100k mark with her second campaign. She took things in two steps, which resulted in a comfortable fundraising experience. Had she aimed for that $100k mark with her first campaign, she probably would have failed.

Source: Adapted from Pozible website 'Game changing tips for crowdfunding your next film', Pozible.com, 9 April 2018.

CASE STUDY ANALYSIS

1. **Explain** how the first crowdfunding campaign prepared Maya for the second campaign.
2. **Outline** Maya's success in the second campaign and describe the strategies that were successful.
3. Research Maya Newell Film Maker to find out if the film was successful and if she has entered into any further crowdfunding campaigns.

Crowd-sourced funding

Crowd-sourced funding (CSF) was introduced in 2017 and is regulated by the Australian Securities and Investments Commission (ASIC). It is effectively a financial service where eligible start-ups, small and medium-sized businesses are able to raise funds from the public to start or grow their business or pay off debts. Eligible businesses can raise up to $5 million per year using CSF on the proviso that they are a private company with less than $25 million in assets and annual revenue. Investors are able to contribute up to $10 000 per annum in exchange for business shares.

In 2021, Australian investors poured $71 million into crowd-sourced funding and the growth of this sector is predicted to continue. Over 150 companies have used CSF, attracting 68 000 investors. The most popular sector for investors has been financial services followed by food and beverage.

CASE STUDY
5.3

Zero Co record breaking $5 million crowd-sourced funding campaign



Eco-start-up Zero Co raised $5 million in just 6 hours and 27 minutes, rewriting the history of Australian crowd-sourced funding. Founder and CEO Mike Smith put a $10 000 cap on investments, but after investors put $1 million dollars into the campaign in just five minutes, he reduced the figure to $5000, then $2000 and finally $1000.

At the time, the start-up located in Byron Bay had been trading for just 11 months (since November 2020). The business reduces plastic waste in Australian households by offering single-use plastic free body-care and cleaning products that are generated from common household products and produces durable dispensers that look good and are made from ocean, beach and landfill bound plastic. The intention behind this is for customers to refill and use them indefinitely and avoid creating further waste.



Figure 5.10 CEO Mike Smith plans to expand the product range and scale of operations, and launch globally.

Source: Adapted from Simon Thomsen, 'Startup Daily TV: Zero Co founder Mike Smith on his eco-startup's record-breaking $5 million crowd-funding campaign', Startup Daily website, 20 October 2021.

CASE STUDY ANALYSIS

1. **Outline** the outcome of this crowd-sourcing campaign and **describe** how Zero Co plans to use the funds.
2. **Propose** two reasons why crowd-sourced funding has been so successful for Zero Co.
3. Suggest another source of finance that Zero Co could have considered and **discuss** the opportunities and limitations of your selected choice of finance.
4. Go to Zero Co's website and research evidence of the business's recent product line offering and growth.

Suppliers

For many businesses, trade credit is essential in financing growth. It is the credit extended by the supplier that allows businesses to delay payment for goods. Suppliers will offer trade credit to businesses they have established a reliable relationship with, and may offer interest free credit for up to 90 days.

initial public offering (IPO) floating on the stock market offering shares in the business to raise capital

overdraft an extension of credit that permits an account holder to withdraw more money than they have in their account

Stock market

Also known as **initial public offering (IPO)**, floating on the stock market involves publicly offering shares to raise capital. This strategy may be followed by a business needing funds to support expansion or a privately owned business that wishes its shares traded on the stock market. The move to list on the Stock Exchange is an expensive and complex option that carries the risk of not being able to raise the funds needed.

Sources of finance from financial institutions

Financial institutions such as banks, building societies and credit unions provide financial solutions for both short- and long-term purposes. Businesses take out various loan types to fit their situations. Loans vary in amount, repayment period, interest rate, interest rate type (whether fixed or variable), security and fees. Some products include business loans, lines of credit, overdraft facilities, invoice financing, equipment leases and asset financing. Loans tend to be sought for long-term borrowing.

An **overdraft** 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, up 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 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. As the business has to pay a higher rate of interest compared to other forms of finance, it should only be used for short-term borrowing.

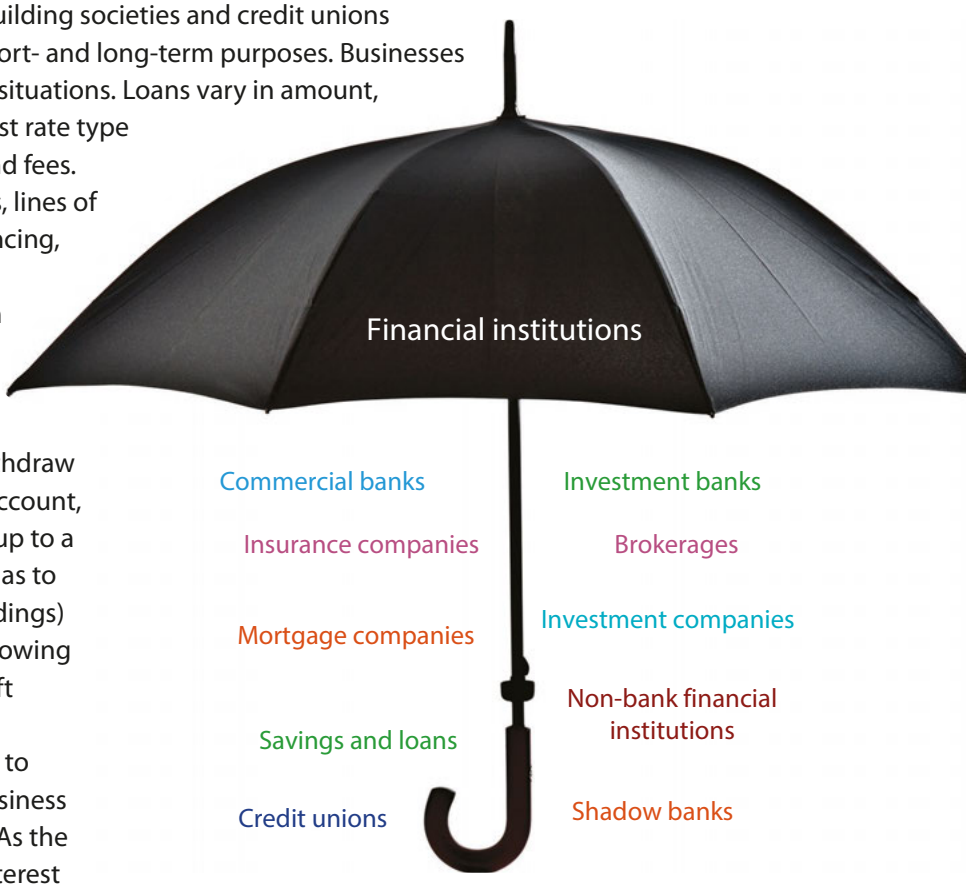


Figure 5.11 'Financial institutions' is an umbrella term that includes banks.

ACTIVITY 5.3

Select one of the following big four banks and visit its website:

- ANZ
- Commonwealth Bank of Australia
- National Bank of Australia
- Westpac.



Go to the business banking section of the bank you have selected. **Identify** the services offered for:

- business loans and finance
- cash flow solutions
- equipment and car finance
- business accounts and cards.

Finance companies

Like banks, finance companies are direct lenders. Loan applications are reviewed by credit managers or analysts who will then decide whether to approve or not. Finance companies tend to accept a higher level of risk and, as a result, a higher rate of interest is likely to be charged. Most finance companies offer finance products via a retailer. Examples include Zurich Financial Services, Capital Finance and Latitude Financial Services.



Figure 5.12 Support services can help a business to succeed.

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. 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.

Informal support services

Studies have shown that successful businesses tend to utilise 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.

Previous owners

When purchasing an existing business, 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**). The previous owners of a business are potentially valuable sources of information and assistance as they may be able to demonstrate established systems, 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.

transition period a period where the new owners operate a business alongside the former owners before final handover

network an interconnected system of people or businesses

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 within the same industry.

Networks facilitate the exchange of ideas, advice and support between like-minded individuals and between groups of people. Members find personal satisfaction in meeting with like-minded people who are looking for ways to improve their business, while establishing connections with local businesses and the local community.

Networks also offer an opportunity to establish contact with owners of complementary businesses who may further enhance their chances of success. Members can confidently refer businesses or offer invaluable advice and support while establishing local connections.

Through networking, competitors will find that there will be some commonality with shared concerns that can be addressed together, potentially with greater influence. Competitors are another valuable source of information for a business; hence the term 'keeping an eye on the competition'. Observing the opposition allows a business operator to identify gaps in the market.



Figure 5.13 A transition period where outgoing owners train the new owners is common practice.

Business support services

specialist support services professional advisors; for example, lawyers, financial advisors and operational advisors

contract legally binding agreement that incorporates the following elements: offer, acceptance and the intention to enter into legal relations

All business operators can expect to pay for professional advice from **specialist support services** to assist them in their decision-making; for example, legal or financial advice or advice on daily operational activities.

Legal support services

Many businesses will require the services of a lawyer to negotiate on their behalf, give advice and provide representation on legal issues. In general, ignorance is not accepted as an excuse for breaking any law, meaning business owners must ensure that they follow specialist legal advice. The services of a lawyer are crucial for the following:

- advice on purchase or establishment of the business, and acting on behalf of the business owners during the process of purchasing
- selection and establishment of the best legal ownership structure including franchise agreements
- preparing legal documents such as **contracts** required for the sale and purchase of business
- 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
- preparation of partnership agreements
- dealing with takeovers and acquisitions or selling the business.

Financial support services

A successful business needs 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 establish a financial recording system
- to prepare quarterly financial statements, monthly cash flow summaries and budgets for auditing
- for taxation
- to recommend appropriate computer software
- for liaison with government departments, especially the Australian Taxation Office (ATO).

Figure 5.14 A business will require qualified legal advice and assistance.



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.



Figure 5.15 Recommendations can be sought from professional bodies such as CPA Australia or Chartered Accountants Australia and New Zealand.

ACTIVITY 5.4

Accessing regular financial services can be costly for a business; however, good record-keeping processes will reduce the work required by an accountant or registered tax agent.

Go to the Australian Taxation Office website, search for 'Record-keeping help for small business' and answer the following:

1. **Outline** the five rules for record keeping.
2. **Describe** the benefits of accurate record keeping.



Figure 5.16 Australian Taxation Office

Technology support services

Given the complexity and expertise required of information technology (IT), businesses often seek external IT support services. This frees up time for owners and employees to focus on other areas of the business. IT support services are able to install and maintain systems to deliver smooth, continuous business operations. IT support services can protect computer infrastructure from cyber threats with up-to-date security programs. Many businesses are concerned about security threats that could compromise sensitive data and erode confidence with all stakeholders.

IT services are well worth investing in as the efficiency of a business is not compromised and largely continues without interruption. IT services offer support in the following areas:

- business internet
- cloud service
- network security
- business email
- software development
- customer relationship management software
- location-based tools.

CASE STUDY
5.4

Bunnings customers' personal data compromised following cyber-attack



The names and email addresses of thousands of Bunnings customers using the contactless pickup services in December 2021 were compromised in a data breach. It is estimated that approximately 3.7 million who used the drive and collect service may have been impacted.

Third-party booking provider Flexbooker, which provided Bunnings' customers with scheduled appointment times for contactless pickup, reported the cyber security attack.

The matter has been referred to the Office of Australian Information Commission for further investigation.

Customers were advised by Bunnings to be cautious with their email accounts and protect their accounts by regularly changing their passwords.

Source: Based on information from bunnings.com.au, 'Flexbooker data security issue', 15 January 2022.

CASE STUDY ANALYSIS

1. **Describe** the issue outlined in this case study.
2. Suggest how the data breach may impact future customer behaviour and sales at Bunnings.
3. **Outline** the potential role of IT support services to protect future data being stolen.

REVIEW ACTIVITY 5.3

Part 1: Digital quiz
Please see the Interactive Textbook to access a digital activity.

Part 2: Short-answer questions
Answer these questions on paper or in the Interactive Textbook.

1. **Distinguish** between the following terms:
   a. bootstrapping and business angels
   b. crowdfunding and crowd-sourced funding
   c. overdraft and hire purchase.
2. **Explain** what the four factors are that a business should consider when deciding on a source of finance.
3. **Analyse** why it is important for a business to investigate different sources of finance.
4. **Propose** and **justify** two forms of finance that would suit a start-up business.

5.4 Government and community-based support and assistance

Learning intentions – at the end of this chapter section I will be able to:	**5.4.1** Describe the role of business support services in their offerings to business.

With almost 2.5 million small businesses employing almost 5 million people, it is in the interest of government to optimise the chances of small business success, as this will translate into a healthy economy. The three levels of Australian governments offer a wide range of services and assistance at little or no cost.

Federal and state government assistance

Both federal and state governments offer grants to successful applicants of new and innovative businesses. Although the application process is often tedious and time-consuming, a successful submission can be valuable in stepping up the potential success and development of a business. Since 2014, the Australian Government has allocated over $400 million to the Entrepreneurs' Programme to help form almost 500 innovative businesses. The program supports businesses through four elements:



Figure 5.17 There are multiple organisations dedicated to providing support to small businesses throughout Victoria.

1. **Accelerating commercialisation** – assists with commercialisation of products, services and processes.
2. **Business management** – businesses can access the expertise of private sector advisers for reviewing business operations, strategy, direction, growth and supply chain.
3. **Incubator support** – incubators, both new and existing, are assisted to improve the prospects of Australian start-ups in achieving international commercial success.
4. **Innovation connections** – experienced facilitators work with the business to develop a report identifying knowledge gaps that may prevent business growth.

Small Business Victoria was established by the Victorian state government to provide information and expert business advice. Support services include:

- the Small Business Bus – effectively a 'travelling office on wheels', visiting Melbourne and regional Victoria and offering 45-minute appointments with an experienced business **mentor**
- workshops and events that cover topics such as business planning essentials and developing digital strategies
- the Annual Small Business Festival held each August, comprising over 500 events across Melbourne and regional Victoria.

mentor person who offers their knowledge, wisdom and advice to someone with less experience

Online resources

Both federal and state governments provide online information for businesses. Table 5.3 summarises some of these sites.

Table 5.3 Information available through government-provided websites

Government organisation or area of interest	Website content
business.vic.gov.au (Victorian based)	Provides information on topics relating to small business, including setting up, marketing, hiring and managing staff. Any new government initiatives appear on this site.
business.gov.au (Commonwealth Government)	Provides tools, tips and information to plan and establish a small business. Access to all government information, services and transactions, such as acquiring an Australian Business Number (ABN) and government forms required by small business. Provides information on business assistance, business questions, business start-up, employing people, taxation, importing and exporting, superannuation, and occupational health and safety.
www.vsbc.vic.gov.au Victorian Small Business Commission	Victorian Government website dedicated to creating a competitive and fair operating environment for small business. The Commission has four main functions: advocacy, dispute resolution, monitoring and engagement. First port of call for independent guidance on business disputes, it provides access to quick, effective, neutral and low-cost mediation services.
www.austrade.gov.au Austrade	Provides export and investment services to Australian companies and supports Australian capability in a changing global environment.
ipaustralia.gov.au IP Australia – Patents	Patents are essential in protecting intellectual property (IP) for any device, substance, method, or process that is new. Provides information and processes applications.
www.abs.gov.au Australian Bureau of Statistics	Good source of business data, statistics and advice on use of this type of information.
https://ablis.business.gov.au Australian Business License and Information Service (ABLIS)	A one-stop tool that assists in finding the specific local, state and federal permits, licences and registrations required by businesses.
www.auda.org.au .au Domain Name Administrator	Policy and industry self-regulated authority for the internet.au domain space.
www.ato.gov.au Australian Taxation Office	Government website giving taxation information for individuals and businesses of all sizes.
www.scamwatch.gov.au Scamwatch	Advice on and awareness of frauds targeting small businesses.
www.accc.gov.au ACCC – Australian Competition and Consumer Commission	Main responsibility is to ensure businesses comply with fair trading and consumer protection laws.

Local government assistance

Local government is an important source of information because it has responsibility for regulating many of the actions of businesses in its area. As part of their strategic planning process, councils create an economic development plan, which strategically sets the economic plan for the immediate area over a five-year period. Local governments oversee programs designed to assist and support businesses. This usually includes facilitation of business networks for their operators. Some councils operate local economic development units that aim to improve basic business opportunities in a local government area.

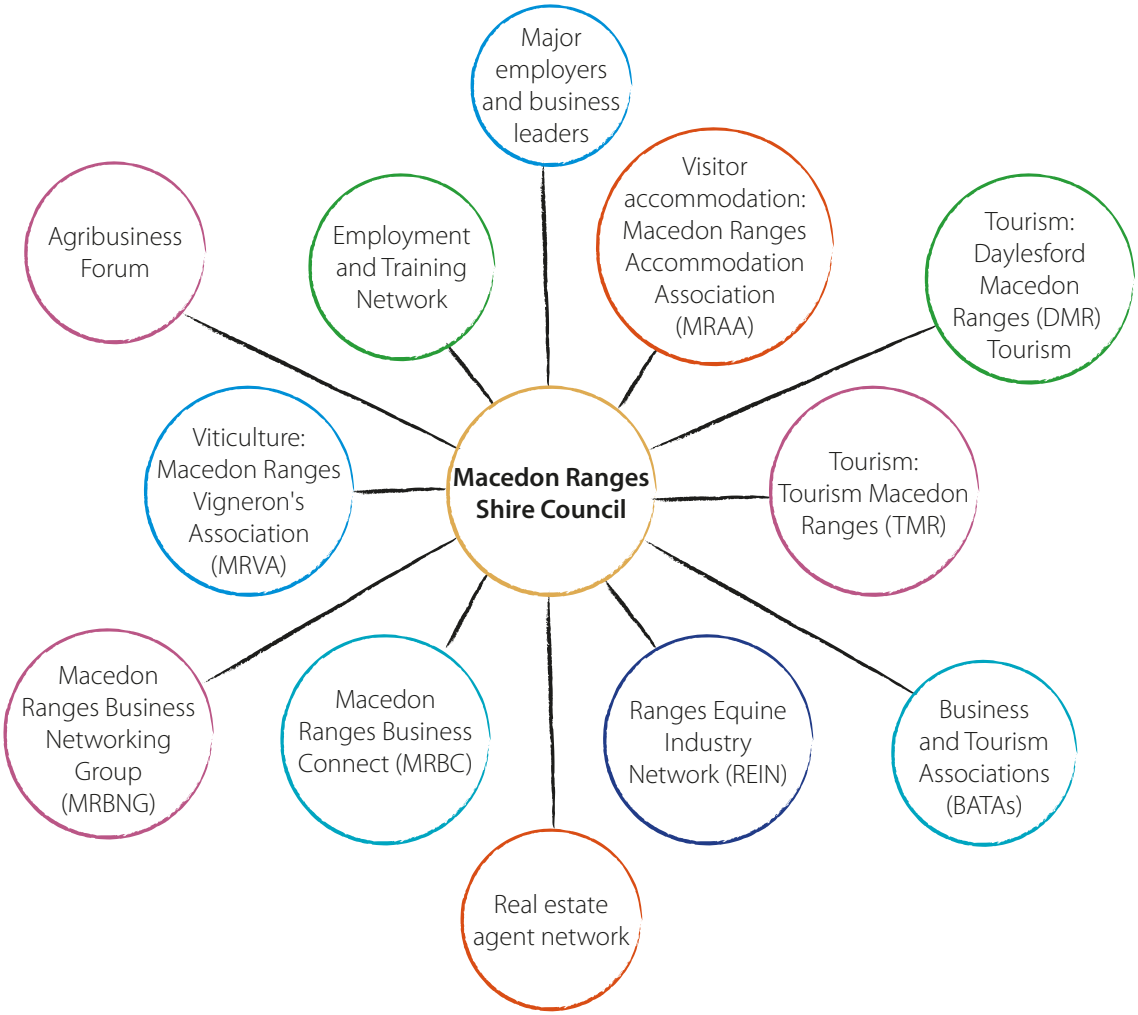


Figure 5.18 Macedon Ranges Shire Council business and industry liaisons. Local governments offer a range of support services for industry groups and networks.

Economic development units

As mentioned above, local governments run economic development units that aim to improve basic business opportunities in a local government area. They also 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 other common features.

ACTIVITY 5.5

1 Go to the website of your local government. Locate the services and support offered to local business. Copy and complete the following table in your notebook, noting which options they provide:

Local Government Area			
Business service and advice	*Provided*	*Not provided*	*Details*
Business mentoring services			
Business incubator			
Economic Development Unit			
Seminars and workshops			
Trader groups			
Business grants			
Newsletter			
Hosts annual business awards			

2 Find a copy of your council's current economic development strategy on its website. **Investigate** three strategies the council plans to implement to support business growth in the area.

Community-based support services

Business Enterprise Centres

Business Enterprise Centres a national network of centres that serve as a first point of contact for business owners seeking business information, advice and guidance

Business Enterprise Centres are a nationwide network with over 30 member centres across all states and territories, and most can be identified with the distinctive BEC logo. Some centres are partially funded by the federal government, and these centres are a useful first point of contact for business owners at a local level who are seeking business information, advice and guidance across all industry sectors.

BECs initially undertake a viability assessment and will alert potential business owners to issues that may influence the business proposition and hence avoid negative financial damage. Services offered include mentoring support, business information and training programs. BEC network members provide a wide range of workshops including:

Figure 5.19 Business Enterprise Centres can be found Australia-wide.

- changes to state and federal legislation
- changes to local zoning, development and traffic regulations
- using social media for the benefit of the business
- human resource management.

Business incubators

A **business incubator** is a selective program supporting a start-up business throughout the course of its early years. Many incubator programs provide access to a **coworking space**, where start-up founders can access office space, business equipment and technology.

Office/secretarial services, advice, consultancy and training are available at a minimal cost, until the business is established. The incubator manager also acts as a mentor or provides an introduction to other mentors.

Incubators have proven to be very successful at creating employment, commercialising new technologies and assisting to develop local economies. Business incubators can significantly lessen the likelihood of business collapse.

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

CASE STUDY
5.5

Melbourne Innovation Centre and mentorship



The Melbourne Innovation Centre (MIC), established in 1998, aims to provide an environment and mentorship that contributes to the growth of business and create employment in Melbourne's north. Located in Alphington with offices in Northcote and Greensborough, the MIC provides start-ups and small business owners with low-cost, high-quality advisory services in a coworking space. Advisers and mentors with a range of business skills and experience across a variety of industries that understand the challenges small businesses face support these fledgling businesses.

MIC has demonstrated the ability to deliver high-impact programs such as Digital Solutions and the Kitchen and Food Incubator, training and mentoring to over 3500 businesses (including home-based businesses). In addition, MIC has supported the establishment and growth of over 100 Indigenous-owned enterprises through its Indigenous Business Incubator program. The Business Recovery Advisory Service and Partners in Wellbeing Helpline have been added to the suite of offering in response to the changed post epidemic conditions.

Since it was established in 1998 MIC has incubated over 400 start-up and scale-up businesses, creating over 1500 jobs within Melbourne's north, and contributes over $66 million annually to the Victorian economy.

An impressive range of businesses have been incubated by MIC including Farmwall Urban Farming, a community oriented social enterprise that is adding a new dimension to the concept of 'home grown' to cafes and restaurants. The ground-breaking concept provides custom design, installation and maintenance of vertical gardens. Environmentally, Farmwall reduces food miles, food waste, pesticide and herbicide usage, water and energy costs, and deforestation.

Farmwall cofounder, Geert Hendrix, explains the motivation behind the start-up: 'It is possible to combine food production, design

coworking space a shared space that is designed for diverse groups of professionals, sole traders and small businesses to work independently in a communal setting

and nature through innovative science and technologies. If we grow our food in coherence with natural ecosystems and implement this mindset in designing our living spaces we create a beautiful, healthier environment for ourselves, as well as solving major issues that cause climate change and pollution.'

Not long after joining the coworking community at MIC, Farmwall began the Two Feet Program, an acceleration program that enabled the business to design a solid business model, and deepen their value proposition, intent and customer desirability. The program aims to help entrepreneurs understand the critical elements needed to build a sustainable business.

Source: Adapted from the Melbourne Innovation Centre website, 'Farmwall – Urban farming startup', October 2017.

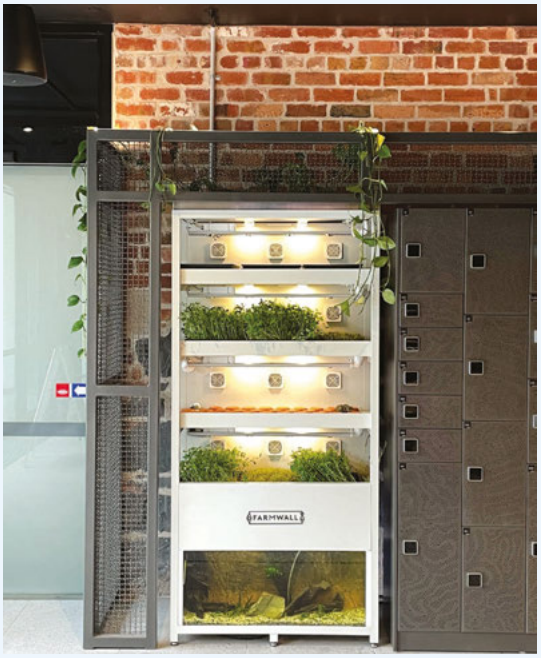


Figure 5.20 Farmwall Urban Farming start-up uses aquaponics to grow microgreens for cafes.

CASE STUDY ANALYSIS

1. **Outline** the success of MIC since it opened in 1998.
2. **Describe** the advantages offered by a business incubator in terms of:
   a. cost
   b. mentoring
   c. support
   d. networking.
   e. coworking.
3. **Examine** the progress of Farmwall as a business since its involvement with MIC. Research Farmwall and describe its current progress. Has the business continued to develop as expected? **Propose** one challenge that Farmwall may encounter and determine whether MIC would continue to play a role.

Community-based networks

Small Business Centres Victoria (SBCV) a network of community-based, not-for-profit business centres providing a range of business services throughout Victoria

Small Business Centres Victoria (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. Staffed by business development managers who are specialists in business and industry, these centres offer advice, mentoring and business incubations to business owners. Through their successful partnerships with governments, private enterprise and local communities, SBCVs are able to facilitate practical and confidential business advice. As SBCVs are locally based, staff have an understanding of the issues facing particular areas and hence are positioned to tailor their advice to the specific needs of a new business.

Business mentors

State and local governments also facilitate numerous local business groups and make mentoring arrangements. These assist business through the opportunity to share the experiences of others. There are a range of programs provided by government to promote and support business networks and provide mentoring services.

The Small Business Mentoring Service (SBMS) is a non-government, not-for-profit organisation supported by the Victorian Government and Small Business Victoria. This is a low-cost program offering the services of approximately 130 business people with deep experience, and qualifications and skills across a broad range of disciplines and industries. An SBMS mentor will assist with:

- starting a new business
- writing business plans
- developing marketing strategies
- increasing sales and profits
- understanding finances
- improving management skills
- identifying new opportunities.

CASE STUDY
5.6

Small Business Mentoring Service and Altegra: sheltering from a business storm



From adversity comes opportunity. That's how small business owner Simon Braunthal has seen the COVID-19 crisis, which is changing the way he and other businesses work.

Simon runs Altegra, which has sold premium custom-made and -branded marquees and gazebos since 2004. When the pandemic hit and Australians were told to stay at home and avoid large gatherings, sales plummeted by 75 per cent.

Outdoor crowds were Simon's livelihood, but most markets closed, sport was postponed, schools went online, and outdoor events were cancelled. 'Prior to this our business was ticking away just nicely,' Simon says. 'It literally ground to a halt.'

The situation could have been disastrous. But Simon set about finding new ways to market his portable marquees and gazebos, which are known for their strength and durability.



Figure 5.21 Some of Altegra's products in action

Thinking outside the square

The challenge for Simon was finding new product ideas and markets as COVID-19 restrictions gradually eased. When schools returned, for example, he developed hand sanitiser stations that used a gazebo with a school logo to provide a recognisable location to find and use it.

With some help from the Small Business Mentoring Service (SBMS) CEO David Gregory, Simon brainstormed more clever ways to attract new sales and to expand Altegra's digital footprint.

They included:

- **Outdoor kitchen/serving stations.** With numbers restricted at wineries and restaurants, branded gazebos could become outdoor stations for items such as crepes and cheese platters.
- **Fairs and markets.** As markets, fairs and outdoor events return, event organisers and councils might like gazebo packages with creative customised messages and photos.
- **Festivals.** Gazebos can be matched to a festival theme or stallholder, such as Ferrari red marquees at the Italian Festival in Carlton's Lygon St around Grand Prix time.
- **Tourism.** A group of businesses could use gazebos or marquees for consistent branding across joint ventures, such as farm gate or tourism trails.

Making a fresh start

Simon is also rethinking how he operates. He had preferred selling face to face and customers liked to visit his Knoxfield showroom. 'People like to feel them and touch them,' he says of his products. Post-COVID-19, however, more customers may prefer to shop online. With the guidance of the mentors from SBMS, exploring the digital opportunities that best aligned to his business was extremely valuable. 'It's almost like starting again,' Simon says. 'We're having to change our thinking. We're having to invest more on our website and YouTube.

'It's exciting in some ways. It's a bit of a reset not just for Australia but for the whole world.'

Adapting to a new normal

SBMS has also adapted to the new normal by moving mentoring online via Zoom and establishing a COVID-19 support page on its website (www.sbms.org.au). It deals with issues such as accessing support and how to survive in these challenging times.

With David, Simon looked at his current market to see what avenues remained unexplored, what would enhance or differentiate his offer, how he could target bulk sales and what he could offer others looking to meet new challenges.

'The road ahead is not the same road,' David explains. 'While so many businesses have been impacted, the response should be how can they redefine their business, their direction, their products/services and align them to the new road.'

The Small Business Mentoring Service (SBMS) is a non-government, non-profit organisation of volunteer expert mentors who give their time and experience to help small business. It is supported by Small Business Victoria.

Source: Adapted from www.sbms.org.au, 'Altegra – Sheltering from a business storm'.

CASE STUDY ANALYSIS

1. **Outline** the issues experienced by this business as a result of the COVID-19 pandemic.
2. **Describe** how the Small Business Mentoring Service assisted Altegra.
3. Based on your knowledge of business support services, **propose** two additional business support services that Simon Braunthal could pursue further.

ACTIVITY 5.6

Select one of the following business support organisations: Business Incubator Centre, Business Enterprise Centre or Small Business Mentoring Service. Working in small groups of three, construct a booklet or pamphlet promoting your chosen organisation and the services it offers to a start-up business.

Headings that may be used in the booklet or pamphlet include:

a getting started
b coming up with a business idea
c legal advice
d financial advice
e government assistance and advice
f business structure and registration
g case study of a business benefiting from the organisation's services.

You may wish to conduct your research online or arrange to visit the organisation.



Figure 5.22 A small business owner needs to consult advisers and professionals in areas that require specific expertise.

REVIEW ACTIVITY 5.4

Part 1: Digital quiz
Please see the Interactive Textbook to access a digital activity.

Part 2: Short-answer questions
Answer these questions on paper or in the Interactive Textbook.

1 **Distinguish** between formal and informal sources of business support.
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 Using the Business Victoria website and related links on the website, construct a checklist of 10 items that a business start-up should consider in their initial planning and suggest where relevant advice can be reliably found.
5 Rank in order of importance the organisations that operate to support innovative business from local to federal government support. **Describe** the services offered and **justify** your ranking by explaining why you have selected the organisation to be ranked as you have determined.

Chapter 5 review

Summary

Create your own summary notes for this chapter on paper or in a digital document. A model summary is provided in the Area of Study review chapter for Unit 1 Area of Study 2, which can be used to compare with yours.

Developing clear definitions

By writing a brief explanation of each of the following terms, you will gradually build up a glossary of comprehensive terms for revision. Define these terms in your exercise book.

Capital resources	Natural resources	Labour
Business location	Bootstrapping	Owners' equity
Business angels	Venture capitalist	Crowdfunding
Crowd-sourced funding	Overdraft	Commercial hire purchase
Mentoring	Business support services	Business incubator

Extension questions

1 **Investigate** three different sources of finance a business might access. Present your findings to potential business owners, **outlining** the advantages and disadvantages of each source.

2 'There is a wealth of assistance offered to an aspiring business operator; however, to navigate the range of possibilities is confusing.' Consider this statement, and then construct Construct an information pamphlet titled 'The Start Up Guide to Business Support Services'. Make sure your pamphlet:

- **describes** the types of assistance and support a potential business operator might require while setting up and establishing a small business.
- **discusses** the advantages and potential disadvantages of the services that are offered.

Checklist

The success criteria are linked to the learning intentions from each section of this chapter, and have been written based on the key knowledge and skills of the VCE Business Management Study Design. Completing the linked questions per success criteria will thoroughly prepare you for success in this subject. Fill in, print, or photocopy this checklist and tick the boxes when you have answered the corresponding questions correctly.

Success criteria – I am now able to:		Linked questions	Completed (Y/N)
5.1 Business resource needs and the factors affecting their choice	**5.1.1** Describe the three types of business resources and the factors affecting their use	Case study 5.1 Review activity 5.1: Part 1 & Part 2	Yes ☐ No ☐
5.2 Business location and factors affecting choice of location	**5.2.1** Describe and analyse the choices available in determining the location of a business	Activity 5.1 Activity 5.2 Review activity 5.2: Part 1 & Part 2	Yes ☐ No ☐
5.3 Sources of business finance	**5.3.1** Examine the sources of finance available and examine the factors affecting their choice	Activity 5.3 Activity 5.4 Case study 5.2: Q1 Case study 5.3: Q1–3 Review activity 5.3: Part 1 & Part 2 Extension: Q1	Yes ☐ No ☐
5.4 Government and community-based support and assistance	**5.4.1** Describe the role of business support services in their offerings to business	Activity 5.5 Activity 5.6 Case study 5.5 Case study 5.6: Q2–3 Review activity 5.4: Part 1 & Part 2 Extension: Q2	Yes ☐ No ☐

Digital activities

- Access the Interactive Textbook via Cambridge GO to complete a Scorcher timed competitive quiz for this chapter.
- From their Cambridge GO account, your teacher can also assign practice VCAA-style assessment questions with model responses.

CHAPTER 6

Business planning and corporate social responsibility (CSR)

'I admire companies that give back to communities. It is an absolute essential for organisations to watch, mitigate, and improve their impact on the environment, people, communities, their health and overall well-being.'

Shiv Nadar (1945–)



About the author:
Shiv Nadar is an industrialist and philanthropist. He is founder of HCL Technologies Limited and is the third richest person in India, with an estimated net worth of over $28 billion.



KICKSTARTER ACTIVITY

1 Why does Shiv Nadar believes it is essential for organisations to improve their impact on the environment and communities?
2 This chapter is titled 'Business planning and corporate social responsibility (CSR).' **Discuss** the relationship between these two concepts.

CHAPTER OVERVIEW

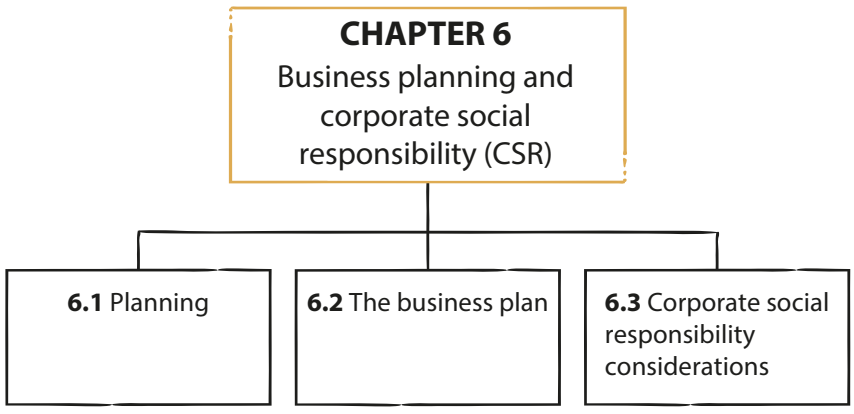
Planning involves working out how to do something, get somewhere, or achieve a desired objective. As individuals, we all need to plan our lives in order to achieve objectives. Businesses are no different! A business must plan to achieve business objectives right from inception. Failure to plan will see 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 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 global positioning system (GPS). Attempting to navigate through an unfamiliar area without using a GPS is hardly effective. Referring to a GPS, 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 before establishing the business and continue for the life of the business.

Key knowledge and learning intentions

Key knowledge	Learning intentions – at the end of this chapter I will be able to:
Planning analysis tools to assist in determining the strengths and weaknesses of decisions regarding changing internal factors, such as SWOT analysis	**6.1 Planning** 6.1.1 Describe planning analysis tools such as a SWOT analysis to assist a business
Overview of business plans, including the benefits of using them and an outline of their key features	**6.2 The business plan** 6.2.1 Outline the key features of business plans and discuss their usefulness in business planning
Corporate social responsibility considerations and business planning	**6.3 Corporate social responsibility considerations** 6.3.1 Examine the need for corporate social responsibility considerations in business planning

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What's ahead



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6.1 Planning

Learning intentions – at the end of this chapter section I will be able to:	**6.1.1** Describe planning analysis tools such as a SWOT analysis to assist a business

planning a formalised decision-making process that is future oriented

strategic planning long-term (two to five years) planning undertaken by senior management to achieve business objectives

business strategy the plan or process that a business implements to achieve its long-term goals and objectives

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

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 short term to long 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.

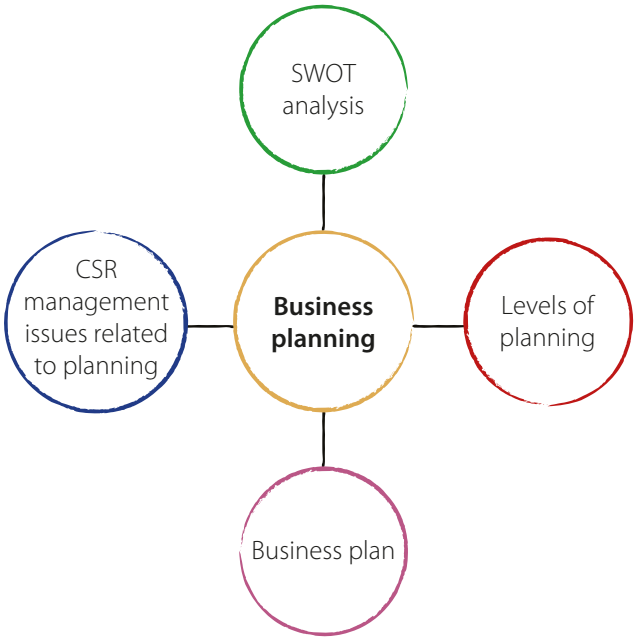


Figure 6.1 Business planning

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.

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.

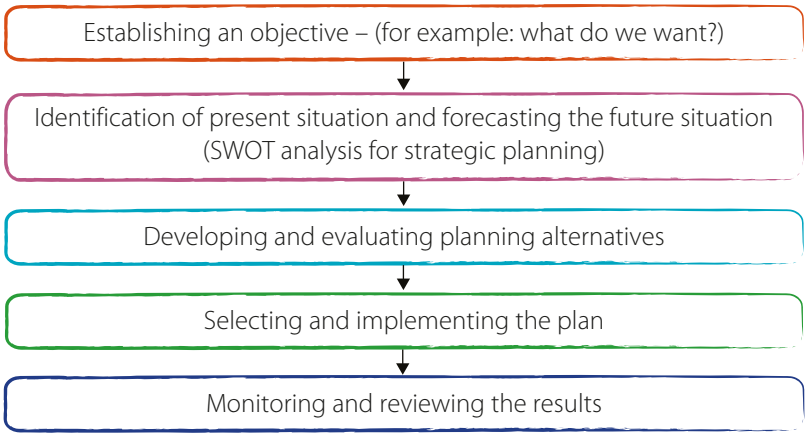


Figure 6.2 Five stages of planning

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 that have been determined by a higher level of management.



Figure 6.3 Three levels of business planning

operational planning the detailed, short-term planning undertaken by a business

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.

Table 6.1 Examples of strengths, weaknesses, opportunities and threats as part of a SWOT analysis

Internal environment	
Strengths	**Weaknesses**
Well-trained and skilled workforce	Unskilled and poorly trained workforce
Strong reputation/brand recognition	Poor reputation/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 and efficient facilities	Outdated and inefficient facilities
Dynamic and responsive organisational structure	Bureaucratic management structure
Positive corporate culture	Poor/toxic corporate culture
Stable workforce	High level of staff turnover
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 and promotions
Expansion to different locations	Changes in lease conditions, such as increased rent 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, such as materials and skilled staff
Legal issues – protection/removal of restrictions	Legal issues – restrictive legislation or legal action

CASE STUDY
6.1

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. It is estimated that IKEA stocks approximately 12 000 products and sells these via its 455 stores operating in 60 countries and its online stores. IKEA stores also have a restaurant and cafe 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, its 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 its business. Its commitment to sustainability is shown in its choice of product range, suppliers, stores and communication. Its 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 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. Following 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 and 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 programs to reduce use of water
- Reducing carbon footprint. IKEA aims to reduce its energy use, use more renewable energy and reduce packaging
- Develop its 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, coworkers, 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: Extracted from the Business Case Studies UK website, 'An IKEA case study, SWOT analysis and sustainable business planning', 28 November 2019.

CASE STUDY ANALYSIS

1. **Explain** the difference between the two internal and two external factors that may affect IKEA, and that need to be considered when undertaking a SWOT analysis.
2. Suggest ways you believe IKEA has responded to opportunities to grow the business and how it has managed to minimise threats to its business.
3. **Evaluate** the contribution undertaking a SWOT analysis has made to IKEA's success and business growth.



REVIEW ACTIVITY 6.1

Part 1: Digital quiz
Please see the Interactive Textbook to access a digital activity.

Part 2: Short-answer questions
Answer these questions on paper or in the Interactive Textbook.

1. **Describe** what is meant by a SWOT analysis.
2. **Describe** the relationship between the internal and external business environments.
3. **Describe** the benefits for a business of conducting a SWOT analysis as part of its strategic planning process. Suggest one disadvantage of a SWOT analysis.
4. **Outline** the three levels of planning for a business. Consider a business that you are familiar with, perhaps your part-time job or the involvement in a business of a family member. **Identify** three decisions for each level of planning (strategic, tactical and operational) that would need to be made by the business.

6.2 The business plan

Learning intentions – at the end of this chapter section I will be able to:	**6.2.1** Outline the key features of business plans and discuss their usefulness in business planning

business plan the formalised planning a business undertakes on a periodic basis

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, indicates 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.

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.

A business plan performs numerous roles. It:

- defines and clarifies 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 making decisions on the run
- enables realistic estimations regarding business costs, thereby reducing chances of cost blow-outs.



Figure 6.4 A good business plan will increase the chances of business success.

CASE STUDY
6.2

Businesses forced to review business plans



Farmhouse Seeds is based in regional Victoria and produces sustainable and freshly packed seeds. Its vision is to have every community growing and sharing sustainable home-grown produce, and its mission is to provide their customers with nutrient-rich produce as an alternative to compromised store-bought options.

Jay Hill and David Ryan launched their new business Farmhouse Seeds at the start of 2020. Initially, their business plan was based around face-to-face interaction of markets and festivals, combined with an online presence, but they were forced to change abruptly in the face of COVID-19.

Unfortunately, the timing of the pandemic removed the opportunity to attend events and present their new products to customers in person. Farmhouse Seeds is now predominantly an online retail business that specialises in heirloom vegetable, herb and flower seeds, as well as garden supplies.

After meeting with the Business Resilience program, they realised the importance of formulating a solid plan that could take them into the long term. COVID-19 pushed their online business to a level above and beyond what they had originally hoped. It prompted them to change their business model to an online portal that combined sales with information that would support customers on a daily basis.

Source: Adapted from Maddy Williams, 'Farmhouse Seeds – Digital Solutions Business Feature', Melbourne Innovation Centre website, 4 August 2021.

CASE STUDY ANALYSIS

1. **Explain** why it is important for a business to review the business plan.
2. **Identify** two key areas of the business plan that will need to be reviewed in light of the change for Farmhouse Seeds' business model. **Explain** why these two areas will require review.

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 plan
11 Appendices.

Section 1: Title or 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
- Australian Business Number (ABN) (registered with Australian Taxation Office (ATO))
- Australian Company Number (ACN) (registered with the Australian Securities and Investments Commission (ASIC))
- date the plan was prepared and by whom
- table of contents.



Figure 6.5 A business plan sets out how business objectives will be achieved.

Section 2: Executive summary

executive summary an overview or summary of the key points contained in the business plan

The **executive summary** immediately follows the cover page and is generally 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.

The purpose of the executive summary is to enable a quick appraisal of the proposal by someone reading the document. For instance, by reading the executive summary a bank manager or a person wishing to provide venture capital can 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.



Figure 6.6 Your executive summary should be clear, concise and engaging.

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
- clarification of things the business views as important, including values and aspirations.

Table 6.2 Examples of mission/vision statements

Business	Mission/vision statements
Blackmores	*Vision statement:* Combine our knowledge of nature and science to deliver quality solutions to bring wellness to people and their pets everywhere, every day. *(Source: Blackmores, 2021 Annual Report)*
Kmart	*Vision statement:* Kmart's vision is to provide families with everyday products at the lowest prices. We strive for this vision through high-volume sales, efficient operations, adaptable stores and a great culture. *(Source: Kmart website, 'About us')*
Commonwealth Bank	*Mission statement:* The objective of our business strategy is to deliver balanced and sustainable outcomes for our customers, community, people, and shareholders. Our focus areas are financial education, contributing to the community, and good business practices. *Vision statement:* Our vision is to excel at securing and enhancing the financial wellbeing of people, businesses and communities and a key requirement to achieve this is that we maintain the highest professional standards and act with integrity during the course of our business activities *(Source: Commonwealth Bank website, 'Our vision')*

ACTIVITY 6.1



1 Using the websites of the three businesses from Table 6.2, **investigate** and then **describe** the products and/or service they offer to their customers.
2 **Evaluate** whether you believe the mission and/or vision statement of these businesses reflects accurately the purpose of those businesses.

Section 3: Business profile and details

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 and qualifications of key personnel and staff
- an outline of the business structure
- business location plus details about premises
- a brief description of main activities to be undertaken and products and services offered
- anticipated competitive advantage
- any domain names registered
- relevant licences/permits held or applied for (a tradesperson requiring a certificate, permits required for footpath trading, etc.).

Section 4: Legal details and 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.

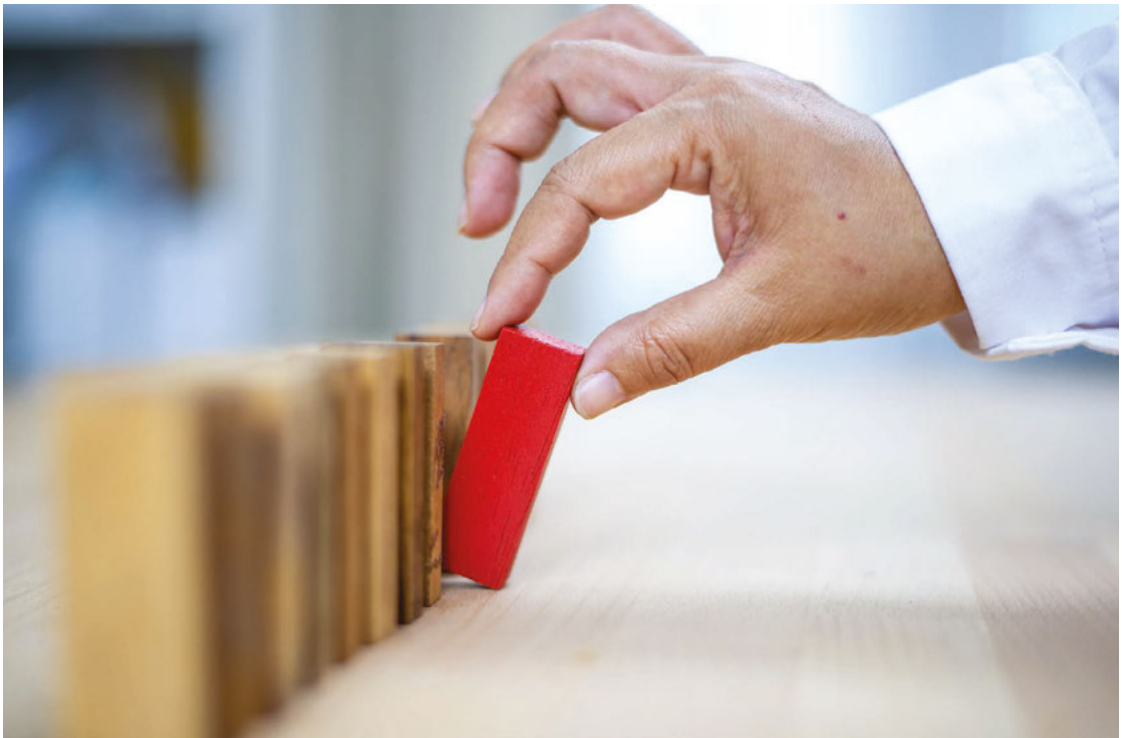
Section 5: Insurance and risk management

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 and 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.

Figure 6.7 Analysis of levels of risk and plans to manage potential risks feature in a business plan.



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.

Section 7: Products/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 or 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
- 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 plan

This section provides detailed information about the people and processes the business will use to achieve its objectives. It includes a number of subsections.

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 6.8 for a dentist.

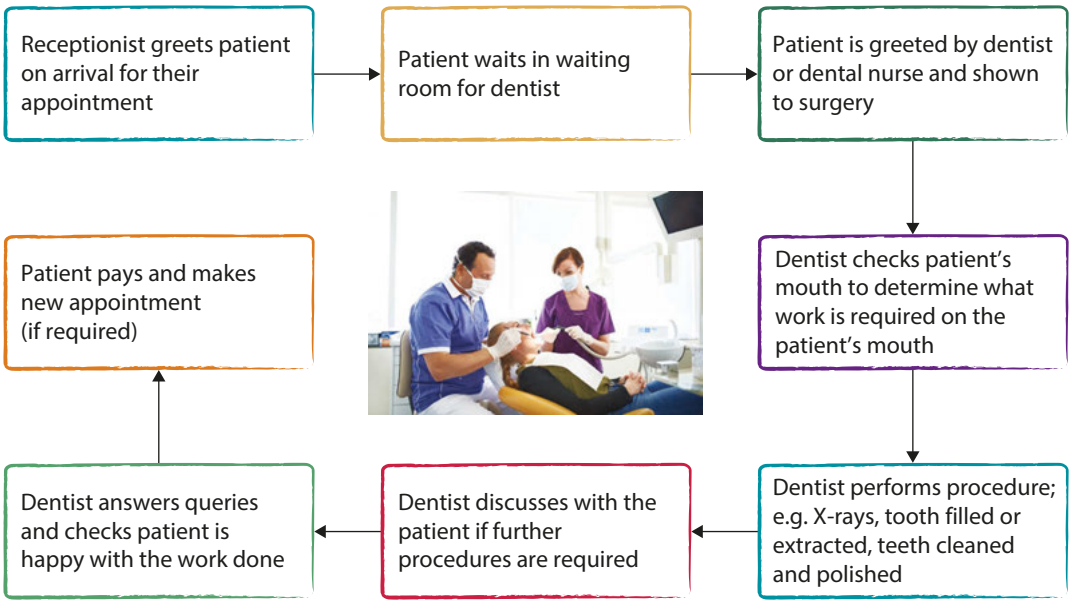


Figure 6.8 Production process for a dentist

The following details should also be included:

- suppliers providing inputs into the business
- plant and equipment required including costs; for example, vehicles, computer equipment and 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 and PayPal
- credit policy
- warranties and refunds
- membership and affiliations; for example, industry associations.



ACTIVITY 6.2

Design a flow chart demonstrating the production process for one of the following tasks:

- serving a customer in a cafe
- grooming a dog

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 will receive tomorrow is of the same quality that someone else received yesterday.

There are three basic quality management systems used:

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

total quality management (TQM) a concept whereby all staff in a business have responsibility for its process and output

1. **Quality control**: Goods and services are physically checked against a set of predetermined standards. Examples of this are inspections or random checks, such as those used by many clothing manufacturers.
2. **Quality assurance**: This is a system used by a business to ensure that predetermined quality standards are achieved during production of 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.
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.

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:

- 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 and average size
  - number of people employed in the industry
- 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)
- a description of how the business intends to promote itself and its products, including marketing and public relations strategies
- 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 and after-sales back-up.

marketing plan the plan that sets out the marketing objectives and strategy to be undertaken by a business



Figure 6.9 This is a certification mark owned by SAI Global Limited. Only businesses certified 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.

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.

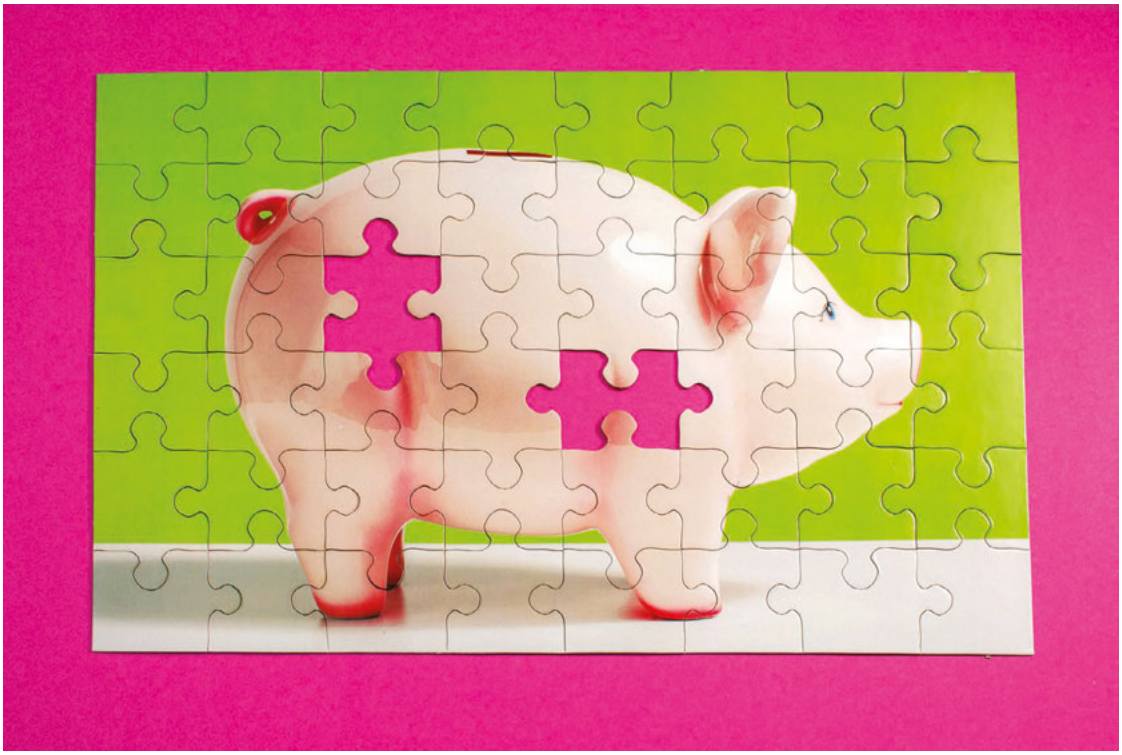


Figure 6.10 Creating a financial plan assists in checking that all essential requirements and expectations have been accounted for.

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 resumés of the key personnel
- any market research relevant to the business
- any articles, press releases, or publicity material featuring the business or key personnel.

REVIEW ACTIVITY 6.2

Part 1: Digital quiz
Please see the Interactive Textbook to access a digital activity.

Part 2: Short-answer questions
Answer these questions on paper or in the Interactive Textbook.

1. **Describe** what a business plan is and **outline** three advantages for a business that develops their business plan.
2. **Outline** the purpose of each of the following key elements to a business plan:
   a. executive summary
   b. sustainability plan
   c. operations plan
   d. marketing plan
   e. financial plan.
3. **Explain** why business owners should not expect to make a profit in the first year of operation.
4. 'An executive summary is like an elevator pitch.' **Explain** the meaning of this statement.

6.3 Corporate social responsibility considerations

Learning intentions – at the end of this chapter section I will be able to:	**6.3.1** Examine the need for corporate social responsibility considerations in business planning

The corporate social responsibility (CSR) expectation is for a business to be socially accountable towards itself, to stakeholders and to society. Businesses are expected to conduct themselves in ways that will enhance society, instead of making any negative contribution to economic, social, or environmental factors. Regardless of their size, all businesses need to consider corporate social responsibility when developing and planning a business.

The concept of CSR requires businesses to work above minimum legal requirements. Businesses have discovered that adopting CSR practices has assisted in achieving business success. A business operating in a fair and ethical manner is displaying CSR by its fair treatment of all stakeholders including employees, customers, investors and suppliers. 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 contribute socially.

CSR and the environment

It is advised by Business Victoria that when preparing a business plan, information on how the business will approach sustainability and corporate social responsibility (CSR) should be included. Suggested areas related to this would be covered in the business plan:

- *Environment and resource impacts* – outlines the impact the business will have on the environment
- *Community impact and engagement* – identifies the possible positive impact the business will have on the community and the ways it will engage with the community
- *Risks/constraints* – identifies potential risks or constraints the business may experience related to environmental matters
- *Strategies* – identifies 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.



Figure 6.11 The recycling symbol often appears on goods being marketed as 'environmentally friendly'.

Sustainability Victoria recommends that businesses should complete an environmental audit as this allows businesses to also set benchmarks for improvement. Conducting an environmental audit is important for a business, as it reveals the specific areas where the environment is most impacted by the business's operations. It also functions as a risk management tool to measure how well a business operates in accordance with environmental regulations. 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. A business must be able to back up its environmental or 'green' claims with scientific evidence. A consumer should be able to trust and rely on environmental claims. When businesses ensure that their claims are substantiated, they not only demonstrate good business practice but also comply with the 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 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 it emerges that there are unethical or illegal practices related to its suppliers. Maintaining CSR practices across the supply chain assists in ensuring that expectations are managed from the sourcing of materials through to the delivery of the final product or service.

CASE STUDY
6.3

A look behind Canva's crazy big sustainability goals



Canva is an Australian online design platform, worth over US$15 billion. Research the article 'A look behind Canva's crazy big sustainability goals' written by Kimi Cosepe, on the Canva website, and read the information closely. Then answer the analysis questions that follow.

CASE STUDY ANALYSIS

1. Canva has adopted a socially responsible approach to its products and business operations. **Provide** two reasons why this is a sound approach.
2. **Outline** the main strategies implemented by Canva to reach carbon neutral in 2020. (Hint: access the article on the following URL for an outline of steps taken by Canva: https://cambridge.edu.au/redirect/9758.)

3 Sustainability requires careful management of resources to ensure their availability in the future. **Describe** the strategies Canva introduced in aiming to establish a sustainable printing industry.

4 According to Jared Ingersoll, 'One of Canva's core values is to "be a force for good" and it's a statement that steers all of the decisions we make, the goals we set, and the culture we create as a company.' Given that a business plan includes the opportunity to align all business practices with the mission, vision and values statements, **identify** the areas of the business plan that should align with these overarching goals.

5 **Identify** and **describe** strategies that enhance corporate culture at Canva.

6 **Explain** whether you believe the approach adopted by Canva may make it more difficult to create a financially successful business.



Figure 6.12 Ensure that environmental concerns and how you will address them are a part of your business plan.

REVIEW ACTIVITY 6.3

Part 1: Digital quiz
Please see the Interactive Textbook to access a digital activity.

Part 2: Short-answer questions
Answer these questions on paper or in the Interactive Textbook.

1 **Describe** why a business should include references in its business plan to its approach to corporate social responsibility and the environment.

2 **Describe** the types of information that should be included in a business plan relating to corporate social responsibility.

3 **Explain** why a business should try to ethically source materials and inputs.

4 **Discuss** the costs and benefits of corporate social responsibility practices.

5 **Describe** the consequences for a business if it fails to act in an ethical and socially responsible manner.

Chapter 6 review

Summary

Create your own summary notes for this chapter on paper or in a digital document. A model summary is provided in the Area of Study review chapter for Unit 1 Area of Study 2, which can be used to compare with yours.

Developing clear definitions

By writing a brief explanation of each of the following terms, you will gradually build up a glossary of comprehensive terms for revision. Define these terms in your exercise book.

SWOT analysis	Strategic planning	Tactical planning
Operational planning	Business plan	Executive summary
Corporate social responsibility	Marketing plan	Operations plan

Extension questions

A friend who has recently retired is thinking of starting up a business to cater for the domestic needs of busy professionals. The business would offer the following services: grocery shopping, arranging occasional child care or a nanny, dog walking, employing a cleaner, ordering gourmet meals, sending out laundry and ironing, and simple gardening duties.

1 Suggest an appropriate name for the business. Undertake an online search to ensure that your proposed name has not already been registered. **Identify** five reasons why you would advise your friend to write a business plan.
2 **List** and **explain** the contents of the essential sections of a business plan.
3 **Identify** some other important areas or considerations that you believe they should look into before embarking on this business venture.

Checklist

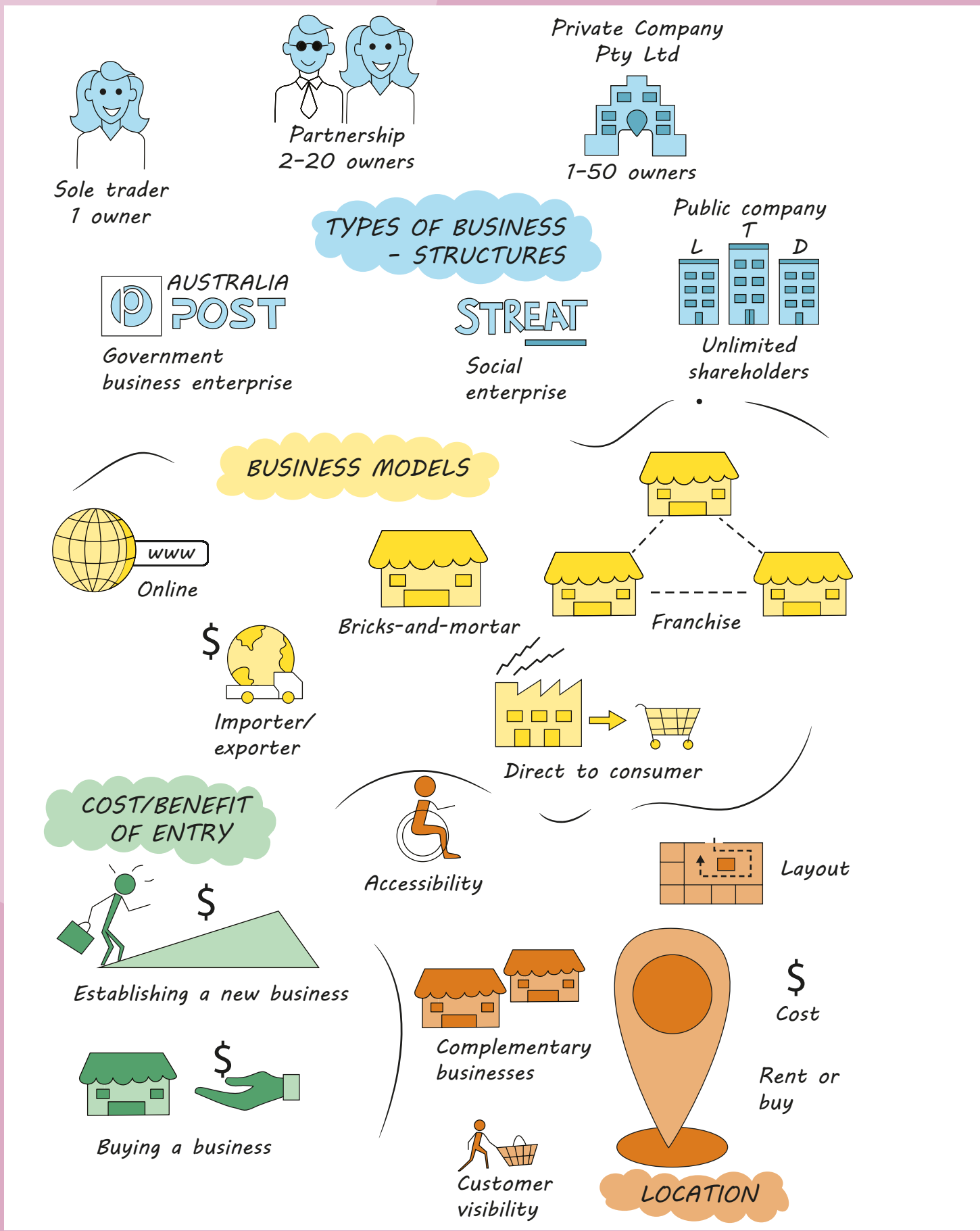
The success criteria are linked to the learning intentions from each section of this chapter, and have been written based on the key knowledge and skills of the VCE Business Management Study Design. Completing the linked questions per success criteria will thoroughly prepare you for success in this subject. Fill in, print, or photocopy this checklist and tick the boxes when you have answered the corresponding questions correctly.

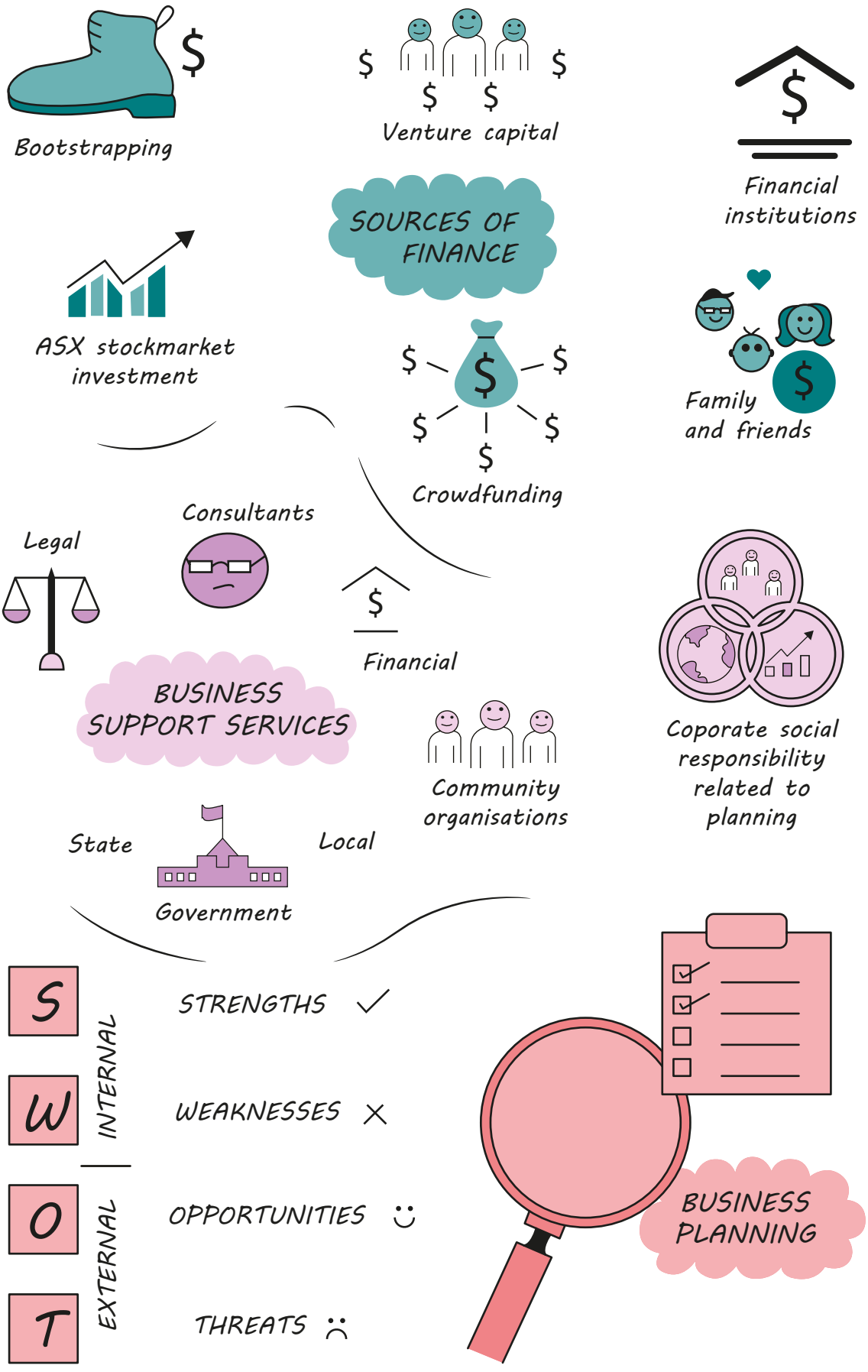
Success criteria – I am now able to:		Linked questions	Completed (Y/N)
6.1 Planning	**6.1.1** Describe planning analysis tools such as a SWOT analysis to assist a business	Case study 6.1 Review activity 6.1: Part 1 & Part 2	Yes ☐ No ☐
6.2 The business plan	**6.2.1** Outline the key features of business plans and discuss their usefulness in business planning	Activity 6.1 Activity 6.2 Case study 6.2 Review activity 6.2: Part 1 & Part 2 Extension	Yes ☐ No ☐
6.3 Corporate social responsibility considerations	**6.3.1** Examine the need for corporate social responsibility considerations in business planning	Case study 6.3 Review activity 6.3: Part 1 & Part 2	Yes ☐ No ☐

Digital activities

- Access the Interactive Textbook via Cambridge GO to complete a Scorcher timed competitive quiz for this chapter.
- From their Cambridge GO account, your teacher can also assign practice VCAA-style assessment questions with model responses.

Unit 1 Area of Study 2 review Conceptual summary

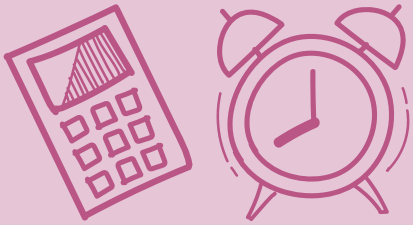



Bootstrapping
Venture capital
Financial institutions
SOURCES OF FINANCE
ASX stockmarket investment
Family and friends
Crowdfunding
Consultants
Legal
Financial
BUSINESS SUPPORT SERVICES
Community organisations
Coporate social responsibility related to planning
State
Local
Government
S
W
O
T
INTERNAL
EXTERNAL
STRENGTHS
WEAKNESSES
OPPORTUNITIES
THREATS
BUSINESS PLANNING

Key knowledge summary: Unit 1 Area of Study 2

Key knowledge	Summary
• The relationship between the internal environment and the external environment of a business	• Businesses are impacted by a number of conditions that require understanding and action in planning and decision making. • The internal environment comprises all of the elements within a business. • External environment consists of two environments: – operating environment is the environment immediately external to a business – macro environment consists of factors directly affecting businesses that are outside their control.
• Types of businesses such as sole trader, partnership, private limited company, public listed company, social enterprises and government business enterprises, and the factors affecting the choice of business structure	• 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 companies: – 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'.
• Types of business models such as online business, direct-to-consumer business, bricks-and-mortar business, franchise, importer and exporter	• A legal business structure must be selected. • 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.
• Costs and benefits of purchasing an existing business compared with establishing a new business	• The potential business operator may opt to enter into business in one of the following ways: – Establish 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 existing business. Advantages include processes in place, access to financial records, and established staff, clients and suppliers. Cash flow commences sooner and profits should come more quickly. Disadvantages involve 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.

Key knowledge	Summary
• Business resource needs (natural, labour and capital) and the factors affecting the use of business resources	• A business must plan to meet its resourcing requirements in terms of natural resources, labour and capital items. • In managing human resources (labour), workforce planning is required to ensure skilled labour is developed and available to satisfy the business's requirements. • Arrangements must be made for the servicing of capital equipment.
• Business locations and the factors affecting choice of location	• Business location is a crucial decision as location provides a link between the business and its customers. • Factors to consider when deciding on a business location include: – personal factors – area profile – level of competition in an area – proximity to complementary businesses – proximity to competitors – proximity to customers and suppliers – suitability of buildings and facilities.
• Sources of finance available to establish a business and the factors affecting the type and source of finance chosen	• Finance is a crucial aspect of business planning and the success of the business. • There are a range of different sources of finance available to business. • Bootstrapping is a method of financing a new business with personal savings or funds loaned by family or friends that aims to reduce set-up costs. • Owners' equity is where owners draw from their personal savings to invest in their business. • Business angels invest in a new business and usually act as a mentor. • Venture capitalists are large corporations that invest heavily in start-ups with potential for high growth and profits. • Crowdfunding is a method of gaining finance from the public for a one-off project. • Crowd-sourced funding is used by start-ups and small business; it's regulated by ASIC and allows business to raise up to $5 million each year. • Sources of finance from financial institutions: – banks provide financial services for short-term and long-term requirements – overdraft is an extension of credit that permits an account holder to withdraw more than they have in their account – finance companies are direct lenders and accept a higher level of risk then a bank but charge higher interest rates – commercial hire purchase can be used for machinery or vehicles.
• Business support services such as legal, financial, technological, community-based, formal and informal networks, and business mentors	• There is a wide range of support services available. Businesses that utilise available support services stand a greater chance of survival and prosperity. – Informal sources of support include: – networking with groups of business owners – 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 etc. – Formal sources of support include professional advisers: lawyers, accountants and IT support services. • Government assistance: – the federal government offers the Entrepreneurs' Programme for new businesses – the Victorian state government has established online services, and funds Small Business Centres Victoria (SBCV), Small Business Mentoring Service (SBMS) and Business Victoria – local governments provide networking opportunities. • Business centres, business incubators, network and mentoring services are funded by the federal and state governments, but run independently and are not-for-profit organisations.



Key knowledge	Summary
• Planning analysis tools to assist in determining the strengths and weaknesses of decisions regarding changing internal factors, such as SWOT analysis	• 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 all businesses 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 time frame for achievement of objectives.
• Overview of business plans, including the benefits of using them and an outline of their key features	• 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 and considerations – insurance and risk management – sustainability plan – products/services – operations plan – marketing plan – financial plan – appendices.
• Corporate social responsibility considerations and business planning	• 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. • CSR measures extends to employees, customers and the community.

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Sample assessment questions and advice

Unit 1 Area of Study 2: Internal business environment and planning

In this section, we will look at some sample assessment-style questions. Although there is no external examination for Units 1&2, the following questions are written in a VCAA-examination style to prepare you for these types of questions.

Unit 1, Area of Study 2 examines the internal business environment and analyses how factors from within it may affect business planning.

When planning a business, owners must ensure that they consider and work with the following factors under their control:

- resources they need, such as natural, labour and capital
- location – choices
- finance – sources and types
- new or existing business
- business structures – types
- support services available
- planning tools, such as a SWOT analysis
- business plans
- CSR.

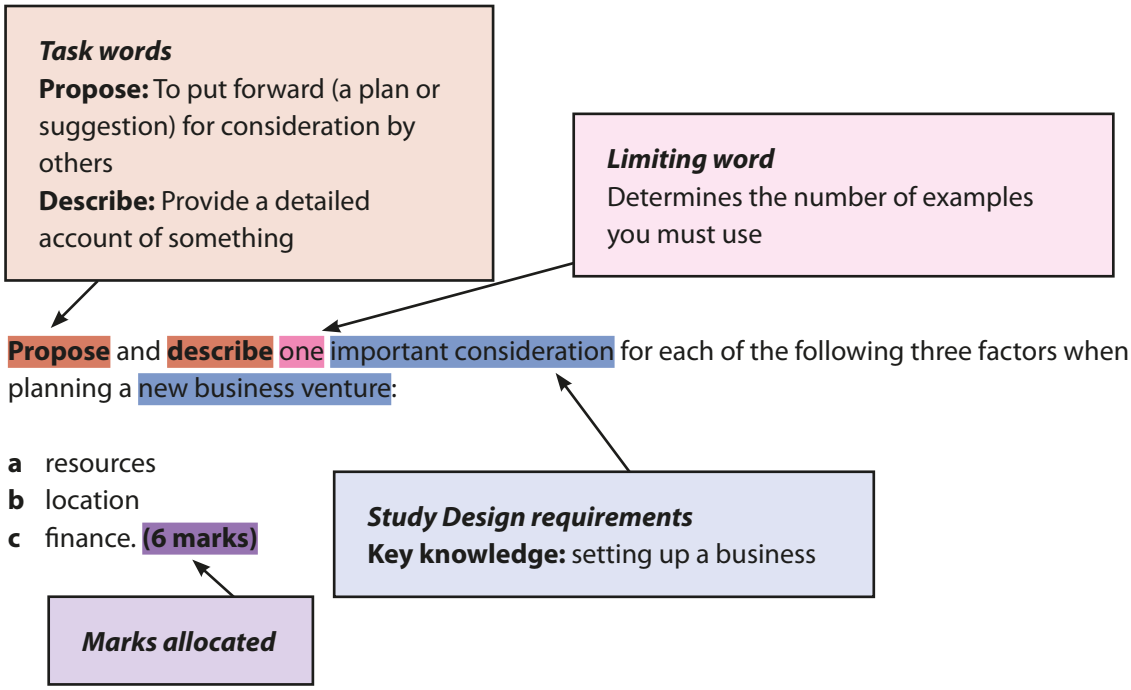
Let's explore how this content might be assessed through the following two example questions.

Question 1

Propose and **describe** one important consideration for each of the following three factors when planning a new business venture:

a resources
b location
c finance. **(6 marks)**

Extended response question – let's unpack it



Hints:

- The key knowledge areas have been identified in the question; now we need to ensure that the two key skills are correctly applied when answering the question.
- The first task is 'propose', which requires you to put forward a plan or suggestion for consideration by others.
- The second task word is 'describe', which requires you to provide a detailed account of the factor you have identified.

A possible answer to the question might be:

Sample response

a An important consideration when planning a new business venture is the availability of human resources (labour) to work in the business. It is essential that the business can access employees with the requisite qualifications, skills and experience. While the business might commence as a sole-trader operation, as it expands it will require additional employees and ensuring the business can access these will be an important factor for its ongoing success.

b Where to locate a business is another important consideration when planning a business. Different types of businesses require different locations. For instance, a retail shop needs to be in an area where visibility and foot traffic is high. A high-street shopping centre or shopping mall is ideal. If the business does not require passing foot traffic, but needs a larger operating footprint, an industrial estate may be a better location. Service businesses such as lawyers or doctors may be better to locate near complementary business such as the courts or a pharmacy or hospital.

c Where to source finances for establishing and operating a business is vital when planning a business venture. New business owners who have no proven financial history or much capital behind them will find obtaining finance from established financial institutions, such as banks, very difficult. Initially, they will need to rely on their own savings, securing a

loan over one of their existing assets (home), or borrowing from family and friends. For the day-to-day running of the business they will need to ensure they have sufficient working capital. It may be possible to arrange this by securing the overdraft facility from a bank. As the interest charged on this facility is high, the business must ensure it keeps a close check on this type of account.

Marking guide:
- 2 marks for proposing and describing an important consideration in relation to resources
- 2 marks for proposing and describing an important consideration in relation to location
- 2 marks for proposing and describing an important consideration in relation to finances.

Total 6 marks

Question 2

Distinguish between the following legal business structures:

a sole trader and partnership

b private limited company and public listed company. **(4 marks)**

Extended response question – let's unpack it

Task words
Distinguish: To recognise or show points of difference between two or more concepts of items. Note the distinctive characteristics or response involved in the stimulus material

Study Design requirements
Key knowledge: management styles and management skills

Distinguish between the following legal business structures:

a sole trader and partnership

b private limited company and public listed company. **(4 marks)**

Marks allocated

Hints:
- This question requires you to distinguish between two key terms.
- The task word 'distinguish' requires you to recognise or show points of difference between the two items, concepts or terms.

A possible answer to the question might be:

Sample response

a There are several distinguishing features between operating a business as a sole trader or a partnership. Firstly, a sole trader is an individual owner of a business, whereas a partnership involves two or more owners working together. While both partners contribute capital to the business in a partnership, it does not have to be in equal amounts. A sole trader is entitled to keep all profits, not having to split these with any business partners. If the business makes a loss, however, they have to carry the losses personally as they cannot split these among the partners, who have the ability to spread the risk to their personal assets.

b Both these legal structures (private limited company and public listed company) are separate legal entities but differ in that the public listed company has greater legal requirements attaching to its reporting to shareholders and ASIC. It is also able to raise greater amounts of funds through the issue of shares because the number of shareholders it may have is far greater than a private limited company. Another distinguishing feature is how shareholders acquire or sell their shares. In a private company, share transactions occur with the consent of the other shareholders and are traded privately. The ASX is the trading place for shares in public listed companies, with the market determining the buying/selling price for the shares.

Marking guide:

- 2 marks for distinguishing between sole trader and partnership
- 2 marks for distinguishing between private limited company and public listed company.

Total 4 marks

AREA OF STUDY 3
EXTERNAL BUSINESS ENVIRONMENT AND PLANNING

AREA OF STUDY DESCRIPTION

The external environment consists of all elements outside a business that may act as pressures or forces on business operations. Students consider factors from the external environment such as legal, political, social, economic, technological, global and corporate social responsibility factors and the effects these may have on the decisions made when planning a business.

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OUTCOME 3

On completion of this unit the student should be able to describe the external environment of a business and explain how the macro and operating factors within it may affect business planning.

To achieve this outcome the student will draw on key knowledge and key skills outlined in Area of Study 3. [These are listed at the start of each chapter.]

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CHAPTERS IN THIS AREA OF STUDY	
	7 External business environment and planning: macro factors
	8 External business environment and planning: operating factors

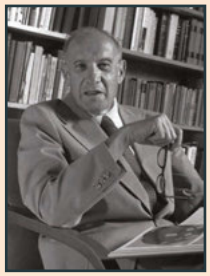
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CHAPTER 7
External business environment and planning: macro factors

'Every single social and global issue of our day is a business opportunity in disguise.'

Peter Drucker (1909–2005)

About the author:
Peter Drucker was an Austrian-American management consultant, educator and author, whose writings contributed to the philosophical and practical foundations of the modern business corporation.





KICKSTARTER ACTIVITY

1 **Explain** the meaning of the quote.
2 How can planning assist a business in finding opportunities when considering factors outside the control of the business?

CHAPTER OVERVIEW

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

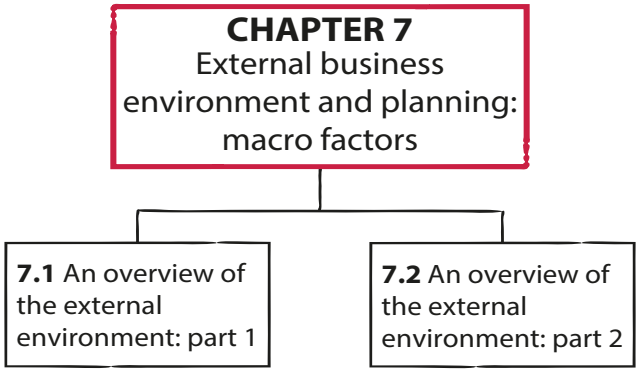
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Key knowledge and learning intentions

Key knowledge	Learning intentions – at the end of this chapter I will be able to:
An overview of the factors within the external (macro and operating) environment that affect business planning: • An overview of 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 interest rates, employment levels, tax rates and levels of consumer confidence	**7.1 An overview of the external environment: part 1** 7.1.1 Provide an overview and explain factors within the external environment 7.1.2 Provide an overview of key legal and government regulations affecting businesses in the planning stage 7.1.3 Describe the impact of societal attitudes and behaviour such as values, beliefs and trends 7.1.4 Explain the effect of economic conditions such as interest rates, employment levels, tax rates and levels of consumer confidence
An overview of the factors within the external (macro and operating) environment that affect business planning: • Technological considerations such as how the market may change in the future and how businesses adapt to developments in technology • Global considerations such as overseas competitors, overseas markets, offshoring of labour, exchange rates, patenting, copyrights, trademarks and online sales • Corporate social responsibility considerations related to business planning, such as environmental considerations and planning for socially responsible production of goods and services	**7.2 An overview of the external environment: part 2** 7.2.1 Explain the effect of technological considerations, such as how the market may change in the future and how businesses adapt to developments in technology 7.2.2 Describe the impact on planning of global considerations, such as overseas competitors, overseas markets, offshoring of labour, exchange rates, patenting, copyrights, trademarks and online sales 7.2.3 Describe the impact on planning of corporate social responsibility considerations related to business planning, such as environmental considerations and planning for socially responsible production of goods and services

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What's ahead



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7.1 An overview of the external environment: part 1

Learning intentions – at the end of this chapter section I will be able to:	
	7.1.1 Provide an overview and explain factors within the external environment
	7.1.2 Provide an overview of key legal and government regulations affecting businesses in the planning stage
	7.1.3 Describe the impact of societal attitudes and behaviour such as values, beliefs and trends
	7.1.4 Explain the effect of economic conditions such as interest rates, employment levels, tax rates and levels of consumer confidence

Businesses must take into consideration a range of issues and conditions when developing and planning their business. This is a complex undertaking. The external environment (macro and operating) is outside the control of any one business. Businesses need to respond to these factors when considering business planning issues.

It is always more difficult to anticipate changes in the external environment. An event may occur in the macro (often at a state or national) level, yet a business needs to be able to respond to this and take it into consideration when planning for the future.

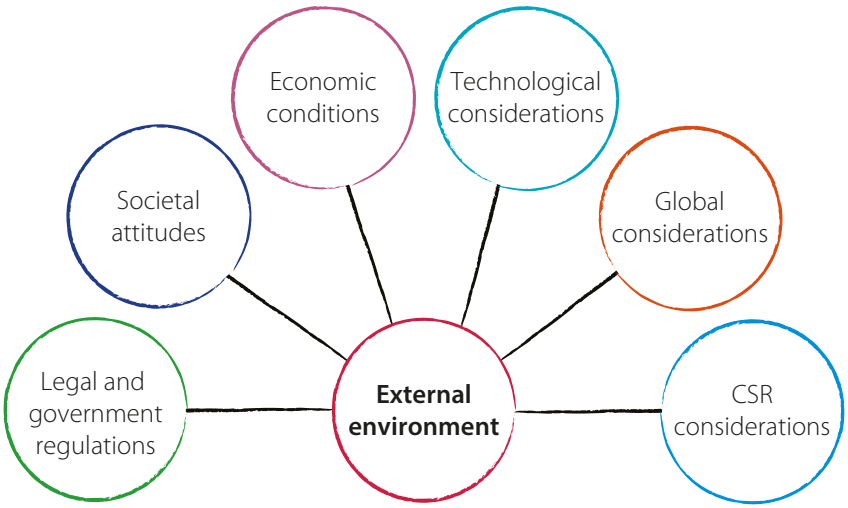


Figure 7.1 External factors that affect business planning

Key legal and government regulations affecting businesses when planning

When planning a business there is a range of legal and government regulations that need to be considered. At the macro environment level, a business owner must consider factors such as taxation arrangements, licences or permits required, occupational health and safety laws, trading laws, environmental protection laws and privacy laws. These are described in Table 7.1. There are a number of activities and case studies following Table 7.1.

Table 7.1 Legal and government regulations businesses need to consider when planning

Licences and permits	Licences and permits are often required to operate a business, and must be applied for, and approved, before a business can start. Examples include licences to manufacture, prepare and serve food; signage; regulations around permits to operate a business in an area or from home; and planning overlays. Permits and requirements can vary between states and across local government areas. Business owners can check the licences, permits, approvals, registrations, codes of practice, standards and guidelines that are required for their respective industries by referring to the Australian Business Licence and Information Service (ABLIS).
Taxation arrangements	Before starting any trading activities, business owners should register the business name and ensure they meet all requirements and taxation obligations. These can include acquiring an Australian Business Number (ABN), registering for goods and services **tax** (GST), and applying for a tax file number (TFN) and Pay As You Go (PAYG) income tax.
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 of employers and employees to ensure that the workplace is safe. Business owners need to consider a range of variables, such as the types of equipment and training required, and the conditions of a workplace or building, to ensure that the business is compliant.
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* (Cth) (CCA), for the requirements they must fulfil to make their business 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 fair trading for both 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. A person starting a new business, regardless of its size, also has to check the fair-trading laws of their own state or territory. Consumer Affairs Victoria, 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 second-hand dealers and pawn brokers. There are also other considerations, laws and regulations that businesses have to consider when planning a business. These include: • privacy legislation – the use and storage 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.

taxes are levied by federal and state governments on individuals and businesses. They provide a source of revenue for a government.

(continued)

(continued)

Environmental legislation	Any 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 all levels of government: federal, state and local. According to the Business Victoria website, environmental concerns 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 7.1

1 Think of a business you would like to establish (e.g. a mobile food van). Go to the ABLIS website and, using your suburb or postcode, work through the questions.

2 **Identify** the types of legal and other considerations that would need to be addressed as part of the initial planning for your business.

ACTIVITY 7.2

Go to the WorkSafe website and find the page on compliance codes and codes of practice.

1 Select one area or code and **outline** three main requirements a business needs to address.

2 **Explain** how this code can affect a business in the planning stage.



Figure 7.2 Businesses must be compliant with the CCA, which includes ensuring that unfair market practices, such as estate agents underquoting on real estate prices, do not occur.

CASE STUDY
7.1

The ACCC as a regulatory body: privacy code



In 2021, the federal government has announced proposed legislation to develop an online privacy code (or 'OP Code') setting tougher privacy standards for Facebook, Google, Amazon and many other online platforms.

These companies collect and use vast amounts of consumers' personal data, much of it without their knowledge or real consent, and the code is intended to guard against privacy harms from these practices. The higher standards would be backed by increased penalties for interference with privacy under the *Privacy Act*. Serious or repeated breaches carry penalties of up to $10 million or 10% of turnover for companies.

The current definition of 'personal information' under the Privacy Act does not clearly include technical data such as IP addresses and device identifiers. Updating this will be important to ensure the OP Code is effective.

The OP Code would target online platforms that 'collect a high volume of personal information or trade in personal information', including:

- social media networks such as Facebook, dating apps, Reddit, gaming platforms and services such as WhatsApp and Zoom
- data brokers that trade in personal information such as Quantium
- large online platforms that collect personal information such as Amazon, Google and Apple.

The OP Code would impose higher standards for these companies than otherwise apply under the *Privacy Act*.

The OP Code would set out details about how these organisations must meet obligations under the *Privacy Act*. This would include higher standards for what constitutes users' 'consent' for how their data are used.

The government's explanatory paper says the OP Code would require consent to be 'voluntary, informed, unambiguous, specific and current'.

In the European Union, for example, 'unambiguous' consent means a person must take clear, affirmative action – for instance by ticking a box or clicking a button – to consent to a use of their information.

Consent must also be 'specific', so companies cannot, for example, require consumers to consent to unrelated uses (such as market research) when their data is only needed to process a specific purchase.

The OP Code would include an obligation for organisations to comply with a consumer's reasonable request to stop using and disclosing their personal data. Companies would be allowed to charge a 'non-excessive' fee for fulfilling these requests.

For example, Amazon currently states in its privacy policy that it uses customers' personal data in its advertising business and discloses the data to its vast Amazon.com corporate group. The proposed OP Code would mean Amazon would have to stop this, at a customer's request, unless it had reasonable grounds for refusing.

The draft bill also includes a provision to add protections for kids and other vulnerable people who are not capable of making their own privacy decisions.

The government has pledged to give tougher powers to the privacy commissioner, and to hit companies with tougher penalties for breaching their obligations once the code comes into effect.

Once legislation is passed, it will take around 12 months for the code to be developed and registered.

Source: Abridged from Katharine Kemp & Graham Greenleef, 'A new proposed privacy code promises tough rules and $10 million penalties for tech giants', The Conversation, *27 October 2021. Read the full article on The Conversation: https://cambridge.edu.au/redirect/9897.*

CASE STUDY ANALYSIS

1 **Explain** why there are regulatory bodies such as the ACCC to check on the activities of businesses.

2 **Explain** why the federal government is examining ways to protect the privacy of individuals.

CASE STUDY
7.2

'No refund' signs and consumer rights: Mazda



This case study is available in the Interactive Textbook.

ACTIVITY 7.3

1 Go to the Victorian Department of Environment, Land, Water and Planning website and **outline** how you can apply for a planning permit.

2 Look at the local government area or council you live in (there are links on the website). **Identify** what you need to do to gain a permit.

Societal attitudes and behaviour such as values, beliefs and trends

Many societal and economic changes have taken place in Australia and other countries over the past few decades. Factors such as shifting demographics, increased levels of education, different ideas and expectations, beliefs, trends and values have all affected 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.

CASE STUDY
7.3

Changes in societal attitudes: towards work



COVID-19 has fundamentally changed our relationship with the office. After the enforced experiment of lockdowns pushing about 40% of the labour force into working from home, few want to return to the pre-pandemic status quo.

Surveys show at least three-quarters of workers want the option to spend a few days working at home and a few days in the office.

The experience of working from home has helped break down many of the prejudices that limited work flexibility prior to 2020. But there remain differences in attitudes between workers and managers on this question.

There are actual or perceived costs to working from home, such as reduced opportunities for collaboration and networking, reduced face-to-face interaction with managers, and consequences for long-term career prospects.

That last point is of particular concern. A pre-pandemic study found fully remote workers, despite being 13% more productive, were only half as likely to be promoted as their colleagues who spent their time in the office.

The reasons for this are likely complex – a combination of explicit attitudes and subconscious biases. Their persistence spells danger for post-COVID organisations. In particular, they could disadvantage those with carer responsibilities, who are more likely to want greater flexibility.

So how many days a week in the office is enough? How do we balance the desire of managers to bring people together with employees' desire for greater flexibility?

Some organisations are adamant that going back to the office all or most of the time is essential. Take, for example, Google.

The Silicon Valley giant has won awards for its corporate culture and its products have facilitated as much as any company in the teleworking revolution. But in September, Google said it would reduce the wages of its US employees choosing to work from home permanently.

A company spokesperson justified this by stating that Google had always paid employees according to 'the local market based on where an employee works from'. Choosing to work from home could reportedly cost some employees up to 25% of their salary.

If this is the attitude at Google, just imagine what prevails in more conservative businesses. Indeed, it is largely managerial fears that have stymied the potential for greater work flexibility since technology made 'teleworking' a possibility in the 1970s.

For decades, concerns about innovation and productivity have been cited as reasons workers must be in the office most of the time, despite research indicating there is no reason employees need to be in the office every day to maximise the benefits of collaboration.

There are still often unwritten expectations about such things as not leaving before the

boss, and putting in unpaid overtime, being prerequisites to pay rises and promotions.

So the big question isn't really about what's the optimal mix of days in the office and at home.

Experts agree there is no one-size-fits-all model for hybrid work. It should really depend on the context and individuals. Maybe it's four days a week in the office, maybe it's one.

The question is why managerial attitudes are taking so long to catch up to reality.

There is now extensive research showing that employees are more effective and satisfied in their jobs when they have the flexibility to customise their work. This flexibility encompasses not just whether we work from home or the office a certain number of days, but also when we work, who we work with and what we are working on.

Our organisations are not made up of one type of person and one type of job, something our management structures and organisational initiatives often ignore. Success in the post-COVID world will depend on thinking differently and creating a culture that embraces the opportunities this new model of work brings.

Source: Abridged from Libby Sander, 'How many days a week in the office are enough? You shouldn't need to ask', The Conversation, *15 October 2021. Read the full article on The Conversation: https://cambridge.edu.au/redirect/9898.*

CASE STUDY ANALYSIS

Video 7.1 Working from home

Read the case study and watch the video to answer the following questions:

1. **Outline** one change in societal attitudes mentioned in the article.
2. **Explain** why many businesses may find it difficult to allow employees to work from home rather than in the office.
3. Referring to the video, **describe** how the pandemic has affected office usage at both the Australian business EY as well as global companies mentioned in the video.

There have been many waves of immigration since World War II and this has influenced food, traditions, social attitudes and business practices 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 operate in the future.

In 1966, more than 25 per cent of the workforce was in manufacturing, but this is now around 6.5 per cent. In 1940, 6 per cent of all factory workers were under the age of 16, but people are now staying in education and training a lot longer. The majority of the workforce is now employed in service industries because the nature of work is also changing. People with tertiary education (those with a university or TAFE qualification) are more likely to have a job than those who have not done a post-school qualification.



Figure 7.3 The Australian population is both changing and ageing.

According to the Australian Bureau of Statistics, in 2021 15.9 per cent of the population, or 3.9 million people in Australia, were aged 65 and over. Most older Australians were living in households and most participated in social activities. This trend may provide opportunities for businesses to go into industries and sectors of the economy that previously did not offer prospects. (Statistics from ABS government website.)

ACTIVITY 7.4

Go to the 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. **Explain** how these trends might impact on business planning for the future.

The effect of economic conditions

There are many economic factors that can influence the development and operation of a business. If an individual or large business is looking at expanding or starting up a new venture, it is important to consider the economic conditions at the national, state and local levels. These factors are outlined in Figure 7.4.

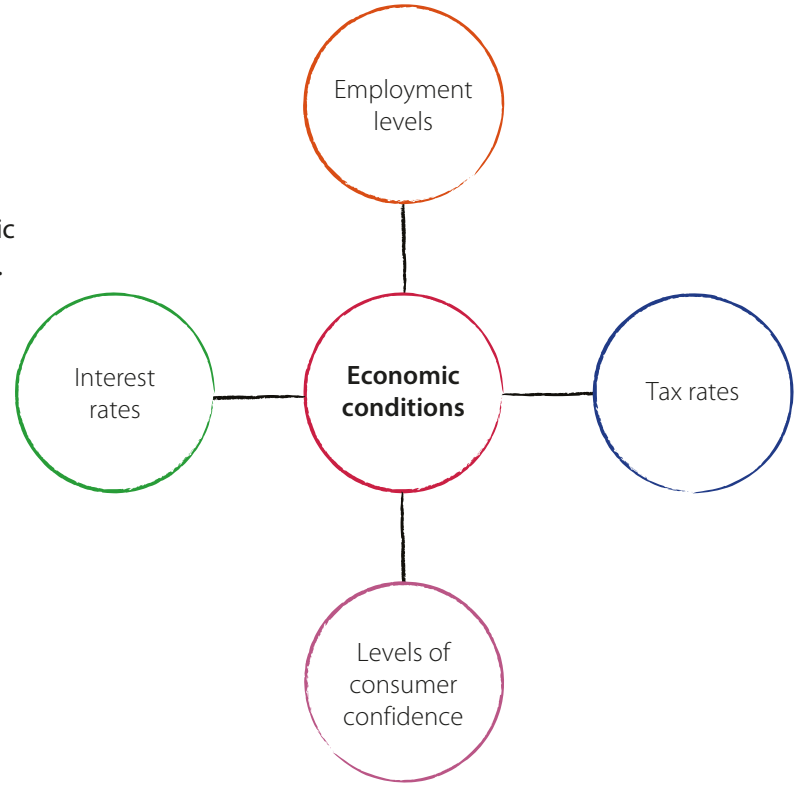


Figure 7.4 Economic conditions impact on business planning.

Figure 7.5 Business owners might need to borrow money to set up their business.



Each factor is described in Table 7.2 below.

Table 7.2 The effect of economic conditions on business planning

Economic condition	Explanation
Interest rates	If the rate of interest (the cost of borrowing money) is low, then it is more likely that business owners will borrow to set up the business (or may borrow more) because the repayments are easier to manage and maintain. **Interest rates** in Australia have been low during the past few years but have risen rapidly in recent times. Businesses need to have the capacity to manage a loan if interest rates rise.
Employment levels	The level of employment can have an effect on a business when it is planning. If there are low levels of employment, this may mean it is easier to find someone to work as there are not many job opportunities. However, it could also mean that people do not have money to spend and therefore the business may not be able to sell its products. If there is a shortage of people to work and **employment levels** are high, this may mean the business cannot attract or retain employees and therefore cannot operate; or it may have to spend more on wages to attract staff, which will increase costs to the business.
Tax rates	All individuals and businesses pay income and other taxes. As part of the planning process, tax obligations should be considered. Although tax is not the only important factor, it may have a significant effect 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% for most companies and 25% for small businesses. Businesses also pay other taxes to state governments, such as payroll tax. Managing tax obligations needs to be factored in to business planning. A business needs to ensure it has the cash to meet its obligations. Taxation may also have some bearing on the type of business structure chosen (see Chapter 9 for further information).
Levels of consumer confidence	Levels of **consumer confidence** are related to economic growth and the level of economic activity, and therefore important to all businesses. If 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 economic conditions are uncertain or weak and unemployment is high, then consumer confidence is likely to suffer. Often consumer confidence is linked to people's perceptions as much as reality. 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 move into this sector. Some businesses might take advantage of trends and expand.

interest rates the cost involved in borrowing money. Interest can also be earned when money is invested in the bank or other financial institution.

employment levels the rate or number of people who are in the workforce and working either part time or full time. When employment levels are high, the economy is usually growing.

consumer confidence how consumers or customers are feeling about the future. If they are confident, they are more likely to spend.

ACTIVITY 7.5

1 Using information from the website of one of the banks or financial institutions, **describe** the types of loans available to businesses.
2 **Outline** why a new business may need to have access to a loan or extra finance.

CASE STUDY
7.4

Employment levels, hospitality and staff shortages



Dishwashers are earning up to $90 an hour in one of Sydney's top restaurants, as labour shortages in the hospitality industry force some businesses to cut opening hours.

Rockpool Bar & Grill is paying dishwashers $90 an hour on Friday and Saturday nights 'and we still can't get them', said executive chef Corey Costelloe.

Yet apprentice chefs earn as little as $13 an hour and are expected to work long hours, which participants at a meeting of leaders in the hospitality sector said contributed to labour shortages.

Mr Costelloe also said some employers needed to 'pick up their game' to attract more apprentices and staff: 'They're shooting themselves in the foot; if they don't make their work environment a good place to work, you're not going to get the staff,' he said.

Long and unsocial hours was regarded as an impediment to attracting local staff by 55 per cent of women surveyed, but only 38 per cent of male hospitality owners and managers, the survey found.

Rockpool founder Neil Perry, whose latest project is Margaret restaurant in Double Bay, said he did not believe young Australians were turned off careers in the kitchen by low pay and long work hours.

Source: Abridged from Andrew Taylor, 'Dishwashers on $90 an hour as staff shortages smash hospitality sector', Sydney Morning Herald, *21 November 2021.*

CASE STUDY ANALYSIS

1 **Explain** how employment levels can have an impact on business planning.
2 **Describe** why some dishwashers are being paid so much per hour.
3 **Explain** how lack of access to employees may impact on the performance of a business.

ACTIVITY 7.6

Franca and Ali want to set up an interior design and styling business that they will run from home. They are not sure how much tax they might need to pay. They obtained financial advice and have decided to set up a company. They anticipate that the revenue or sales will be around $140 000 in the first year.

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

ACTIVITY 7.7

The following task looks at consumer confidence and its impact on business. Go to the Australian Bureau of Statistics website and examine the latest Australian National Accounts: Finance and Wealth.

1. **Describe** what has happened to household wealth during the past year.
2. **Explain** how this impact on a business.

REVIEW ACTIVITY 7.1

Part 1: Digital quiz
Please see the Interactive Textbook to access a digital activity.

Part 2: Short-answer questions
Answer these questions on paper or in the Interactive Textbook.

1. **Explain** how the macro environment can affect business planning.
2. How can legal and government regulations affect business planning?
3. **Explain** why a business needs to consider licences and permits when planning.
4. How can taxation impact on a business?
5. Why should a business consider Occupational Health and Safety requirements when planning?
6. **Describe** the impact on a business of a change in societal attitudes and behaviour.
7. **Examine** the effect of the following economic conditions on business planning:
   a. employment levels
   b. taxation rates
   c. interest rates
   d. consumer confidence.
8. **Describe** how the ageing population might influence the types of businesses created.

7.2 An overview of the external environment: part 2

Learning intentions – at the end of this chapter section I will be able to:	
	7.2.1 Explain the effect of technological considerations, such as how the market may change in the future and how businesses adapt to developments in technology
	7.2.2 Describe the impact on planning of global considerations, such as overseas competitors, overseas markets, offshoring of labour, exchange rates, patenting, copyrights, trademarks and online sales
	7.2.3 Describe the impact on planning of corporate social responsibility considerations related to business planning, such as environmental considerations and planning for socially responsible production of goods and services

Technology is continually changing and the rate of change will continue to accelerate. 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. Technology has not only changed the way businesses operate, but has also offered new opportunities for businesses (particularly small businesses) to compete for customers and markets. 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.

Technological developments will lead to changes in how a business has to manage and adapt. New ways of marketing – for example, different social media platforms – will influence the marketing plans of a business and how it will try to reach its target market and potential customers.

technological development the innovations and improvements in technology that can assist a business in carrying out work

As advances in technology continue, it will also mean that a business may change the products or services it has planned to deliver. It is difficult for a business to forecast the future; however, it is essential that those involved in planning look at possible future services so they take advantage of these or find a market niche or a gap in the market. Keeping up with technological advances will also allow a business, regardless of its size, to be competitive and provides the basis for future expansion.

Table 7.3 The impact of technology on business planning and activity

Possible impact	Explanation
Operating costs	Software usually allows a business to automate most processes, such as accounting, payroll and record keeping.
Managing sensitive information	Technology will assist a business in developing secure environments for sensitive customer and business information.
Communication processes	Businesses should be able to plan for, and develop, communication processes. This will assist in marketing, and sending and receiving information about the business and its products and services. It also allows a business to establish a portal to access and update internal documents.

(continued)

(continued)

Increased employee productivity	Using computer programs and software will usually mean processes are completed more accurately and efficiently.
Establishing and maintaining a customer base	Technology allows a new business to reach markets beyond their local area or region. Any business, including a small business, can reach national and global markets through technology. This should be considered when the business is being planned.
Outsourcing	A business may be able to plan to outsource some business functions (either in Australia or overseas) to assist in lowering costs and focusing on its core business.

CASE STUDY
7.5

Technology and business planning: managing cyber security



As part of its planning, a business needs to consider the possible impact of a cyber-attack.

According to the Australian Cyber Security Centre, the average cost to business of a cybercrime is almost $300 000, and Victoria has 25% of the country's victims of cybercrime. When planning for a business, some of the key cyber security problems that need to be considered include:

- viruses or malware (malicious software)
- hackers capturing personal data
- free software that has been downloaded.

Viruses or malware may affect the way a computer runs, or may corrupt data. They can be spread by opening email attachments from unknown people or through online scams. Hackers are a threat if information is shared over a wireless internet network that isn't properly protected. Free software can collect and share information without a person's knowledge or permission.

Basic preventative measures to improve cybersecurity in a business include:

- use up-to-date virus scanners on all computers
- ensure wireless internet networks are secure and password protected
- do not open email attachments from unknown sources
- be very careful about using free applications downloaded from the internet
- keep software and the operating system (OS) up to date. Many hackers exploit vulnerabilities in older versions of software. Turning on automatic updates can ensure the current version is installed.

It is important that a business has planned and prepared for a possible cyber-attack and how it will reduce the impact of one occurring. Measures include:

- regularly backing up files to an external hard drive or to the cloud
- storing any back-up devices in a secure place, and regularly testing back-ups.

When personal information is accessed, disclosed without authorisation, or is lost, this is known as a data breach. Under the Notifiable Data Breaches scheme, any organisation covered by the *Privacy Act 1998* must inform the Office of the Australian Information Commissioner (OAIC), as well as any individuals affected by a breach.



Figure 7.6 Businesses need to take steps to reduce the risk of a cyber-attack.

CASE STUDY ANALYSIS

1. **Explain** why it is important for a business to plan for technological developments.
2. **Describe** how cyber-security is becoming increasingly important for a business to plan for.
3. Go to the website scamwatch.gov.au and **describe** two different scams that have been reported.
4. How can a business take steps to minimise the impact of the scams you have described?

CASE STUDY
7.6

Technology and business planning: experts' predictions about innovations by 2030



This case study is available in the Interactive Textbook.

The impact on planning of global considerations

Australia's future prosperity relies on businesses adapting to changing global conditions, and implementing and retaining competitive business practices. Living standards will continue to increase only if productivity growth and trading relationships are maintained. It is important for businesses to contemplate the impact of global considerations on their planning. Issues such as overseas competitors, overseas markets, offshoring of labour, exchange rates, patenting, copyrights, trademarks and online sales will all impact on a business's operations.



Figure 7.7 Australian businesses must adapt and change to changing global conditions.

Because businesses now have the ability to globally streamline supply, manufacturing and retail chains, companies are placing increasing emphasis on factors such as transferring business activities and services to countries where there are the greatest efficiencies available.

Overseas competitors

Businesses have to be able to compete with businesses within Australia and overseas, whether this is importing (bringing in) or exporting (sending overseas) goods. Trying to compete with **overseas competitors** can be daunting as 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 neighbouring countries and this can provide an advantage, keeping the costs of goods and services much lower.

overseas competitors businesses not based in Australia that compete with the Australian business

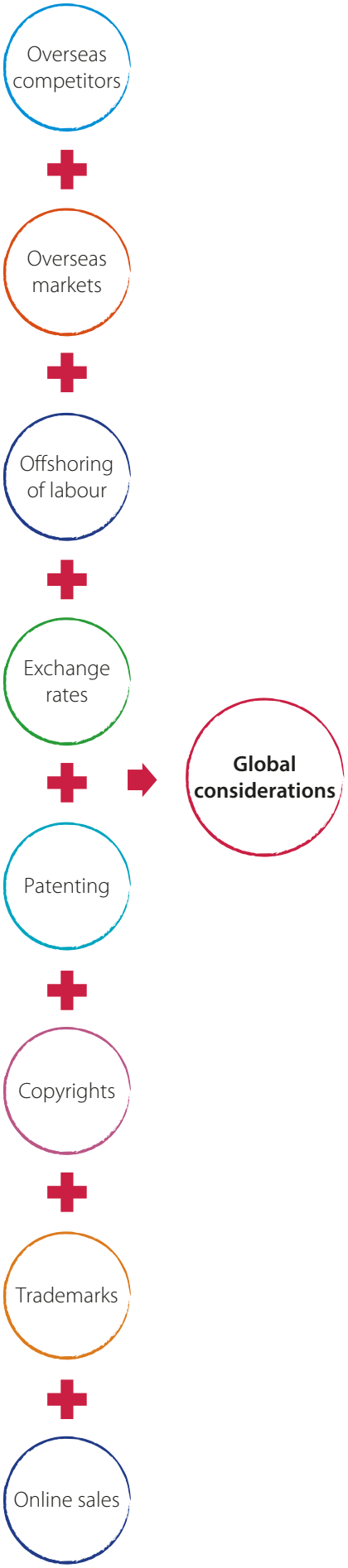


Figure 7.8 There are a number of global considerations when planning a business.

Overseas markets

Businesses need to be able to move into overseas markets in order to expand. A business trying to conduct business overseas needs to ensure it understands the different requirements and regulations that cover that particular business sector. Understanding social and other aspects of different societies is also important.

A recent Australian International Business Survey found that Australia's exports have grown. The main products exported include natural gas, crude oil and also services.

There have been a number of challenges for businesses in the global economy including trade tensions between the USA and China, the impact of Brexit, conflict in Europe, the global pandemic, and weaker demand for some Australian exports.

Businesses are also finding access to finance more challenging, especially if they are a small business. The impact of COVID on the supply chain and a shortage of containers has also impacted on businesses that export to **overseas markets**.

overseas markets markets or customers in another country that buy a business's products and services

ACTIVITY 7.8

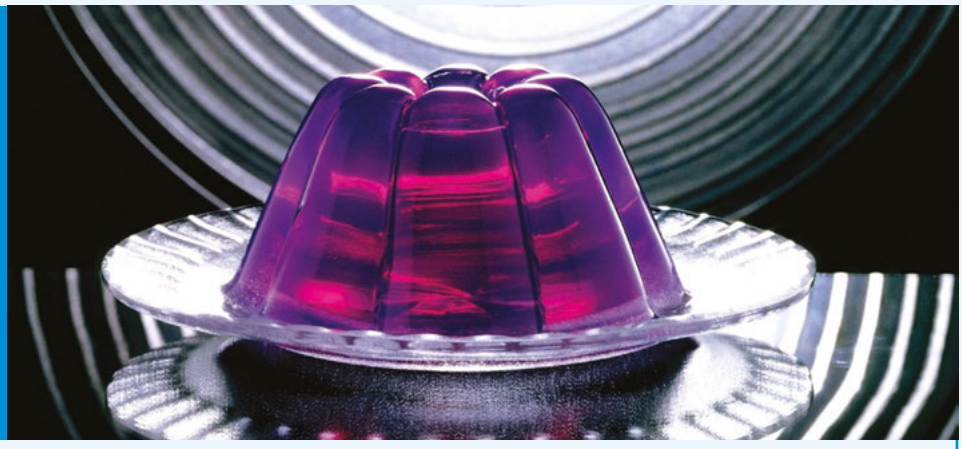


Go to the Department of Foreign Affairs and Trade website and find the Trade and Economic Fact Sheets. Select one country and examine the types and amount of trade Australian businesses have with that country. **Explain** how this information could be useful for a business setting up to export products.



CASE STUDY
7.7

Australia's expansion into new markets: McCormick



This case study is available in the Interactive Textbook.

Offshoring of labour

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 a growing trend among businesses operating in the global economy. It is not the same as outsourcing where work is conducted by a third party and outsourced to a local company.

offshoring when work is done in another country; for example, aircraft maintenance conducted in Hong Kong or app development carried out in India

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:

a Changes in technology, particularly the development of cloud computing, rapid advances in mobility, work flexibility and the influences of big data have made it easier for businesses to go offshore.

b 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 (taxes) have also reduced the cost of offshore work.

c The growth of particular locations as offshore hubs, including India, Poland, the Philippines, China, Romania, Mexico and parts of South America.

d 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.

Exchange rates

exchange rates the value of a currency against another one. The Australian dollar is usually compared to the US dollar. The exchange rate can influence the overseas sales of a business.

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.

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.



ACTIVITY 7.9

Go to a website such as the Reserve Bank of Australia that provides exchange rates.

1 What is the current exchange rate for the Australian dollar?

2 **Describe** how the exchange rate will affect a business that is importing goods and one that is exporting goods.

Patenting

patent 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.

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.

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.

CASE STUDY
7.8

Patenting: artificial intelligence system



A recently granted South African patent relating to a system of interlocking food containers sounds mundane. However, the inventor is not a person but rather is an artificial intelligence (AI) system named DABUS.

DABUS (which stands for 'device for the autonomous bootstrapping of unified sentience') is an AI system created by Stephen Thaler, a pioneer in the field of AI and programming. The system simulates human brainstorming and creates new inventions. DABUS is a particular type of AI, often referred to as 'creativity machines' because they are capable of independent and complex functioning.

The patent application listing DABUS as the inventor was filed in patent offices around the world, including the USA, Europe, Australia and South Africa. South Africa and Australia granted the patent.

South Africa's decision has received widespread backlash from intellectual property experts labelling it as a mistake.

Creativity machines can process and critically analyse data, and learn from it – a process known as machine learning. Once the machine learning phase has occurred, the machine is able to 'autonomously' create without human intervention.

When it came to the food container invention by DABUS, Thaler, assisted by Ryan Abbott of the University of Surrey, decided instead to list DABUS as the rightful inventor, as the invention was entirely devised by the AI. This was the start of their push for AI to be recognised as inventors the world over.

South Africa's government wants to increase innovation to solve the country's socio-economic issues. There is clear worry about issues such as poor innovation levels, lack of funding and lack of suitable infrastructure, which are necessary to really capitalise on the fourth industrial revolution. Given the policy environment and the vast potential of AI, the granting of the patent makes sense. Perhaps this will turn out to be a strategic masterclass by the South African office, which will lead to a much more innovative nation.

Source: Abridged from Meshandren Naidoo, 'In a world first, South Africa grants patent to an artificial intelligence system', The Conversation*, 5 August 2021. Read the full article on The Conversation: https://cambridge.edu.au/redirect/9899.*

CASE STUDY ANALYSIS

1. **Explain** the concept of a patent.
2. **Describe** why a business would apply for a patent.
3. If countries across the world recognise AI as an inventor, **discuss** the impact this might have on innovation and product development.

Copyright

copyright exists to protect the original expression of ideas (not the ideas themselves). Copyright in Australia is free and automatic and there is no official registry or application process.

A business in the planning stage should consider any **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 there is no official registry or application process. It generally covers works such as books, films, music, newspapers, magazines and artworks. Copyright also protects originally created databases, computer programs and media broadcasts. Copyright protection is provided under the *Copyright Act 1968* in Australia, although copyright laws vary between countries. It 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 does not protect names, titles, or slogans, although there may be issues around trademarks.

Trademarks

trademarks are important as they protect a business from others using their reputation or products. A trademark is a protection that can be granted for any aspect of marketing. Registered trademarks are protected legally, and misuse of trademarks can be pursued under law.

Trademarks are important as they protect a business from others using its reputation or products. Business planning needs to consider any potential trademark requirements.

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.

A trademark can also be a powerful marketing tool. A trademark is a means of identifying a business's unique identity, and is often called a brand.



Figure 7.9 The Lonely Planet logo is the registered trademark for its travel guides.

Trademarks are different from business, company and domain names. Well-known examples include Qantas's flying kangaroo and Lonely Planet's logo.

Most businesses should register a trademark, although it can be used even if it is not registered and can have significant business value.

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: a single international application can be filed through IP Australia, where the business selects the countries in which protection is required as designated in the Madrid Protocol (international registration of a trademark), or the business can file an application in each individual country.

A business also needs to ensure that it has registered any designs as well as trademarks. A new design must be unique and distinctive in terms of its configuration, shape, pattern, or ornamentation.

CASE STUDY
7.9

Trademark: Manuka Honey



Australian honey producers have won a four-year trademark battle in Britain amid a long-running dispute with New Zealand over who can claim the term 'manuka honey'.

The Manuka Honey Appellation Society, representing a group of New Zealand producers, was trying to stop Australian beekeepers from selling products using the word 'manuka' in Britain. They claimed they had the rights to the term, arguing that mānuka was a Māori word and was a distinctive product of New Zealand.

Britain's Intellectual Property Office this week there was no evidence the public believed the product was exclusively from New Zealand.

Australian Manuka Honey Association, which fought the application in court, said it would have been deeply unfair and financially devastating to deny producers the right to use the term.

'This decision is the right decision and a fair decision. The term manuka has been used in Australia since the 1800s and the Australian industry has invested significantly for decades in manuka honey science, research and marketing,' chairman Paul Callander said.

The association argued the term 'manuka honey' was a customary term used to describe honey made from the manuka tree, found in both New Zealand and Australia.

In reaching its decision, the court acknowledged that the term was mostly descriptive of a type of honey and used widely beyond New Zealand.

Mr Callander said the court's decision would be felt across many Australian industries, with the manuka honey market forecast to be worth $1.27 billion globally by 2027.

Demand for manuka honey, made from the *Leptospermum scoparium* plant, has boomed across the globe thanks to its reported health and wellness benefits. Products can sell for between $300 and $500 per kilogram.

The same group of New Zealand producers has also sought to trademark the term in the United States, Europe, New Zealand and China. So far, no region has agreed to register the trademark.

Source: Abridged from Daniella White, 'Australian beekeepers win Manuka honey trademark battle against NZ producers', The Age, *16 December 2021.*

CASE STUDY ANALYSIS

1. **Describe** what 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 the Australian Manuka Honey Association was successful in this case.
4. **Describe** the possible benefits to the Australian honey industry of this decision.

Online sales

online sales when a business does not sell goods to a customer face to face; customers purchase their goods online, usually through a website

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 anywhere in the world. It is important that any potential business examines ways it can sell via the internet. Being able to sell online also means that a business can save on the physical space and rent required; an office can be set up at home and goods can be stored in a garage. Operations can be focused on goods and storage rather than on a 'bricks-and-mortar' store.

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, to avoid being taken over or overtaken by competitors, small businesses must consider incorporating online sales as part of their sales strategy.

Small and medium businesses tend to start their online retailer journey on marketplaces, with eBay, Etsy and Shopify examples of some commonly used platforms. Low barriers to entry and low set-up costs make these a logical choice.

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

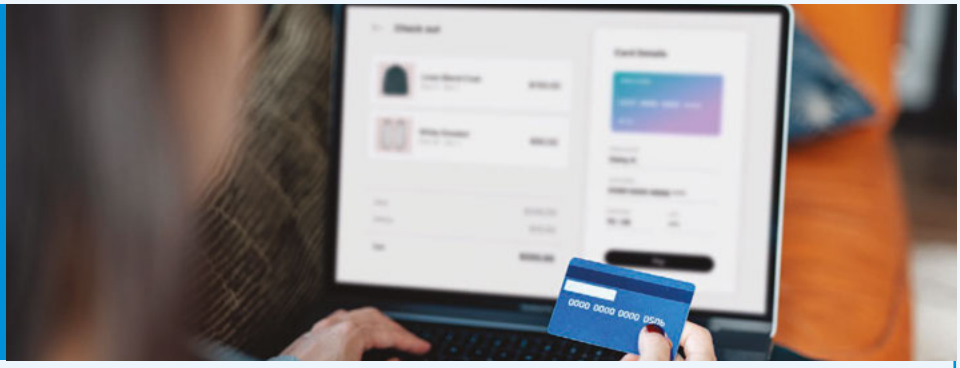
One of the impacts of the COVID pandemic is the growth in Australia of virtual and online shopping. Customers becoming more comfortable purchasing online provides the scope and potential to expand or create new businesses. According to data from the ABS at the end of 2021, total online retailing had grown, in part due to consumers being unable to visit shops in NSW and Victoria.



Figure 7.10 Online selling can expand the size of your customer base and allow you to reach new markets.

CASE STUDY
7.10

Online shopping: the internet



If YouTube has its way, we may soon watch makeup tutorials and buy face powder and eyeliner directly from its site. Facebook is also airing infomercial shows that will encourage people to shop from small businesses.

Lots of internet personalities and businesses already pitch their products on social media. But now, internet companies seem to be making a concerted effort to make shopping a seamless part of the online spaces where we come to be entertained and informed but not necessarily to buy stuff.

Many people and businesses on Instagram, YouTube and TikTok sell merchandise, but they often direct you to buy on Amazon, Sephora or another website. An app that was developed and used in China allows users to buy something the millisecond that they think, 'Oooh, I want it!'

While it started in China, this style of online shopping could spread in the USA. YouTube, which is owned by Google, detailed its plans to introduce live shopping webcasts and 'shoppable videos'. Amazon, Snapchat, Pinterest, Facebook and Instagram are going bigger with shopping webcasts and features to buy items directly. So is TikTok, whose Chinese parent company is big in live shopping.

The question of why this is happening may be answered by a number of trends including the increasing ability to make an income and living out of social media. E-commerce sales are one carrot that the internet giants can offer online creators to help them earn more money. Google doesn't love that most people turn to Amazon when they're hunting for products, rather than to its web search box. Diversifying into e-commerce also allows Facebook and Snapchat to advertise and allow access to products.

Source: Abridged from Shira Ovide, 'Why the Internet is turning into a home shopping channel', The Age*, 17 November 2021.*

CASE STUDY ANALYSIS

1. **Explain** why businesses may move to expand into online shopping.
2. **Describe** the benefits of online shopping for retail businesses and also customers.
3. Australia has had low rates of online shopping compared to other countries. This has changed since COVID-19. As a class, **discuss** the trends within your peers and families in regards to online shopping.

Corporate social responsibility considerations

It is important for businesses to have a sense of **corporate social responsibility (CSR)** towards the community and the 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 the community expect businesses to recognise their social responsibilities.

corporate social responsibility (CSR) a management concept whereby the business conducts itself in an ethical manner, takes responsibility for the economic, social and environmental consequences of its activities, and is accountable to a wide range of stakeholders, including employees, customers and suppliers

Businesses of all sizes should strive to become good corporate citizens, and it is 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 contribute socially. As a business grows, the scope of its social involvement should grow with it.

CSR can affect business planning. All businesses, regardless of size, have an impact on the environment during the course of their operations. An awareness of any 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 attract customers who are more willing to support businesses they believe are contributing to society in a positive way. Businesses can be socially responsible in the planning stage by investing in products, such as rainwater tanks and solar energy, that reduce reliance on natural resources, use products that are made of recyclable materials, reuse paper, and recycle and minimise waste. Focusing on developing ethical sourcing of supplies and products can assist a business in being socially responsible.

Planning should also include taking steps to reduce environmental risks, putting in place control measures and then developing an action plan if environmental issues arise.

Businesses also need to consider how their potential goods and services can affect society at large. For example, when setting up a manufacturing business it would be important to take into account the laws and regulations that cover that particular industry, and 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, cafes have become a driving force in the social enterprise sector in recent years. Charities and businesses are increasingly using cafes as a way to train and employ disadvantaged people and those with a disability who would otherwise struggle to find work. Other businesses are looking at where they source their products and are developing relationships with suppliers who are sustainable and ethical in their dealing with employees.

CASE STUDY
7.11

Sustainability: designing sustainable fashion



There are several considerations for a fashion business wanting to reduce its environmental impact:

- The production, manufacturing, transportation and use of textiles for fashion and interior furnishing applications can include dyes, solvents, yarns, paper patterns and machinery. Environmental impacts arise from material selection and use, manufacturing processes, the dyes used to print fabrics, and the ethical issues around the human labour used to create garments.

- The impact of materials on the environment can be minimised by choosing fabrics that are made of natural or organic fibres and require less detergents when washing.
- Questions relating to wastewater – is it contaminated and how will it be disposed of?
- Minimising waste when setting out patterns to cut, sourcing materials from businesses that have environmental certification and avoiding inks and dyes that may become potentially hazardous waste products.
- Care instructions and labelling – minimising the environmental impact over the life of the product by letting customers know they can wash in cold rather than hot water.
- Minimising unethical labour practices by making sure that garments and materials are sourced from 'fair trade' or 'sweatshop free' brands and ensuring that overseas businesses that supply materials have been checked by an independent third party to confirm that they are operating under ethical conditions.
- Minimising packaging or using recycled materials to make the product more sustainable.

Source: Abridged from information on the Business.vic.gov.au website.

CASE STUDY ANALYSIS

1. **Explain** why corporate social responsibility is an important consideration for a business.
2. **Outline** the benefits associated with a business planning to follow the guidelines when producing clothing.
3. **Evaluate** the effectiveness of socially responsible measures implemented by businesses. Using a company or business website, **outline** the types of CSR programs the business is involved in.
4. Cassie and Oliver are establishing an online clothing business. Both are qualified designers and have had experience in retail. They will design, make and sell a line of clothing targeted at the 16- to 30-year-old demographic.
   a. Provide Cassie and Oliver with three strategies they could use to ensure that their business is ethical and minimises its impact on the environment.
   b. How could Cassie and Oliver communicate their ethical practices with potential customers?

REVIEW ACTIVITY 7.2



Part 1: Digital quiz
Please see the Interactive Textbook to access a digital activity.

Part 2: Short-answer questions
Answer these questions on paper or in the Interactive Textbook.

1. **Explain** why technological considerations are important for a business when planning.
2. Technology is an important and continually developing concern. **Suggest** how a business could try to plan for the constantly changing technology available.
3. 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.
4. **Describe** the global considerations of overseas competitors, offshoring of labour and copyright.
5. **Explain** why it is important for a business to have a sense of corporate social responsibility.

Chapter 7 review

Summary

Create your own summary notes for this chapter on paper or in a digital document. A model summary is provided in the Area of Study review chapter for Unit 1 Area of Study 3, which can be used to compare with yours.

Developing clear definitions

By writing a brief explanation of each of the following terms, you will gradually build up a glossary of comprehensive terms for revision. Define these terms in your exercise book.

Macro environment	Taxation	Operating environment
Consumer confidence	Interest rates	Employment levels
Technological development	Overseas competitors	Overseas markets
Offshoring of labour	Exchange rates	Patenting
Copyright	Trademarks	Online sales
Corporate social responsibility (CSR)		

Extension question

Serge 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 cafe and sell gourmet picnic hampers for tourists.

Using the following points, construct a report to advise Serge 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, such as online bookings and a website
- legal requirements, such as zoning laws, permits and licences
- social factors, such as trends and tastes
- corporate social responsibility considerations.

Checklist

The success criteria are linked to the learning intentions from each section of this chapter, and have been written based on the key knowledge and skills of the VCE Business Management Study Design. Completing the linked questions per success criteria will thoroughly prepare you for success in this subject. Fill in, print, or photocopy this checklist and tick the boxes when you have answered the corresponding questions correctly.

Success criteria – I am now able to:		Linked questions	Completed (Y/N)
7.1 Overview of the external environment: part 1	**7.1.1** Provide an overview and explain factors within the external environment	Review activity 7.1: Part 1 & Part 2 (Q1)	Yes ☐ No ☐
	7.1.2 Provide an overview of key legal and government regulations affecting businesses in the planning stage	Activity 7.1 Activity 7.2 Case study 7.1 Case study 7.2: Q2 Activity 7.3 Review activity 7.1: Part 1 & Part 2 (Q2–5)	Yes ☐ No ☐
	7.1.3 Describe the impact of societal attitudes and behaviour, such as values, beliefs and trends	Activity 7.4 Case study 7.3 Review activity 7.1: Part 1 & Part 2 (Q6) Extension	Yes ☐ No ☐
	7.1.4 Explain the effect of economic conditions, such as interest rates, employment levels, tax rates and levels of consumer confidence	Activity 7.5 Activity 7.6 Activity 7.7 Case study 7.4 Review activity 7.1: Part 1 & Part 2 (Q4, 7)	Yes ☐ No ☐
7.2 Overview of the external environment: part 2	**7.2.1** Explain the effect of technological considerations, such as how the market may change in the future and how businesses adapt to developments in technology	Case study 7.5: Q1–2 Case study 7.6 Case study 7.10 Review activity 7.2: Part 1 & Part 2 (Q1–3) Extension	Yes ☐ No ☐
	7.2.2 Describe the impact on planning of global considerations: • overseas competitors • overseas markets • offshoring of labour • exchange rates • patenting • copyrights • trademarks • online sales	Activity 7.8 Activity 7.9 Case study 7.7 Case study 7.8 Case study 7.9 Review activity 7.2: Part 1 & Part 2 (Q4) Extension	Yes ☐ No ☐
	7.2.3 Describe the impact on planning of corporate social responsibility considerations related to business planning, such as environmental considerations and planning for socially responsible production of goods and services	Case study 7.11 Review activity 7.2: Part 1 & Part 2 (Q5) Extension	Yes ☐ No ☐

Digital activities

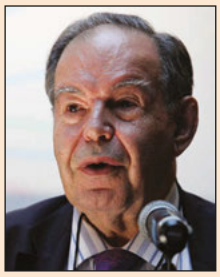
- Access the Interactive Textbook via Cambridge GO to complete a Scorcher timed competitive quiz for this chapter.
- From their Cambridge GO account, your teacher can also assign practice VCAA-style assessment questions with model responses.

CHAPTER 8
External business environment and planning: operating factors

'Companies that solely focus on competition will die. Those that focus on value creation will thrive.'

Edward de Bono (1933–2021)

About the author:
Dr Edward de Bono was a Maltese physician, psychologist, author, inventor, philosopher and consultant. He originated the term 'lateral thinking'.





KICKSTARTER ACTIVITY

1 **Identify** what you believe to be the message contained in this quote.
2 **Discuss** with a partner whether you believe this message is a valuable one for business owners to understand.

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.

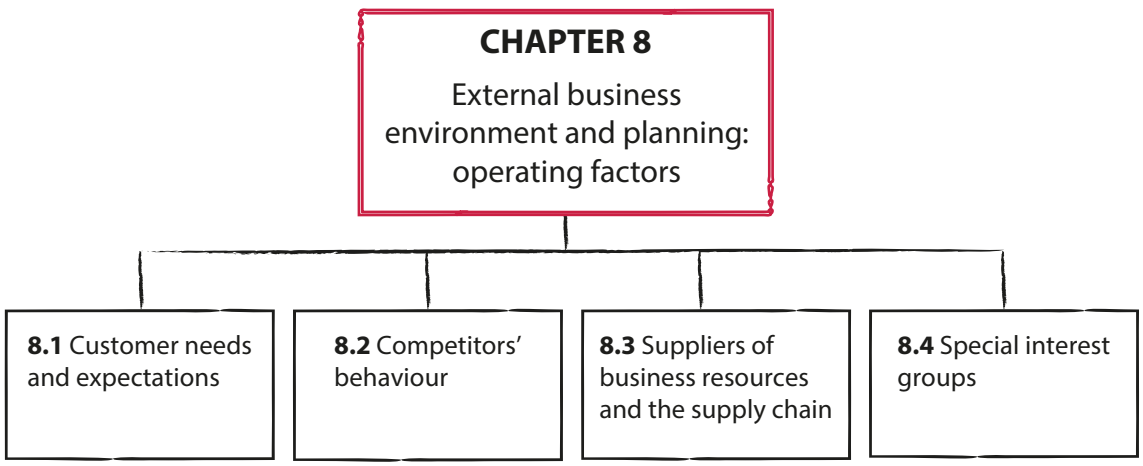
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Key knowledge and learning intentions

Key knowledge	Learning intentions – at the end of this chapter I will be able to:
Operating factors that affect business planning Customer needs and expectations	**8.1 Customer needs and expectations** 8.1.1 Identify, define and describe the needs and expectations of customers 8.1.2 Discuss and analyse case studies of businesses
Competitors' behaviour	**8.2 Competitors' behaviour** 8.2.1 Identify, define and describe the behaviour of competitors 8.2.2 Explain and analyse case studies of businesses
Suppliers of business resources and considerations regarding the supply chain, such as from where resources are sourced and how they reach the business	**8.3 Suppliers of business resources and the supply chain** 8.3.1 Identify, define and describe suppliers of business resources and supply chain 8.3.2 Explain and analyse case studies of businesses
Special interest groups such as environmental lobby groups, business associations and unions	**8.4 Special interest groups** 8.4.1 Identify, define and describe a variety of special interest and lobby groups 8.4.2 Analyse case studies of businesses

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What's ahead



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8.1 Customer needs and expectations

Learning intentions – at the end of this chapter section I will be able to:	**8.1.1** Identify, define and describe the needs and expectations of customers
	8.1.2 Discuss and analyse case studies of businesses

customer someone who buys goods or services

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

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

Customers form an important part of the operating environment of a business. Most businesses believe 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 consumer and **customer 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'.

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

- providing value in the level of quality of the 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 environmentally aware and sourcing clean, green and safe products
- 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
- meeting the demands of customers for 'ultra-convenience' when purchasing products and services.
- recognising that consumers are increasingly become health oriented.

Customers are now more discerning and educated in their consumer choices. They have become more health conscious. Regarding food, they are looking for products that are low in fat, salt and sugar and that contain no additives or preservatives. Customers often make a product selection based on whether the product was grown, produced or made in Australia. Legislation effective from 1 July 2018 provides for product labelling that specifies the country of origin as well as the proportion of Australian ingredients. If the product has been grown, produced or made in Australia, the kangaroo logo may also be included.



Figure 8.1 Registered certification of Australian products, including the bar showing the percentage of product grown, produced, or made in Australia.



NUTRITION INFORMATION

Servings per package: 8

Serving size: 33g

	Per serving	Per 100g
Energy	550kj	1680kj
Protein	2.4g	7 2g
Fat		
Total	3.6g	11.0g
Saturated	1.3g	4.1g
Carbohydrate		
Total	21.5g	55.1g
Sugars	10.1g	30.7g
Dietary Fibre	1.7g	5.1g
Sodium	20mg	70mg

This tells you how many serves there are in the whole packet.

This tells you the size of one serving of this food.

This tells you the nutrients in 100g of this food. This is the best way to compare similar products.

This tells you the nutrients in a single serve of this food. In this case, it's per 33g.

Figure 8.2 To appeal to discerning customers, Australian products display nutritional information and certifications on products.

CASE STUDY
8.1

Subway product range responds to changing consumer preferences



This case study is available in the Interactive Textbook.



Figure 8.3 Bendigo Bank: operating a very successful community bank model.

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, showed their anger by closing their accounts. This action by customers provided an opportunity for community banks to establish and prosper. Bendigo Bank anticipated this customer need and based its approach to banking on putting time and effort into innovation in the communities within which it operates. It has been rewarded and is now ranked the fifth-largest bank in Australia. Bendigo Bank currently has a branch, agency or ATM in over 500 locations around Australia.

ACTIVITY 8.1

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 your local community.
2. **Discuss** whether you believe this commitment to the community would make customers change whom they bank with.

REVIEW ACTIVITY 8.1

Part 1: Digital quiz
Please see the Interactive Textbook to access a digital activity.

Part 2: Short-answer questions
Answer these questions on paper or in the Interactive Textbook.

1. **Explain** the difference between a customer and a consumer.
2. **Compare** these two terms: 'customer needs' and 'customer expectations'.
3. **Identify** and **describe** three expectations customers have when purchasing food.
4. Increasingly, consumers consider the environmental impact that would be a factor in their choice of product. For example, when buying laundry detergent a person might look for products that are 'clean, green and safe for the environment'. **Propose** an environmental consideration when it comes to purchasing:
   a. paper products
   b. soft drinks
   c. takeaway food in containers.
5. 'Unmet customer needs can provide opportunities for businesses; however, they can also pose potential uncertainty for the profitability and ongoing success of a business.' **Analyse** the meaning of this comment.

8.2 Competitors' behaviour

Learning intentions – at the end of this chapter section I will be able to:	**8.2.1** Identify, define and describe the behaviour of competitors
	8.2.2 Explain and analyse case studies of businesses

It is important that businesses constantly monitor the products or services being offered by their **competitors**. This ongoing checking should be aimed at detecting whether a competitor has introduced a new product, updated or extended a current product line, or changed its pricing strategies. All such changes will impact on competing businesses, which must be prepared to respond. A possible opportunity could be created or a counteraction 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 daily what their business rivals are doing. For instance, in your local shopping centre, large supermarkets keep a watchful eye on the products offered and prices being charged by other supermarkets in the suburb, as well as the local fruit shop, butcher and bakery. While many customers are happy to purchase all their food items at a supermarket, a fair number of people still want to purchase their meat, bread, fruit and vegetables from specialist stores or the ever-increasing number of farmers' markets. Major food retailers, Coles and Woolworths, along with their suppliers, constantly watch each other's pricing. One supermarket chain will have a product on special one week, the other the following week. ALDI provides an additional challenge for these two chains with their lower pricing business model. In addition to competitive pricing, offering inducements, incentives, memberships and loyalty schemes is another strategy used by businesses in their quest to gain a competitive advantage.



Figure 8.4 Incentive to purchase strategy

ACTIVITY 8.2

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

Another aspect of business planning for food retailers is the increasing demand by their customers for 'ready-made and convenience food'. Competitors have entered this marketspace by preparing and delivering already-cooked family meals, while others deliver fresh meal kits with recipes for the home cook to follow to prepare these meals. The major food retailers, understanding the importance of responding to both customer needs and the importance of holding their market share, have responded by increasing their range of ready-made and convenience food and are providing click-and-collect facilities at their outlets.

ACTIVITY 8.3

In your class undertake a survey of your class members to find out the following:

1. How many of their families buy or use:
   - ready-prepared meals bought at a supermarket
   - fresh meal kits delivered to home
   - a food delivery service.
2. How often do they buy or use these services?
3. Compile the results of the survey and then **analyse** and **discuss** the results.

The entertainment industry is going through a period of unprecedented transformation. Industry disrupters (competitors) are forcing free-to-air (FTA) networks and pay TV operators to evaluate their business models. FTA networks are being troubled by the arrival of new and efficient streaming content providers such as Netflix, Apple TV+ and Stan that give viewers what they want to watch at a reasonable price point with no lock-in agreements. This assists customers who want to cancel the service, as they may do this at any time without incurring fees, unlike Foxtel subscriptions. An additional disrupter is the wide use of smartphones to watch movies, live sport and newsfeeds. Pay TV operators and FTA networks still hold a competitive advantage over streaming services with their ability to provide access to live TV, particularly newscasts, sporting and other major events.

ACTIVITY 8.4

1. Conduct a survey of class members to find out how many of their families:
   - watch free-to-air TV in real time
   - watch free-to-air TV recorded and advertisements skipped
   - subscribe to a pay TV provider
   - subscribe to a streaming service
   - use their smartphone to watch shows or movies.
2. **Analyse** the results and conduct a class discussion on the findings.

REVIEW ACTIVITY 8.2

Part 1: Digital quiz
Please see the Interactive Textbook to access a digital activity.

Part 2: Short-answer questions
Answer these questions on paper or in the Interactive Textbook.

1. **Describe** the impact on a business when a competitor introduces a new product or service.
2. **Outline** four strategies that a business can adopt in its quest to gain a competitive advantage.
3. **Explain** why it is important for business to closely monitor the pricing strategies being adopted by a competitor.

8.3 Suppliers of business resources and the supply chain

Learning intentions – at the end of this chapter section I will be able to:	**8.3.1** Identify, define and describe suppliers of business resources and supply chain
	8.3.2 Explain and analyse case studies of businesses

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

supply chain a system or process in which resources, information, organisations and people collaborate to move a product or service from suppliers to manufacturers and then on to consumers

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 resources (inputs) at the lowest possible cost. It is therefore essential to establish a guaranteed stable, long-term relationship with selected suppliers.

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) that are required to process raw materials and components into finished products ready to be purchased by the end customer. In addition, the supply chain links the major business functions and processes, such as sales, marketing, design, information technology and finance, within one business with those of another business. Essentially, the aim of a supply chain is to balance 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.



Figure 8.5 Businesses rely on long-term suppliers for their supply chain.

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.

Following horrific incidents such as the Savar building collapse in 2013 (Bangladesh), which killed more than 1100 people, Australian businesses such as Rivers, Coles, Kmart and Target 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.

In 2020, the COVID-19 pandemic highlighted for many businesses their over-reliance on importing component parts or finished goods as part of their supply chain. Supply chain problems associated with overseas suppliers meant that Australia had an undersupply of masks, sanitiser, respirators and pharmaceuticals. An opportunity arose for Australian manufacturing businesses wanting to survive the pandemic to pivot towards making these essential supplies, such as surgical masks and hand sanitiser. A South Australian company, Detmold Group, which normally provides packaging for both KFC and McDonald's, changed to making surgical masks. Fella Hamilton, a ladies' wear manufacturer, also started making surgical masks and scrub suits for medical staff.

CASE STUDY
8.2

COVID pandemic has a silver lining for local manufacturer as customers turn to Australian made



Local manufacturers willing to pivot their production capabilities to areas such as medical technology, space, robotics and food and beverages are helping other Australian businesses to overcome supply chain interruptions and long waits from overseas suppliers.

Bosch Australia Manufacturing Solutions (BAMS), using its global automation and manufacturing know-how, is one such company to take up the opportunity. Bosch collaborated with Brisbane-based Ellume to create state-of-the-art automated production lines to scale up manufacturing volumes of rapid at-home COVID-19 diagnostic test kits that are approved for use in the United States.

CASE STUDY ANALYSIS

Read the case study and watch the video to answer the following questions:

1. **Identify** and **describe** the benefits to both Bosch Australia Manufacturing Solutions and Ellume in being able to manufacture the rapid at-home COVID-19 testing kits in Australia.
2. Referring to the video, what percentage of Australia's GDP was made up by the manufacturing sector in the 1960s, and what percentage does it account for today?
3. Referring to the video, **describe** one example of a business that thrived due to the pandemic, and one that struggled, and **explain** why this was.
4. **Identify** an opportunity mentioned in the video to revive manufacturing in Australia.

Video 8.1
Australian manufacturing

ACTIVITY 8.5

On the McDonald's website, read the page 'Introducing the suppliers who brought you your Macca's' (https://cambridge.edu.au/redirect/9759) and answer the following questions.

1. **Describe** what it means when McDonald's states that its supply chain is unique and is based on a culture of partnership and collaboration.
2. **Explain** some of the ways that McDonald's ensures that suppliers in its supply chain act ethically.
3. **Outline** the standards McDonald's expects of its suppliers of animal products.



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 two pieces of fruit, or two vegetables, are compared, the lower the food miles mean 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 kilometres in a refrigerated truck or plane.

food miles
a system of measurement that calculates the distance a food product travels from production to consumption

Farmers' markets are gaining in popularity as a marketplace for small producers to sell their locally produced 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 (e.g. labelling of food and food safety) specific to the product they wish to sell.

REVIEW ACTIVITY 8.3

Part 1: Digital quiz
Please see the Interactive Textbook to access a digital activity.

Part 2: Short-answer questions
Answer these questions on paper or in the Interactive Textbook.

1. **Identify** and **describe** which major functions of one business are directly linked to the supply chain of another business.
2. **Describe** two strategies that a business can implement to optimise its supply chain.
3. **Identify** why it is important that a business is aware of where its supplies are sourced and how the supplies reach the business.
4. **Describe** the concept of 'food miles' as it relates to fresh produce.
5. Businesses need suppliers either to provide the resources for the products or services they sell, or to supply resources needed to run the business. **Identify** what you consider to be the key advantage of a strong, healthy supplier relationship.

8.4 Special interest groups

Learning intentions – at the end of this chapter section I will be able to:	**8.4.1** Identify, define and describe a variety of special interest and lobby groups
	8.4.2 Analyse case studies of businesses

special interest group a group or organisation seeking or receiving special advantages or privileges

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

Special interest groups and **lobby groups** attempt to influence the actions of businesses. One such area of interest relates to the environment; in particular, how business operations impact on the environment and what measures businesses are taking to proactively manage their environmental impact.

Environmental lobby groups

Environmental lobby groups actively promote environmental issues to businesses, 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. One business taking up the challenge from environmental lobby groups is Woolworths.

CASE STUDY **8.3**

Woolworths responds to pressure to become more sustainable and greener in its operations



Woolworths states that it is committed to growing greener every day, by cutting emissions, eliminating food waste, reducing plastic and sourcing responsibly. It not only wants to limit negative impact but also find ways to create positive benefits.

Initiatives they have planned and are putting into action are:

Initiative	Explanation and results to date
Commitment to zero food waste to landfill by 2025	• Since 2015 customers have bought 156 000 tonnes of The Odd Bunch fruit and vegetables, helping farmers to sell more of the crop and divert fresh product from landfill. • Overripe bananas are made into Woolworths' banana bread, with 50 cents from every loaf sold being donated to OzHarvest. • Donation of 10 tonnes of surplus fresh food to food rescue partners and the Animal and Stock Feed program, which supports livestock, zoo animals and rescued native Australian wildlife.
Making 100% Own Brand packaging reusable, recyclable or compostable by 2023	• Introduced cardboard meat trays to Woolworths Specially Selected and Grass Fed Beef ranges, which use 75% less plastic than previous packaging, and can be recycled via its REDCycle Program. • Since 2017, collected over 900 million pieces of soft plastic (i.e. 3700 tonnes) through in-store REDCycle recycling program. Upcycled into customer benches and car park bollards. • Reduced single-use plastics by removing plastic-stemmed cotton buds in favour of paper and sugarcane alternatives to save almost 500 million pieces of plastic yearly.
Partnered with Macro to launch a range of environmentally friendly cleaning products	• Launched range of environmentally friendly cleaning products independently certified by GECA (Good Environmental Choice Australia) that are ethically made, environmentally friendly and have a lower impact on human health.
Responsible sourcing and independently certified Own Brand tissues	• Tissues, toilet paper and kitchen towels are responsibly sourced and independently certified by the Forest Stewardship Council.
100% Green electricity by 2025	• Expanded its solar network to 100 000 panels made up of 200 sites including 132 stores.
Net positive carbon emission by 2050	• Cut 97 000 tonnes of CO_2 emissions. Reduced 27% since 2015.

Source: Woolworths website, commitments were current at time of writing

CASE STUDY ANALYSIS

1 **Identify** the main areas where Woolworths is demonstrating its pledge to:
   - 'go greener'
   - be more sustainable in its operations.

2 **Identify** any products you have purposefully bought from Woolworths because of its pledge to be more sustainable and greener in the way it operates.

It has become a big issue for businesses when planning their operations to demonstrate that they are responding appropriately to the growing pressure to control and reduce their level of waste. Proper waste management helps to protect the environment through reducing, reusing and recycling waste, as it decreases the amount of waste for disposal, saves space in landfill and conserves natural resources. It also assists with the health and safety of the population. Beyond environmental benefits, a business can be positively impacted by its reputation being enhanced and costs being reduced.

Sustainability Victoria calculated that, in 2020, Victoria wasted 2.4 million tonnes of food. The goal has been set to reduce food waste to 1.2 million tonnes by 2030. This is not only an environment issue but also a financial issue. Each year it costs Victoria $6 billion in lost product value and disposal fees, creating 3 million tonnes of carbon dioxide emission and wasting 29 billion litres of water.



Figure 8.6 Members of the Australian Wilderness Society protesting the sale of Reflex paper sourced from the logging of native forests.

The Wilderness Society is a national, community-based, environmental advocacy organisation that seeks to protect, promote and restore wilderness and natural processes across the nation for a greater purpose of protecting life on Earth. In 2018, VicForests was found by the Federal Court to be logging native and old-growth forests in breach of state and federal laws and was contributing to forest wildlife extinction. Bunnings, as an industry leader, decided that it would only stock wood sourced from uncontroversial sources by 2020. This decision was welcomed by The Wilderness Society.

The use of energy resources is another area where environmental lobby groups can affect the plans businesses are formulating. In 2020–21, solar energy generated approximately 10 per cent of Australia's electricity and is the fastest growing generation type in Australia. More than 30 per cent of Australian households now have solar panels on their rooftops. (Source: https://cambridge.edu.au/redirect/9760.) Many commercial properties have panels fitted to their roofs to generate solar energy for their own use while also having the potential to sell it back to the electricity grid. Businesses wishing to participate in renewable energy projects cite that cost, especially the upfront capital cost (in particular the cost of batteries to store the generated energy), is a major barrier to adopting these technologies. The cost and efficiency of the batteries is improving and over time they will become more popular.

Other special interest groups

Other groups may lobby for safe 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.

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, in 2006 US sporting goods company Nike suffered a massive drop in sales when it was accused of using child labour in its factories in Pakistan. Closer examination of the claim found that Nike did not operate its own factories, with its production contracted out under licence to other manufacturers. Following this adverse reaction from consumers, Nike 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. Actions taken by Nike to ensure that no child labour is used in the manufacture of its products has resulted it being ranked top in the industry for the seventh time in a row (2015–21).

Another powerful lobby group established over 60 years ago is Choice, recognised as the leading consumer advocacy group in Australia. Its monthly magazine (published both in print and online) is a common reference point for consumers wishing to purchase better, safer and fairer products and services. A favourable or damning report by Choice certainly has an impact on consumers' purchasing patterns and ultimately the sales revenue of businesses mentioned in the report.

Another group growing in prominence to protect and improve the livelihoods and wellbeing of disadvantaged producers is Fairtrade International. It promotes members who trade **fair trade** goods, including household goods, giftware, furniture, jewellery, garments and food and beverages.

fair trade a system of trade in which buyers from developed countries purchase products from producers in developing countries for a fair and ethical price

Business associations

There are a number of **business associations** in Australia that aim to meet the varied needs of businesses. As businesses vary in size, legal structure and nature of operations, 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, and 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.

industry association representative body for a particular industry

There are general **industry associations** (or bodies) whose membership base is 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 Builders Associations, with a combined membership of over 33 000. Similarly, solicitors can join the Law Institute of Victoria.



Figure 8.7 General industry bodies

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, a family-owned Australian 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.

Founded in 1979 and incorporated in 1985, the Council of Small Business Organisations Australia (COSBOA) has become Australia's premier organisation representing small business. COSBOA has three main goals:

- promote and support the development of small businesses in Australia
- advocate advancing the interests of small business in Australia, including through policy change and regulatory reform
- 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.

(Source: Council of Small Business Australia website, 'COSBOA history and goals'.)

Unions

union a group of workers and employees who have banded together to achieve common goals, such as higher pay, better working conditions and job security

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.



Figure 8.8 Unions act on behalf of workers to support them in improving working conditions

According to the Australian Bureau of Statistics (ABS), in 2020 the number of employees in our national workforce was 10.4 million, of which 14.3 per cent were members of a union. The highest industry sectors with union members are education and training (31 per cent), public administration and safety (28 per cent) and health care and social assistance (24 per cent). In the private sector, union membership is low, with only one in nine employees choosing to belong to a union.

Unions have played an important role in improving the working conditions of workers. Some of their achievements have been to negotiate 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.

The Australian Council of Trade Unions (ACTU) is the largest peak body representing workers in Australia. It is the national trade union centre with 46 affiliated unions and eight trades and labour councils.

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 and construction industry sector, 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, Maritime, Mining and Energy Union (CFMEU) are now more concerned with ensuring that building companies provide adequate public liability insurance, WorkCover and superannuation than whether the workers on sites are contributing union members. In 2021, the CFMEU played an important role in supporting the Victorian government to protect the health of workers by ensuring that construction workers were vaccinated against COVID before being able to work on a construction site.

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 8.6



1. Union membership for blue-collar workers (those engaged in trade work, labouring, machinery operators and drivers) has been declining. **Identify** reasons why this decline in membership may be occurring.
2. Union membership for managers and professionals (media, information technology, health, finance and education) employed in the public sector has seen an increase. **Identify** reasons why this increase in membership may be occurring.
3. Workers employed in the category of unskilled and semi-skilled workers (sales, clerical work, community and personal service) have traditionally had low union membership figures. **Identify** reasons why you believe this category of union membership could be low.

REVIEW ACTIVITY 8.4



Part 1: Digital quiz
Please see the Interactive Textbook to access a digital activity.

Part 2: Short-answer questions
Answer these questions on paper or in the Interactive Textbook.

1. **Identify** and **describe** examples of activities taken by lobby groups that would impact on the 'licence to operate' of a business.
2. **Outline** the benefits to a business of becoming a member of a business association.

Chapter 8 review

Summary

Create your own summary notes for this chapter on paper or in a digital document. A model summary is provided in the Area of Study review chapter for Unit 1 Area of Study 3, which can be used to compare with yours.

Developing clear definitions

By writing a brief explanation of each of the following terms, you will gradually build up a glossary of comprehensive terms for revision. Define these terms in your exercise book.

Operating environment	Customer	Consumer
Competitor	Supplier	Supply chain
Lobby group	Business association	Union

Extension questions

1 'The customer is always right' is a figurative motto rather than a golden rule adopted by businesses. **Identify** and **describe** ways that a business needs to plan and operate if it wants to respond to this motto.

2 **Discuss** whether you believe unions are a thing of the past and not relevant in the current workplace or are important to the efficient functioning of Australian businesses and protection of workers' rights.

3 **Analyse** the importance for a business of establishing a reliable supply chain for the inputs/resources they require to manufacture a product.

Checklist

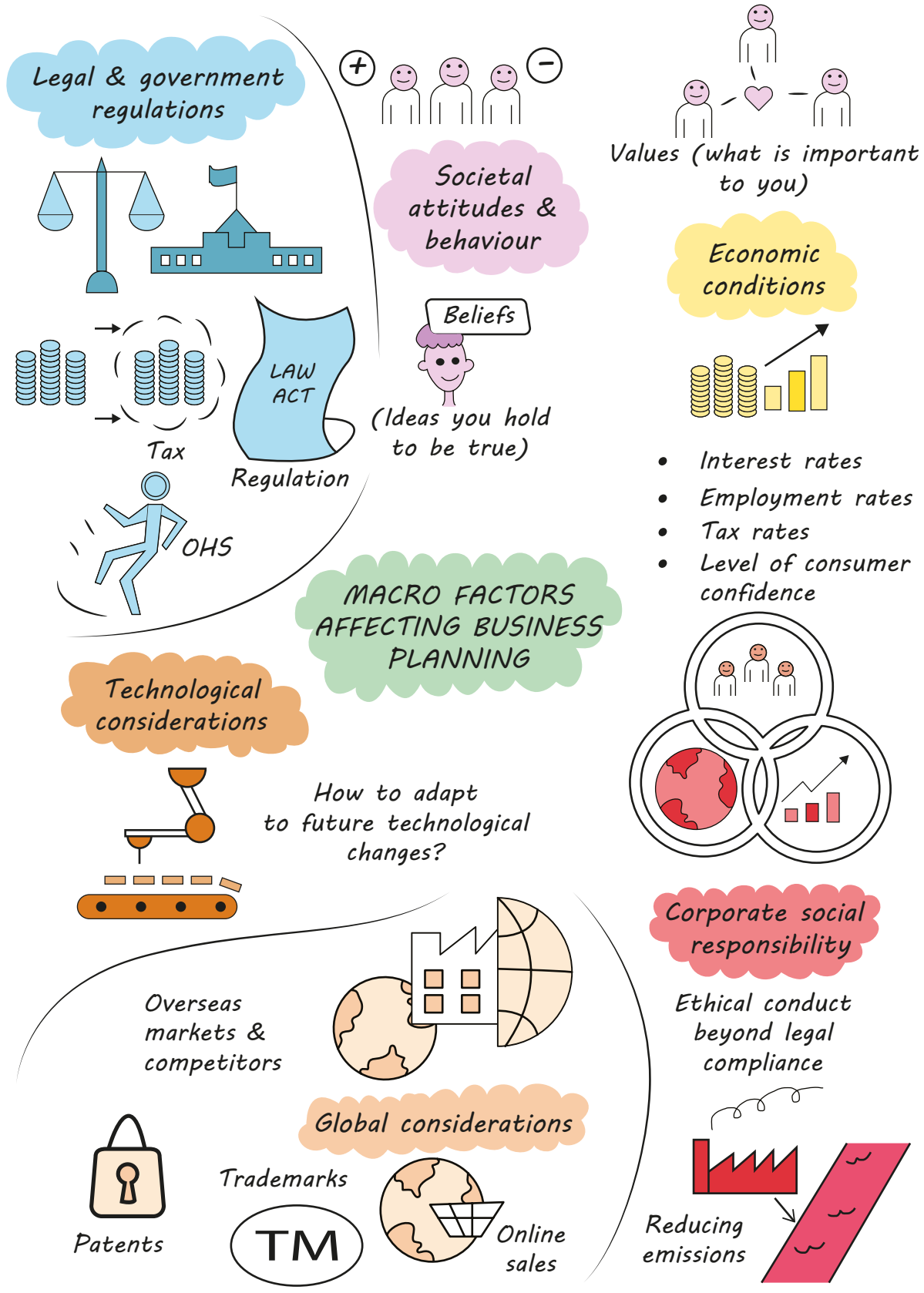
The success criteria are linked to the learning intentions from each section of this chapter, and have been written based on the key knowledge and skills of the VCE Business Management Study Design. Completing the linked questions per success criteria will thoroughly prepare you for success in this subject. Fill in, print, or photocopy this checklist and tick the boxes when you have answered the corresponding questions correctly.

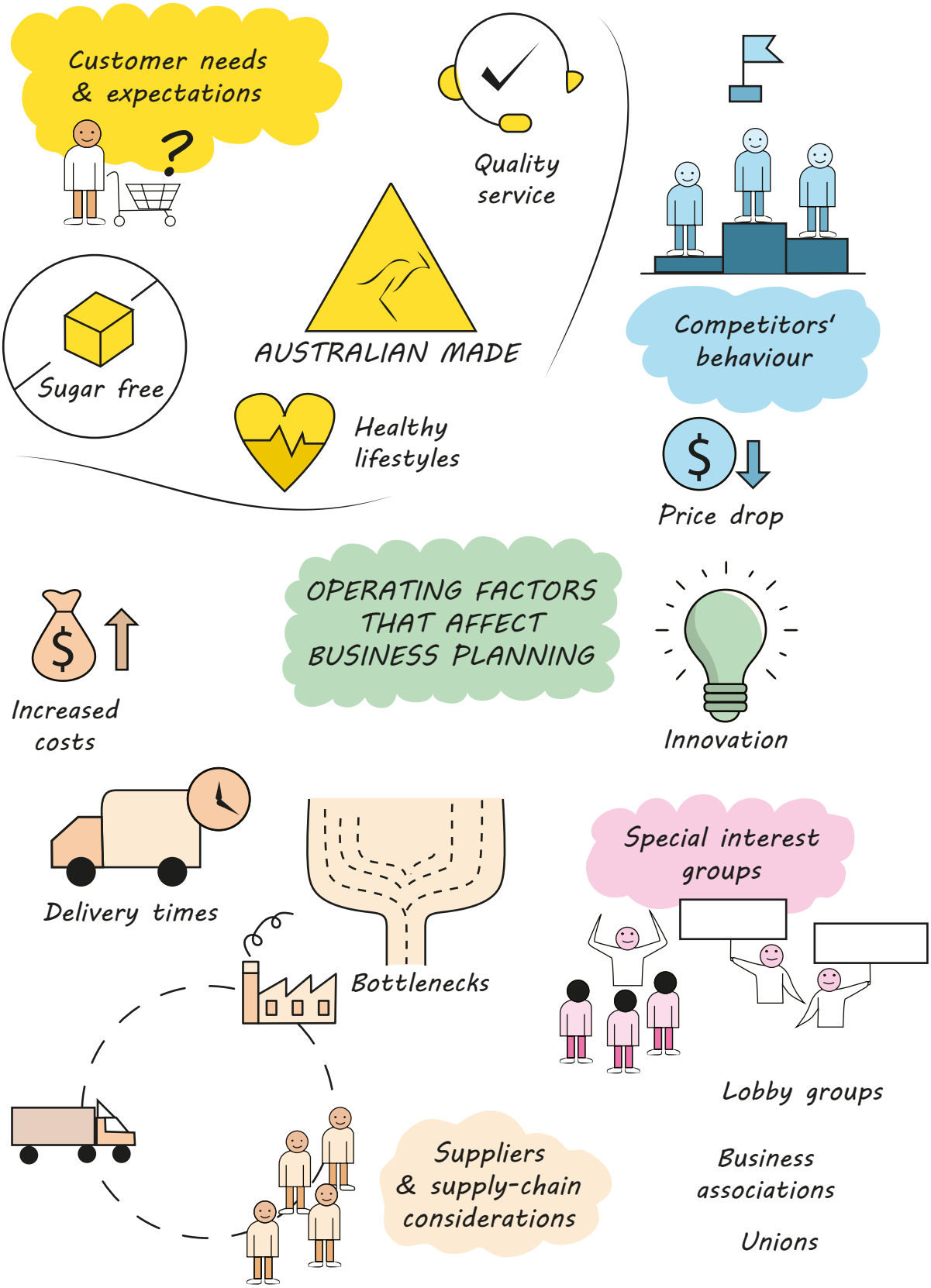
Success criteria – I am now able to:		Linked questions	Completed (Y/N)
8.1 Customer needs and expectations	**8.1.1** Identify, define and describe the needs and expectations of customers	Activity 8.1 Case study 8.1 Review activity 8.1: Part 1 & Part 2 Extension: Q1	Yes ☐ No ☐
	8.1.2 Discuss and analyse case studies of businesses	Case study 8.1	Yes ☐ No ☐
8.2 Competitors' behaviour	**8.2.1** Identify, define and describe the behaviour of competitors	Activity 8.2 Activity 8.3 Activity 8.4 Review activity 8.2: Part 1 & Part 2	Yes ☐ No ☐
	8.2.2 Explain and analyse case studies of businesses	Activity 8.2 Activity 8.3 Activity 8.4	Yes ☐ No ☐
8.3 Suppliers of business resources and the supply chain	**8.3.1** Identify, define and describe suppliers of business resources and supply chain	Activity 8.5 Case study 8.2 Review activity 8.2: Part 1 & Part 2 Extension: Q3	Yes ☐ No ☐
	8.3.2 Explain and analyse case studies of businesses	Case study 8.2	Yes ☐ No ☐
8.4 Special interest groups	**8.4.1** Identify, define and describe a variety of special interest and lobby groups	Activity 8.6 Review activity 8.4: Part 1 & Part 2 Extension: Q2	Yes ☐ No ☐
	8.4.2 Analyse case studies of businesses	Case study 8.3	Yes ☐ No ☐

Digital activities

- Access the Interactive Textbook via Cambridge GO to complete a Scorcher timed competitive quiz for this chapter.
- From their Cambridge GO account, your teacher can also assign practice VCAA-style assessment questions with model responses.

Unit 1 Area of Study 3 review Conceptual summary




Customer needs & expectations
Quality service
AUSTRALIAN MADE
Sugar free
Healthy lifestyles
Competitors' behaviour
Price drop
OPERATING FACTORS THAT AFFECT BUSINESS PLANNING
Increased costs
Innovation
Delivery times
Bottlenecks
Special interest groups
Lobby groups
Business associations
Unions
Suppliers & supply-chain considerations

Key knowledge summary: Unit 1 Area of Study 3

Key knowledge	Summary
• An overview of the factors within the external (macro and operating) environment that affect business planning	• Businesses have to consider a range of factors when planning. • Some factors in the environment are outside the control 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.
Macro factors affecting business planning	
• An overview of key legal and government regulations affecting businesses in the planning stage	• There is a range of taxation and legal factors, such as employment laws, building and other permits, and zoning that businesses must take into consideration.
• Societal attitudes and behaviour such as values, beliefs and trends	• Societal attitudes, changing values and trends all have to be considered when planning a business.
• Economic conditions such as interest rates, employment levels, tax rates and levels of consumer confidence	• Economic conditions can have a substantial impact on business planning. • Economic factors include interest rates, taxation rates, and business and consumer confidence.
• Technological considerations such as how the market may change in the future and how businesses adapt to developments in technology	• Technological issues and continual changes in technology can influence business activity.

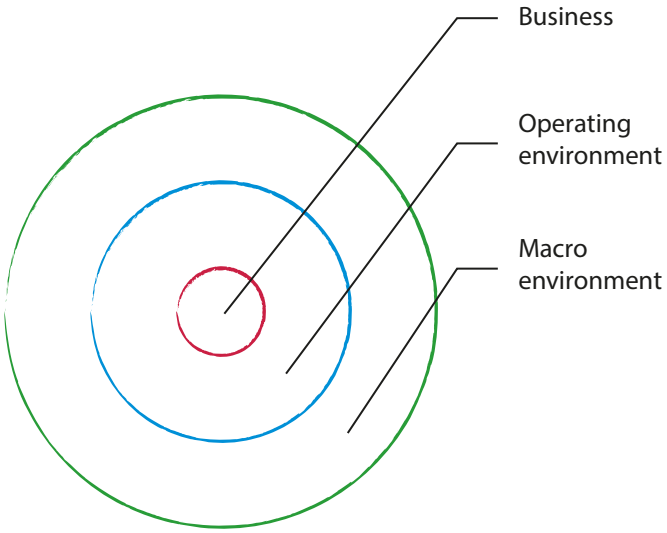
Key knowledge	Summary
• Global considerations such as overseas competitors, overseas markets, offshoring of labour, exchange rates, patenting, copyrights, trademarks and online sales	• Australia is part of a global economy and businesses need to be able to compete with businesses from a range of countries. • Global considerations include: – overseas markets – overseas competition – offshoring of labour – exchange rates – patenting – copyright – trademarks – online sales.
• Corporate social responsibility considerations related to business planning, such as environmental considerations and planning for socially responsible production of goods and services	• Corporate social responsibility 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.
Operating factors that affect business planning	
• Customer needs and expectations	• Customer needs and associated expectations change over time and businesses need to be responsive to the changes.
• Competitors' behaviour	• Competitor behaviour must be closely monitored, and planning undertaken to ensure the business is positioning itself to be competitive against its rivals.
• Suppliers of business resources and considerations regarding the supply chain, such as from where resources are sourced and how they reach the business	• Suppliers and the supply chain, together with how resources are sourced and how they reach the business, must be considered.
• Special interest groups such as environmental lobby groups, business associations and unions	• Special interest groups, such as environmental lobby groups, business associations and unions, attempt to influence the actions of businesses.

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Sample assessment questions and advice

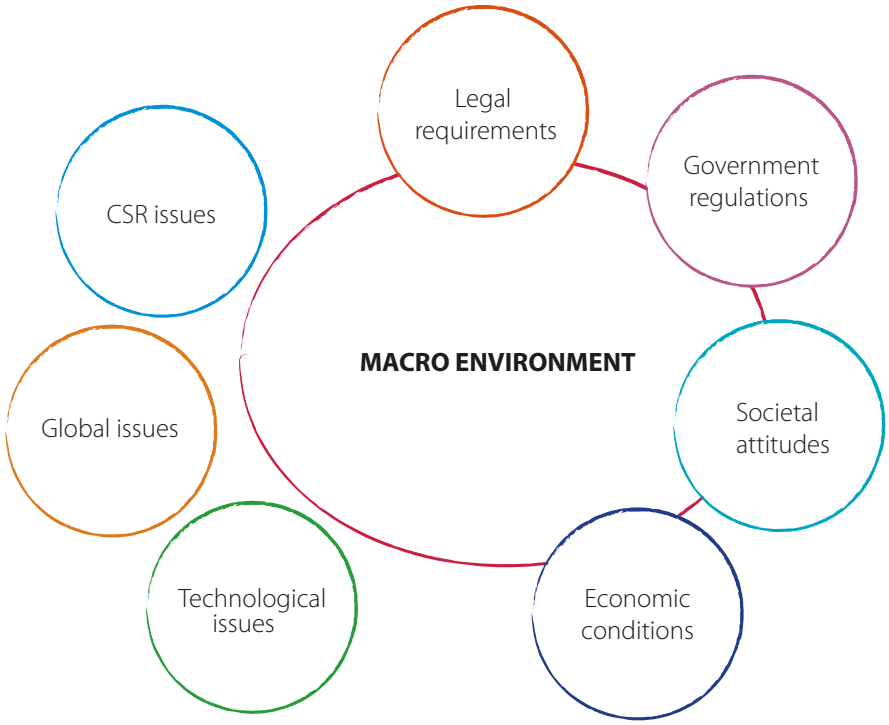
Unit 1 Area of Study 3: External business environment and planning

In this section we will look at some sample assessment-style questions. Although there is no external examination for Units 1&2, the following questions are written in a VCAA-examination style to prepare you for these types of questions.



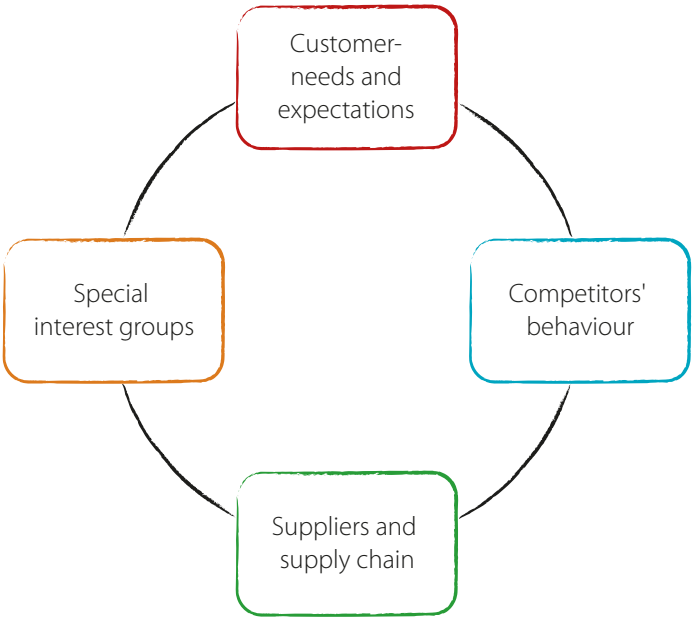
Unit 1 Area of Study 3 examines the external environment (macro and operating) that may act as pressures or forces when planning a business.

When planning a business, owners must ensure that they consider and respond to the following factors from the macro environment: legal, government regulations, societal attitudes, economy, technological, global and corporate social responsibility issues.



In addition to businesses taking account of factors from the macro environment, they also need to be aware of and respond to factors from their operating environment.

The factors that can affect business planning are customer needs and expectations, competitors' behavior, suppliers and the supply chain, and special interest groups.



Using the following case study, we can explore how the following key skills (identify and describe) can be used in assessment questions.

Case study practice

Sebastian wants to pursue his passion for baking French croissants. He adds a variety of interesting flavours such as strawberry, almond and chocolate to his delectable and mouth-watering creations. He wants to make (manufacture) the croissants in his kitchen at his home, transport the freshly baked croissants using his car and sell them at various farmers' markets around Melbourne.

Your responses to the following two questions are to be based on this case study.

It is important that you read the case study carefully as the questions following will be directly related to the case study, requiring you to apply your understanding of the relevant key knowledge.

Question 1

Identify and **describe** one factor from the macro environment that will affect Sebastian when planning his business venture. **(3 marks)**

Extended response question – let's unpack it

Task words
Identify: Determine or establish as being a particular thing. To determine the key characteristics or features
Describe: Provide a detailed account of something

Study Design requirements
Key knowledge: macro business environment

Identify and describe one factor from the macro environment that will affect Sebastian when planning his business venture. **(3 marks)**

Limiting word
Determines the number of examples you must use.

Marks allocated

Case study

Hints:
- The first task word is 'identify', which requires you to determine or establish the key factor from the macro environment.
- The second task word is 'describe', which requires you to provide a detailed account of the factor you have identified.

A possible answer to the question might be:

Sample response
Sebastian is planning to run a food-based business and therefore must ensure that he researches all the legal factors associated with registering his business, and also the health requirements for operating from his kitchen at home and not a commercial kitchen. He must make sure he is compliant with all legal regulations, as failure to do so will see his business being closed down and could ultimately result in him being prosecuted.

Marking guide:
- 1 mark for identifying a relevant macro environment factor
- 2 marks for providing a detailed account of the factor identified and related to the case study.

Total 3 marks

Question 2

Identify and **describe** two important factors from the operating environment that Sebastian must take into account when planning his business. **(8 marks)**

Extended response question – let's unpack it

Task words
Identify: Determine or establish as being a particular thing. To determine the key characteristics or features
Describe: Provide a detailed account of something

Study Design requirements
Key knowledge: operating environment

Identify and describe two important factors from the operating environment that Sebastian must take into account when planning his business. **(8marks)**

Limiting word
Determines the number of examples you must use

Marks allocated

Case study

Hints:

- This question is similar to the previous question, but it requires you to identify and describe two factors that are not only important when undertaking planning to commence a business, but will also contribute to making it a success.

A possible answer to the question might be:

Sample response
An important factor within the operating environment is customers. Sebastian must ensure that he understands his customers, as they are the ones that choose whether to buy his croissants. He must ensure that he is responding to what the customers want in terms of variety and quality of the croissants, the price(s) he is charging for his freshly baked product and the customer service he is providing.
Another important factor is his competitors. Sebastian needs to check out who his potential competitors are at the various farmers' markets he wants to sell at and the strength of position they hold within the marketplace. He also needs to ensure that his products (flavoured home-baked croissants) are sufficiently different from what his competitors are selling if he wants his business to be successful.

Marking guide:

- 2 marks for identifying two relevant operating environment factors
- 2 marks x 2 (4 marks) for describing the two relevant operating environment factors
- 2 marks for relating each relevant operating environment factor to Sebastian's planning of his business (i.e. case study).

Total 8 marks



UNIT 2
ESTABLISHING A BUSINESS

UNIT DESCRIPTION

This unit focuses on the establishment phase of a business. Establishing a business involves compliance with legal requirements as well as decisions about how best to establish a system of financial record keeping, staff the business and establish a customer base. In this unit, students examine the legal requirements that must be met to establish a business. They investigate the essential features of effective marketing and consider the best way to meet the needs of the business in terms of staffing and financial record keeping. Students analyse management practices by applying key knowledge to contemporary business case studies from the past four years.

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AREAS OF STUDY IN THIS UNIT
1 Legal requirements and financial considerations
2 Marketing a business
3 Staffing a business

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AREA OF STUDY 1
LEGAL REQUIREMENTS AND FINANCIAL CONSIDERATIONS

AREA OF STUDY DESCRIPTION

It is essential to deal with legal and financial matters when establishing a business. In this Area of Study students are introduced to the legal requirements and financial considerations that are vital in establishing a business. They also consider the implications for the business if legal and financial requirements are not met.

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OUTCOME 3

On completion of this unit the student should be able to outline the key legal requirements and financial record-keeping considerations when establishing a business, and explain the importance of establishing effective policies and procedures to achieve compliance with these requirements.

To achieve this outcome the student will draw on key knowledge and key skills outlined in Area of Study 1. [These are listed at the start of each chapter.]

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CHAPTERS IN THIS AREA OF STUDY	
	9 Establishing a business: legal requirements and external professionals
	10 Establishing a business: policies and procedures

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CHAPTER 9
Establishing a business: legal requirements and external professionals

'Play by the rules, but be ferocious.'

Phil Knight (1938–)



About the author:
American billionaire Phil Knight is the co-founder of Nike and currently ranked as the 24th richest person in the world.



KICKSTARTER ACTIVITY

1 **Discuss** the meaning of the above quote. **Consider** the types of rules that Phil Knight may be referring to and why he suggests to 'be ferocious'.
2 **Identify** the range of professional services available to offer advice so that businesses do 'play by the rules'.

CHAPTER OVERVIEW

There are numerous legal considerations and requirements to be aware of during the process of establishing and operating a business. A business owner must ensure the business is following all laws and regulations, or otherwise risk exposure to legal sanction. Seeking advice from professionals is a valuable safeguard to ensure that the business is working within expected legal parameters.

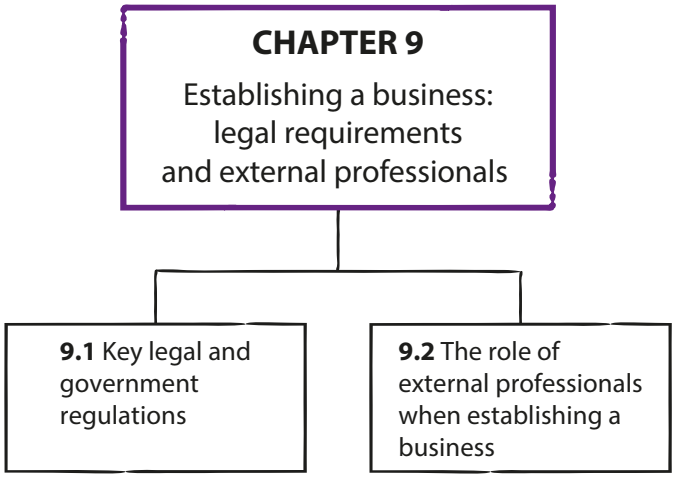
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Key knowledge and learning intentions

Key knowledge	Learning intentions – at the end of this chapter I will be able to:
An overview of key legal requirements for establishing a business, such as registering the business name, registering a website domain, trade practices legislation, business tax compliance and Worksafe insurance	**9.1 Key legal and government regulations** 9.1.1 Provide an overview of the key legal requirements for establishing a business, including registering the business name, registering a website domain, trade practices legislation, business tax compliance and Worksafe insurance
Overview of the role of external professionals when establishing a business	**9.2 The role of external professionals when establishing a business** 9.2.1 Describe the role of external professionals when establishing a business

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What's ahead



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9.1 Key legal and government regulations

Learning intentions – at the end of this chapter section I will be able to:	**9.1.1** Provide an overview of the key legal requirements for establishing a business, including registering the business name, registering a website domain, trade practices legislation, business tax compliance and Worksafe insurance



Figure 9.1 Legal requirements for businesses to comply with before commencing

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 entity of its responsibility to stakeholders for actions and decisions

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.

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.

National Business Names Register

The Australian Securities and Investments Commission (ASIC) took over the administration of business names from states and territories to establish Australia's Business Names Register. Under the national business names legislation, businesses need to register just once and this provides national recognition. New businesses are expected to have an Australian Business Number (ABN) to register the business name.

If a business operator chooses to trade under their own name, there is no need to register; however, business structures such as a sole trader conducting business under another name, partnerships, family trusts, or joint ventures require the business name to be registered. Selecting a business name identifies a business to its customers, and allows it to differentiate itself from the competition.



Figure 9.2 A registered business name helps customers to identify and connect with a business.

Registering a company

A company is a separate legal entity and is taxed at a different rate. Businesses wanting to register a company must have an Australian Company Number (ACN) as well as an ABN. This is a unique, nine-digit number issued by ASIC that offers identification while transacting business. 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.

Registering a website domain

Although not compulsory when starting a new business, it is highly recommended to register a **domain name**, a website address or URL that effectively provides an online identity. It's an important marketing tool to help customers find and identify with a business. When selecting a website domain, a business should select a name that represents the business in a unique way that is easy to remember, pronounce and spell.

domain name
a unique name identifying the website in a web address

Registration for a .com.au domain must be done through a domain register accredited by the Australian Domain Name Authority (auDA). Businesses are required to have an ABN or ACN to register as .com.au. Australian technology companies or business websites prefer to register as .net.au while non-commercial Australian organisations register as .org.au.

If a business plans on using social media for marketing purposes, it is wise to check that the business name is indeed available on the certain channels that the business plans to use. A quick way to find out if a domain name is available is to use the free service provided by Afilias Australia, which can easily be found online using your favourite search engine.



Figure 9.3 It is recommended to register a domain name for your business.

Table 9.1 Register and protect your business

Initial business registration steps	What it does for a business
Business name	A business name, or trading name, is a name or title under which a person, or other legal entity, trades (issued by ASIC).
Register website name	An ABN will allow a business to obtain an Australian domain name, which is a website address or URL on the internet and enables a business to have an online identity (issued by auDA).
Australian Business Number (ABN)	An ABN is a unique 11-digit number that partnerships and trusts must have. ABNs are managed by ASIC.

(continued)

(continued)

Australian Company Number (ACN)	An ACN is a unique nine-digit number that every company in Australia must have. ACNs are managed by ASIC.
Business Tax File Number (TFN)	A TFN is issued by the Australian Taxation Office (ATO) to individuals and organisations to help manage tax and other services. Partnerships, companies and trusts require their own TFN.
Pay As You Go (PAYG)	PAYG withholding is a legal requirement when a business makes payments to employees and some contractors. The business must withhold a designated amount of money and send it to the ATO at regular intervals.
Intellectual property (IP) registration	Businesses register patents, copyrights and trademarks to protect their IP so that their rivals cannot simply copy their ideas (see IP Australia).



ACTIVITY 9.1

The Australian Business Licence and Information Service (ABLIS) website is a useful resource for businesses to determine the range of expected legal compliance that the business must meet in relation to government licences, permits, registrations, codes of practice and standards.

Using the ABLIS website, **list** the licensing requirements for each of the following businesses:

1. restaurant
2. real estate agency
3. electrician
4. hair salon.

Business taxation compliance

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

There is an old saying that there are only two things that we can be certain of in this life: death and taxes. A business *must* pay tax. The Australian Taxation Office (ATO) administers Australia's taxation and **superannuation** systems. Business taxation obligations include the following:

- A business carrying out an enterprise in Australia must obtain an ABN. Businesses without an ABN are effectively penalised as their business clients withhold 46.5 per cent of any payments they make to the business.
- 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:

- If earning over $75 000, 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.

Trade practices legislation and rights of the consumer

The *Trade Practices Act 1974* was replaced by the *Competition and Consumer Act 2010* with Schedule 2 of the Act known as the Australian Consumer Law 2011 (ACL). All Australian businesses must comply with the national law designed to protect Australian consumers.

The *Competition and Consumer Act* 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 ACCC also works to ensure that both business owners and consumers are aware of their responsibilities and rights so that all parties are well informed and are able to stimulate effective competition. Australian consumers now have the same rights no matter where they live, where they purchase goods and services, or where a supplier is located.

Consumer guarantees

Businesses need to be aware of consumer rights as they are protected by ACL, which covers goods and services purchased up to the value of $40 000 for domestic, household, or personal use. All goods and services are expected to be fit for the purpose they were purchased for, be free of defects and be safe to use.

There are legal obligations businesses must meet when devising warranties and guarantees. The business must ensure that its products and services are suitable, not faulty and will perform satisfactorily; and 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.



Figure 9.4 Australian Consumer Law is designed to protect consumers from exploitation and is administered by the ACCC.

Consumers are automatically covered by **warranty** protection under the Act. Should a product fail to meet these criteria, a consumer has the right to a remedy through repair, replacement, refund, or compensation. There are penalties imposed on businesses that fail to follow the provisions relating to guarantees, warranties and advertising.

Misleading and deceptive conduct

A seller may not make **false and misleading representations** to a consumer. This means they must not lie or exaggerate about the quality, benefits, warranty, possible uses, or prices of the products they are selling.

A business must ensure that it does not make false and misleading representations about products sold. Illegal practices include:

- a 'half-truth' in advertising
- suggesting that a product has an attribute that it does not have
- stating that 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 an item when there are only a few available.

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

false and misleading representation to lie or exaggerate about the features or benefits offered by a product being sold

CASE STUDY
9.1

Booktopia in court for alleged false or misleading claims on refund rights



Booktopia is an Australian online seller of books, audiobooks, DVDs and eBooks, and one of the largest book retailers in Australia. Its parent company is ASX-listed Booktopia Group Ltd. Booktopia Group is the largest Australian-owned online book retailer by market share.

The ACCC has instituted Federal Court proceedings against online retailer Booktopia Pty Ltd for making false or misleading representations to consumers about their rights to refunds and other remedies for faulty or damaged goods.

On its website between 10 January 2020 and 2 November 2021, Booktopia allegedly represented that consumers had to notify it of a faulty, damaged, or incorrect product within two days of delivery to have a right to a refund or other remedy, and that consumers had no right to refunds on certain products, including digital content and eBooks, in any circumstances.

In addition, in dealings with 19 consumers, Booktopia allegedly represented that it was not obliged to provide a refund or remedy because the consumer had failed to notify Booktopia of a fault within two days of delivery.

The ACCC alleges that the representations on Booktopia's website and made directly by customer service staff to the 19 consumers were false or misleading because they did not reflect consumers' rights to obtain a refund or other remedy under the consumer guarantee rights in the Australian Consumer Law (ACL).

The ACL gives consumers a right to remedies if the goods do not meet the consumer guarantees, including if they are of unacceptable quality. Consumer guarantee rights extend to digital goods, and do not have a two-day expiration date.

'Consumers who buy digital products or buy products online have the same rights as those who shop in physical stores,' ACCC Chair Rod Sims said.

'Australian consumers have a right to refund, repair or replacement for goods that do not meet their consumer guarantee rights which apply for a reasonable period, and no business can exclude, limit or modify those rights.

'Booktopia's conduct may have caused consumers not to seek a refund, replacement or repair for faulty digital products, books and other goods in circumstances where the Australian Consumer Law gave them a right to do so.'

The ACCC is seeking penalties, declarations, costs and other orders.

Source: Adapted from ACCC, 'Booktopia in court for alleged false or misleading claims on refund rights', ACCC website, 10 December 2021.

CASE STUDY ANALYSIS

1. **Outline** the facts of this case including how Booktopia breached ACL.
2. **Describe** the role of the Federal Court in this case.

3 **Propose** a possible penalty. Do you think that this will also deter other businesses from making misleading representations?

4 This case reinforces the importance of businesses being ethical. Suggest the possible impact this outcome may have on the actions of other online businesses.

ACTIVITY 9.2

1 Search for the website of Consumer Affairs Victoria. Go to 'Products and services' 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.

2 Are the following signs legal in Victoria? **Explain** your answer.
   a 'No refund on sale items'
   b 'No refunds'

licence a document or permit that gives official permission to do, use, or own something

Business licences, permits and approvals

Many 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 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.



Figure 9.5 Consumer guarantees require goods to be of an acceptable quality.

Local government by-laws

Local government **by-laws** affect the operation of businesses in a given local area. These vary according to the local government.

by-laws local government laws/regulations relating to activities within a municipality

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 largely 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.



Figure 9.6 Food vans feature at a range of Melbourne venues providing casual and usually well-priced food.

Permits and approvals are required from the local government planning department to set up or make fit-out changes to business premises.

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
- Australian Prudential Regulation Authority (APRA) copyright licensing for playing music
- local council permits for footpath seating.

ACTIVITY 9.3

Using your favourite search engine, locate the 'Permits and approvals' page in the Business section of the City of Melbourne website and answer the questions:

1. In relation to street trading:
   - a **Describe** three types of street trading activities offered by the City of Melbourne.
   - b **Outline** the application process.
   - c Suggest two reasons why the City of Melbourne regulates this type of activity.
2. **Outline** two by-laws that apply to mobile food vans and their operation in the City of Melbourne.
3. **Outline** two requirements applying to hospitality businesses in the City of Melbourne.
4. **List** the steps that would be required to be followed for a music venue in the City of Melbourne. **Discuss** why these guidelines have been established.
5. **Describe** the waste and recycling programs to which businesses in the City of Melbourne are expected to adhere.

Employment laws

The Australian federal and Victorian state governments are responsible for the creation and implementation of workplace laws. Employers' obligations and responsibilities are set out to ensure that employees' rights are protected. Key areas of legislation relate to workplace safety, awards and agreements, equal opportunity and anti-discrimination laws.

Workplace relations laws

The **Fair Work Commission (FWC)** is the independent, national body established under the *Fair Work Act 2009* to regulate **workplace relations** between employees and employers including:

- setting minimum wages and conditions.
- resolving disputes in the workplace.

In establishing the National Employment Standards (NES), the FWC protects the minimum workplace entitlements for all Australian employees. In addition, the FWC determines the minimum standards for wages and conditions specific to an industry, known as awards. The FWC acts like an industrial court to resolve disputes and establish minimum wages and conditions. The FWC oversees and enforces regulations regarding:



Figure 9.7 City of Melbourne Town Hall

- the safety net of minimum wages and employment conditions (NES)
- enterprise bargaining
- industrial action
- dispute resolution
- termination of employment
- other workplace matters.

The **Fair Work Ombudsman (FWO)** is an independent statutory agency of the federal government that acts as a hub of information and advice regarding the workplace relations system. Investigations into workplace complaints are carried out by the Office of the Fair Work Ombudsman, which also enforces compliance with Australia's workplace laws.

Fair Work Commission (FWC) Australia's national workplace relations tribunal. Its role is to assist employees and employers to maintain fair and productive workplaces.

workplace relations the relationship between employer and employee with regards to contractual, emotional, physical and practical concerns

Fair Work Ombudsman (FWO) an independent statutory agency of the Australian Government that acts as a central point of contact for free advice and information on the Australian national workplace relations system

ACTIVITY 9.4

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 'Employee conditions' then 'National Employment Standards' and answer the following questions:
   a. **Explain** how the National Employment Standards (NES) are designed to protect employees.
   b. **List** the 11 NES that apply to all employees covered by the national workplace relations system.
   c. **Outline** the potential penalties that an employer faces for providing an enterprise agreement to their employees with entitlements less than the NES.
2. **Explain** why the federal government would establish this type of website.



Figure 9.8 Occupational health and safety is an important obligation of a business.

Occupational health and safety laws

All businesses need to ensure they comply with the relevant occupational health and safety laws for their state. In Victoria, businesses are to observe occupational health and safety laws that set out the responsibilities of employers and employees to ensure a workplace is safe. Workplaces are to be proactive in reducing all physical, chemical and behavioural hazards as far as is practicable. These obligations and responsibilities are set out in the *Occupational Health and Safety Act 2004*.

Occupational health and safety (OH&S) laws aim to prevent accidents in the workplace by involving all within the business in actively working to identify and remove hazards.

occupational health and safety (OH&S) laws concerned with the safety and welfare of people engaged in work or employment

An employer's obligations under OH&S 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 addition to the Act, there are compliance codes that provide practical advice to those who have duties or obligations under the Act.



Figure 9.9 Elements of a health and safety management system operating in accordance with Victorian OH&S laws

WorkSafe Victoria

WorkSafe is the Victorian Government's regulator in the enforcement of health and safety in all workplaces in the state. Inspectors from WorkSafe may assess 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 the standards and codes relevant to their particular industry. Failure to do so could result in legal prosecution.

WorkSafe Victoria established compulsory workplace injury insurance where employers contribute to **WorkCover** insurance. This provides employers with insurance cover for the cost of benefits their workers will receive if they are injured or become ill because of their work. An income and compensation for employees and/or their families is provided 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.

WorkCover a 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
9.2

O'Brien stable to face trial over Worksafe charges following Thirteenth Beach death



The stable of Melbourne Cup-winning trainer Danny O'Brien has been committed to stand trial on charges of failing to provide a safe workplace after a track rider, crossing a road on horseback, was struck by a car and killed in March 2020.

O'Brien Thoroughbreds pleaded not guilty to the charges at the Geelong Magistrates Court, but the judge determined on Wednesday that there was enough evidence to proceed with the case.

WorkSafe argues that stable staff should have been wearing high-vis protective wear when they were crossing Thirteenth Beach Road, Connewarre, on horseback on the morning of 9 March 2020, when a car collided with horse and stablehand, killing the 31-year-old man.

The unraced horse escaped with just minor injuries, as did the driver of the car.

WorkSafe said O'Brien Thoroughbreds received a document outlining safe work practices and known risks within the racing industry in December 2018 from Racing Victoria, focusing on the topic of handling and transporting horses.

WorkSafe said the document noted various risks relating to the topic, one of which was 'horse and rider being struck by vehicles due to poor visibility'.



Figure 9.10 Danny O'Brien trained with master trainer Bart Cummings and over the last 20 years has proven to be one of Australia's finest horse trainers.

One of the recommended safe practices in the document is that every horse that is led or ridden on a public road or thoroughfare before sunrise should wear a rug or gear with reflective strips, and the riders should wear a reflective high-visibility vest, according to WorkSafe.

But stable staff who gave evidence in the committal hearing on Monday said they felt safe to cross the road.

Source: Adapted from Damien Ractliffe, 'O'Brien stable to face trial over WorkSafe charges following Thirteenth Beach death', The Sydney Morning Herald, 16 February 2022.

CASE STUDY ANALYSIS

1. **Outline** the circumstances leading to Danny O'Brien being committed to stand trial.
2. **Describe** the role of WorkSafe and include details of its published guidelines outlining safe work practices and known risks within the racing industry.
3. Do you think the Danny O'Brien was responsible for the breach of these conditions? **Justify** your answer.
4. Predict the possible outcome for this case.
5. Conduct research about the outcome of the case at the County Court. Suggest how the decision is likely to affect the racing industry in the long term.



Figure 9.11 Discrimination is treating, or proposing to treat, someone unfavourably because of a personal characteristic protected by law.

Equal opportunity, anti-discrimination and sexual harassment laws

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.

Anti-discrimination laws aim to protect employees from discrimination on the grounds of age, gender, sexual orientation, gender identity, religion, pregnancy, race, ethnic background, disability, or any other personal characteristic.

The Victorian Equal Opportunity and Human Rights Commission may fine employers if they perpetrate or allow discrimination based on an employee's personal characteristics to occur in their workplace. Discrimination can be direct or indirect and includes:

- 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 employment benefits; for example, because of parental status
- being unfairly dismissed, retrenched or demoted; for example, because you become pregnant.

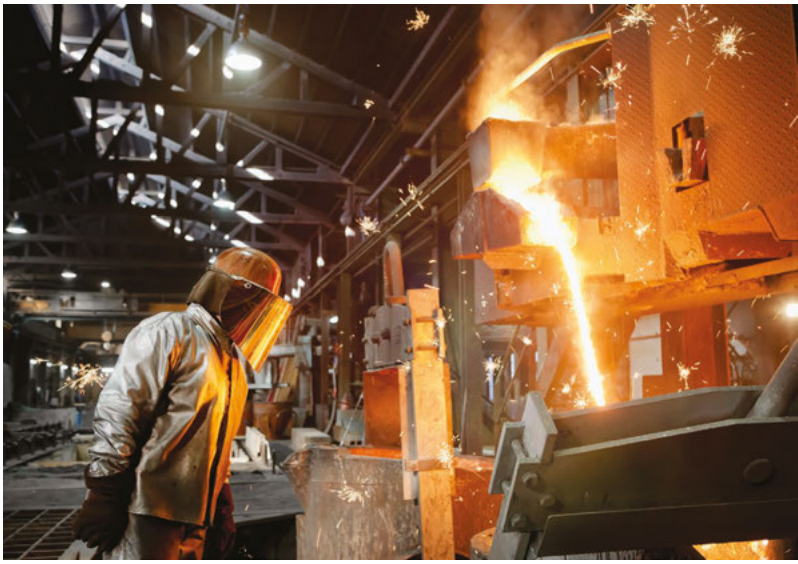


Figure 9.12 Some businesses have higher levels of risk than others.

Sexual harassment is against the law according to the *Equal Opportunity Act 2010*. It is unwanted or uninvited sexual behaviour that is offensive, embarrassing, or humiliating in the workplace either by employers to workers or between workers. Despite being outlawed for over 25 years, sexual discrimination continues to be an issue. There are clearly specified procedures for investigating a sexual harassment claim that must be followed by employers.

Further obligations with insurance

Many businesses require 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 where the insured (client) pays 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.

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.

Some types of insurance are compulsory and must be purchased by all businesses:

- Businesses are required to pay workers' compensation insurance if their employees are paid over $7500 per annum.
- **Public liability insurance** is required by many types of businesses.

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

risk assessment an assessment of the level of risk for which insurance cover is sought, conducted by an insurance company

public liability insurance the protection of businesses against damages or injuries to another person or property

REVIEW ACTIVITY 9.1

Part 1: Digital quiz
Please see the Interactive Textbook to access a digital activity.

Part 2: Short-answer questions
Answer these questions on paper or in the Interactive Textbook.

1. **List** the main areas of legal compliance with which business operators must be acquainted.
2. **Identify** to 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
   f. breakdown in employer and employee relations.
3. **Outline** the obligation an employer has to the Australian Taxation Office.
4. **Outline** the obligations of a Victorian employer with regards to occupational health and safety. What is the purpose of these laws?
5. **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.
6. **Identify** and **describe** four guarantees that are protected for Australian consumers and explain the role of the ACCC in working towards solutions should a guarantee be breached.



Figure 9.13 Employers are required to make their workplaces safe for their employees.

9.2 The role of external professionals when establishing a business

Learning intentions – at the end of this chapter section I will be able to:	**9.2.1** Describe the role of external professionals when establishing a business

Business today is very complex and the range of advice that can be sought from external professionals can be overwhelming. However, a well-prepared business plan will highlight the strengths of the business and reveal where there are gaps in knowledge and expertise. In Chapter 5, business support services offering legal, financial and technological advice to businesses were examined. This section will explore the role of additional professional services that provide advice in areas where high-level expertise is required that will provide fresh perspectives and up-to-date knowledge.

Legal advice from the Law Institute

The Victorian Law Institute offers a Legal Referral Service, where a business's specific needs are matched with a lawyer with expertise in the area. All major law firms offer a no-cost 30-minute interview, which can be used to discuss the options in managing a given legal issue and will advise on the likely costs to pursue the action further.

ACTIVITY 9.5

Federal and Victorian state government websites



The federal government's website business.gov.au offers a great deal of advice for new businesses and provides legal and business resources for many industries including:

- accommodation and food service industry
- agriculture industry
- forestry industry
- professional, scientific and technical services industry
- tourism industry.

1 Go to business.gov.au > planning > industry-information. Select one of the 15 identified industries and complete the following:
   a **Identify** the types of business associated with this industry.
   b **List** the legislation, standards and initiatives that apply to the industry.
   c **Outline** the taxation obligations and additional tax measures that may apply to the industry.
   d **Outline** the key workplace health and safety regulations.
   e **Identify** the relevant IP required to protect intellectual property associated with this industry.
   f **List** the industry-specific insurances related to this industry.

2 The Victorian state government has established the business.vic.gov.au website to provide Victorian businesses guidance and services for a successful business start through to advice about transforming your business. Go to business.vic.gov.au and click on the tools and templates tab.
Select two templates and suggest why these resources would be useful to a Victorian business.

Finance professionals

One of the most challenging areas for new businesses is to manage finance and establish financial systems. Finance professionals can assist in monitoring cash flow, maintain records of transactions, and provide advice on business expansion. Professional services can be sought from the following:



Figure 9.14 Continued practice in planning will assist in maximising the services of an external professional.

- Accountant – to prepare financial statements, monitor banking, follow up on overdue payments and provide advice
- Book keeper – is responsible for maintaining the day-to-day activities of a business
- Business activity statement (BAS) agent – many businesses find meeting ATO requirements difficult. A BAS agent will prepare and lodge the statement with the ATO.
- Bank managers – another valuable source of financial advice and assistance. They can assist with loan applications and managing business bank accounts. They can also give advice on the feasibility of a business expansion.
- The ATO – an excellent source of information regarding taxation matters, with their website providing free accessible information.

CASE STUDY
9.3

Are you getting the most from your external advice and service providers?



This case study is available in the Interactive Textbook.

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.
- *Advertising consultants* work on developing product advertising campaigns that attempt to engage new customers and are most successful when there is a good understanding of trends and target markets. The recommended media streams for a suitable campaign will be based on their understanding of the target market. Media options include radio, newspapers,

publications, television and social media. The work of advertising consultants is more short term in impact when compared to a marketing consultant.

- *Marketing consultants* develop campaigns to build a business brand by advising on the best ways to reach, engage and retain customers. It involves careful planning and research to understand who the target market is, their wants and behaviours. Their services include:
  - evaluating current marketing campaigns and advise future improvements
  - devising, planning and implementing marketing campaigns across a range of platforms including the growing digital spaces.
- *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 back-up and assistance with all technology-related areas of the business.



Figure 9.15 A small business owner needs to consult advisers and professionals in areas that require specific expertise.

ACTIVITY 9.6

Go to the Kexino website at the following link https://cambridge.edu.au/redirect/9757 and complete the following questions.

1. **Identify** 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 and **explain** how the service will benefit a business start-up.
   - a search engine optimisation
   - b content marketing
   - c branding
   - d design
   - e public relations.
3. **Explain** how a marketing plan for a start-up would differ to an established business.



REVIEW ACTIVITY 9.2

Part 1: Digital quiz
Please see the Interactive Textbook to access a digital activity.

Part 2: Short-answer questions
Answer these questions on paper or in the Interactive Textbook.

1. **Explain** the benefits for a business in seeking advice from professionals external to the business.
2. **Outline** how a business should prepare prior to meeting an expert external to the business.
3. Locate where a small business would go to find information on the following issues:
   - a legal advice
   - b feasibility of a business venture
   - c preparation of a tax return
   - d assistance with a marketing campaign
   - e up-to-date industry news.

Chapter 9 review

Summary

Create your own summary notes for this chapter on paper or in a digital document. A model summary is provided in the Area of Study review chapter for Unit 2 Area of Study 1, which can be used to compare with yours.

Developing clear definitions

By writing a brief explanation of each of the following terms, you will gradually build up a glossary of comprehensive terms for revision. Define these terms in your exercise book.

Website domain	Australian Business Number	By-laws
Fair Work Commission	Occupational health and safety (OHS)	Workplace relations
Equal opportunity	Worksafe insurance	Trade practices legislation
External professionals	Marketing consultant	Advertising consultant

Extension questions

1 Working in small groups, develop a 'Meet your legal obligations in business' brochure designed for new business owners in Victoria.

2 **Create** an information pamphlet titled 'Guide to professional advice for Victorian businesses' and include an overview of what the following professionals can offer businesses:
   - **a** legal advisors
   - **b** financial advisors
   - **c** insurance agents
   - **d** advertising consultants
   - **e** marketing consultants
   - **f** graphic designers.

Checklist

The success criteria are linked to the learning intentions from each section of this chapter, and have been written based on the key knowledge and skills of the VCE Business Management Study Design. Completing the linked questions per success criteria will thoroughly prepare you for success in this subject. Fill in, print, or photocopy this checklist and tick the boxes when you have answered the corresponding questions correctly.

Success criteria – I am now able to:		Linked questions	Completed (Y/N)
9.1 Key legal and government regulations	**9.1.1** Provide an overview of the key legal requirements for establishing a business including registering the business name, registering a website domain, trade practices legislation, business tax compliance and Worksafe insurance	Activity 9.1 Activity 9.2 Activity 9.3 Activity 9.4 Case study 9.1 Case study 9.2 Review activity 9.1: Part 1 & Part 2 Extension: Q1	Yes ☐ No ☐
9.2 The role of external professionals when establishing a business	**9.2.1** Describe the role of external professionals when establishing a business	Activity 9.5 Activity 9.6 Case study 9.3 Review activity 9.2: Part 1 & Part 2 Extension: Q2	Yes ☐ No ☐

Digital activities

- Access the Interactive Textbook via Cambridge GO to complete a Scorcher timed competitive quiz for this chapter.
- From their Cambridge GO account, your teacher can also assign practice VCAA-style assessment questions with model responses.

CHAPTER 10
Establishing a business: policies and procedures

'Being good is good business.'

Anita Roddick (1942–2007)

About the author:
Anita Roddick was a British entrepreneur, human rights activist and environmental campaigner. She was best known as the founder of The Body Shop, producing and retailing beauty products that shaped ethical consumerism. In 2006, she sold the Body Shop to L'Oreal for £652 million.



KICKSTARTER ACTIVITY

1 The Body Shop is known for its ethically created products and social conscience. Is demonstrating 'being good' enough for employees and customers? **Discuss**.
2 Brainstorm internal policies and procedures that would support 'being good' across all levels of an organisation.

policy a deliberate system of guidelines and statement of intent

procedures the steps used to implement a policy

CHAPTER 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. Particularly 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 and there are important factors to be considered in establishing socially responsible supply chain management. It is also essential that a business takes into consideration its technological needs, and to ensure that data obtained from customers is protected.

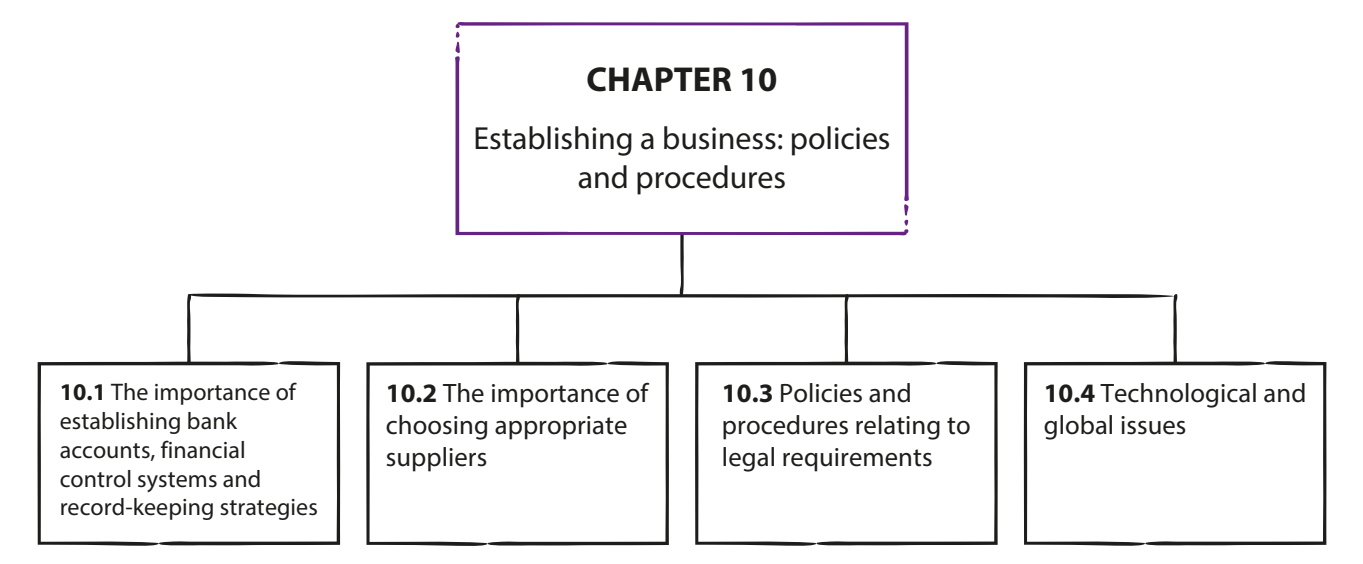
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Key knowledge and learning intentions

Key knowledge	Learning intentions – at the end of this chapter I will be able to:
The importance of establishing bank accounts, financial control systems and record-keeping strategies	**10.1 The importance of establishing bank accounts, financial control systems and record-keeping strategies** 10.1.1 Explain 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 that meet the corporate social responsibility objectives of the business	**10.2 The importance of choosing appropriate suppliers** 10.2.1 Describe the importance of choosing appropriate suppliers and discuss the benefits and limitations of suppliers that meet the corporate social responsibility objectives of the business
The need for policies and procedures to achieve compliance with legal requirements and establish business routines	**10.3 Policies and procedures relating to legal requirements** 10.3.1 Describe the need for policies and procedures to achieve compliance with legal requirements and establish business routines
Technological and global issues that may affect decision-making when establishing a business, such as generating customer databases and contacts with overseas suppliers and retailers	**10.4 Technological and global issues** 10.4.1 Describe technological and global issues that may affect decision-making when establishing a business, such as generating customer databases and contacts with overseas suppliers and retailers

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What's ahead



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10.1 The importance of establishing bank accounts, financial control systems and record-keeping strategies

Learning intentions – at the end of this chapter section I will be able to:	**10.1.1** Explain the importance of establishing bank accounts, financial control systems and record-keeping strategies

financial management managing financial activities relating to the operation of a business

record keeping maintaining accurate records of all matters related to business activities

separate entity involves the separate recording of transactions of a business from its owners

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.

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. Applying the **separate entity** concept keeps personal and business income and expenditure separate. Accurate monitoring of the financial progress of a business can be achieved and preparation for Australian Taxation Office requirements will become simpler and more accurate to prepare.

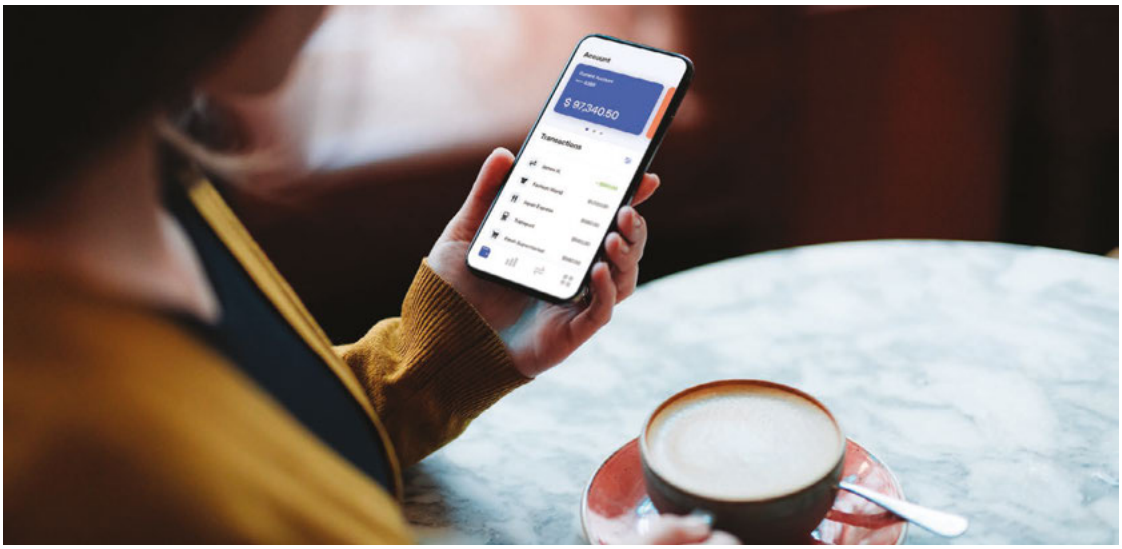


Figure 10.1 When establishing a business, it is important to set up a separate business bank account that is used only for business transactions.

ACTIVITY 10.1

Josh and Rahim have started a business selling comic books. Presently the business is selling online and the comics are stored in their bedroom. Josh believes they should open up a separate bank account because the revenue from sales and business expenses are coming out of Rahim'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**.

cash flow tracking the cash or money coming into and going out of the business

There are a range of factors to be considered when establishing financial control systems. If a business is to be successful and viable over a long period of time, controls and systems are required.

Financial control and business documents required

Small and new businesses are often 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 adopted by businesses in order to:

1. safeguard its assets
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:

- completeness – all reports of business contain records and **transactions**
- accuracy – the appropriate amounts are recorded in the appropriate 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 – errors in the system are 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.

transactions contractual arrangements undertaken by a business; for example, payment of wages or rent

(Source: Based on CPA Australia website, 'Internal controls for small business: 2008 update'. Copyright © CPA Australia Ltd. Used by permission.)

evidence information that identifies type of transaction, its date, parties and financial value (if any)

source documents documents that provide evidence of transactions

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

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.

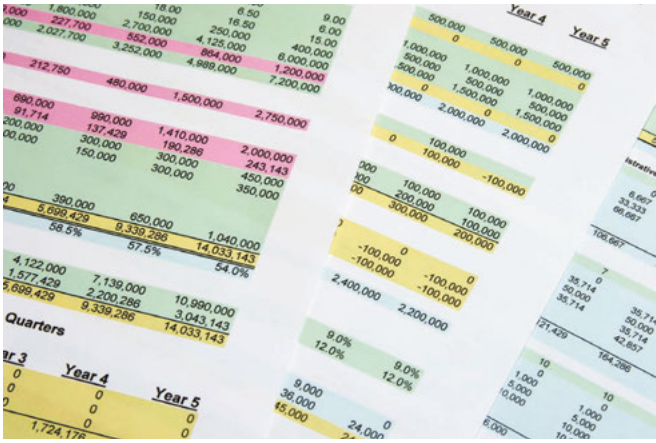


Figure 10.2 A spreadsheet is one of the simplest forms of financial record keeping.

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.

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 multi-column cash book, on a spreadsheet program such as Microsoft Excel, or on a computerised accounting package such as MYOB (Mind Your Own Business), Xero or QuickBooks.

A cash receipt is a source document and also provides evidence for the business. Cash source documents are set out in Table 10.1.

ACTIVITY 10.2

1 Determine whether the following events are transactions. **Justify** your answers with reasons.
   - a A customer places their name on a mailing list.
   - b A manufacturer purchases raw materials.
   - c A supplier distributes a catalogue of plumbing parts to a hardware store.
   - d A customer returns a faulty toaster.
   - e A phone bill is paid by an advertising agency on a Visa card.

Figure 10.3 Businesses must be systematic in developing financial control systems.

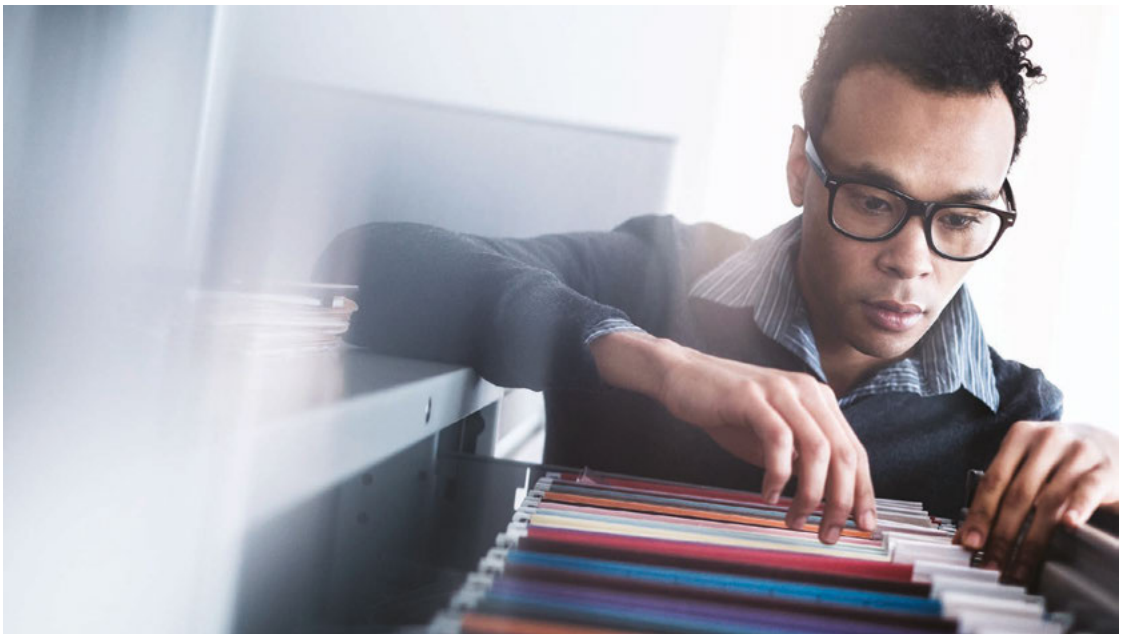


Table 10.1 Cash source documents

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 that 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	EFTPOS (Electronic Funds Transfer at Point of Sale) transactions are widely used. 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.
EFT	Electronic funds transfer is the electronic transfer of money from one bank account to another, either within a single financial institution or across multiple institutions, via computer-based systems, without the direct intervention of bank staff.
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 may also have periodic payments (direct debits or payments) made by the bank or other financial institutions 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 in this way.
Petty cash	Businesses usually need to make small payments including for stamps, tea, coffee and transport 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 provides evidence of the expenditure and is 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

Figure 10.4 An example of a cash book for Bob's Pet Grooming Service

Bob's Pet Grooming Service
Cash Book for the month ended September 2021

Date	Details	Rec. no.	Grooming fees	Sale 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				150		150
9-Sep	Pet	113		56		56	11-Sep	Petrol			50			50
13-Sep	Fees	114	123			123	14-Sep	Cleaning products	123	34				34
16-Sep	Fees	115	68			68	17-Sep	Wages				72		72
21-Sep	Pet minding service	116			86	86	20-Sep	Petrol			24			24
25-Sep	Fees	117	193			193	24-Sep	Cleaning products	124	18				18
27-Sep	Fees	118	67			67	26-Sep	Electricity					75	75
29-Sep	Fees	119	48			48								
30-Sep	Total		849	56	86	991	30-Sep	Total		52	74	222	75	423

ACTIVITY 10.3

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. Katie has not recently accessed her **bank statements** online and 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 10.5 For a business to be financially successful, it must keep control over cash and cash flow.

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.

A business should have financial statements audited and checked by an independent auditor or accountant. Audits are generally prepared by an appropriately qualified accountant (e.g. a CPA or CA) 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.

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

Table 10.2 Top 10 dos & don'ts for a business

The top ten dos for a business	The top ten don'ts 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 quotes 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.	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.

(Source: Adapted from 'Session 1: Getting financial controls in place', My Own Business Institute, www.scu.edu.)



Figure 10.6 Businesses of all sizes need to keep financial records.

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.

CASE STUDY
10.1

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:

- keeping financial records and transactions separate from the owner/s
- keeping documents of all transactions in one place and filed in a logical way
- at least once a week checking that all transactions have been accurately recorded
- at the end of each month 'closing 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 Investments Commission (ASIC) regulates compliance. Companies listed on the Australian Securities 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.

CASE STUDY ANALYSIS

Explain why it would be important for a business owner to record and monitor this type of information for both small and large businesses.

REVIEW ACTIVITY 10.1

Part 1: Digital quiz
Please see the Interactive Textbook to access a digital activity.

Part 2: Short-answer questions
Answer these questions on paper or in the Interactive Textbook.

1. **Describe** why business owners should open a separate bank account.
2. **Explain** the importance of setting up financial control systems and record keeping strategies.
3. **Describe** why it is important for a business to establish and use internal financial controls.
4. **Outline** three internal financial controls a business might use.
5. **Explain** the reasons why a business should complete and use financial statements.

10.2 The importance of choosing appropriate suppliers

Learning intentions – at the end of this chapter section I will be able to:	**10.2.1** Describe the importance of choosing appropriate suppliers and discuss the benefits and limitations of suppliers that meet the corporate social responsibility objectives of the business

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 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, gaining a competitive advantage.
- *Finance:* a good relationship with a supplier may allow a business to postpone debt.



Figure 10.7 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 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:
   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.

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 specific regulations that a business uses to guide the process of procuring goods and services that are necessary for business



Figure 10.8 Suppliers are increasingly chosen according to their levels of commitment to environmental practices.



Figure 10.9 When selecting a supplier, ensure their products are produced ethically.

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?

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 would 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. Fully electric vehicles, for example, 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 may offer reduced costs due to energy efficiencies such as:
   a reduced waste and waste disposal costs
   b newer, more efficient technologies
   c recycling.

2 An improved business reputation in terms of social responsibility may result, 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.

3 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
10.2

Ethical sourcing protecting worker's rights



When we say we take a zero-tolerance approach to unethical behaviour, we mean it. Serious matters like forced labour and child labour are not tolerated. And we're also committed to our journey of paying a living wage. Introducing our direct sourcing model in 1997, we were given more visibility and control over our supply chain. This solidified strong, lasting partnerships with our suppliers that still stand today.

Since the '90s, we've kept building on our Ethical Sourcing Program, and in 2009, we formalised our 14 Rules to Trade. This is our supplier code of conduct, and it essentially governs the sourcing, manufacturing and supply of our products. It is also in place to protect human rights, and the environment, while continuing to strengthen our supplier partnerships.

Over the years, our supplier base has grown from a small handful, to over 200 suppliers around the world and we couldn't be more proud. As a global business, we know we have a responsibility to make sure our supply chain is equally ethical and sustainable.

Partnering with our suppliers

We believe that all members of the Cotton On Group family, including everyone in our supply chain, has the right to have their voice heard. They also have the right to work in a space that has safety and wellbeing front of mind – always.

Regular factory audits (covering more than 160 topics) and worker interviews are part of the everyday support we offer our supplier partners. Not only does this support them, but it also helps us gain the best possible insights. Our audits are benchmarked against international standards, covering areas such as fire and safety, management practices, workers' rights, factory conditions, waste, and environment.

We offer training and education programs for owners, managers and their team members too, covering our 14 Rules to Trade and our supplier agreement. We work to empower absolutely everyone in our supply chain, supporting them to develop their life and leadership skills. How? Through providing opportunities at every level. A great example of this is our previous partnership with CARE Australia, where we implemented a Women's Empowerment program across Bangladesh Suppliers.

Transparency and traceability

We know it's our responsibility to understand everything from who makes our product and how it's made, right through to the raw materials being used to make it. That's why we've set a goal to implement end-to-end supply chain mapping. Our commitment? Transparency at all levels of our supply chain, plus sharing this information with the world.

Source: Adapted from Cotton On website, 'Ethical sourcing', 'Partnering with Our Suppliers' and 'Transparency and Traceability'. Valid as of June 2022.

CASE STUDY ANALYSIS

1. **Summarise** the key principles of ethical sourcing for Cotton On.
2. **Explain** the expectations required from overseas suppliers to ensure that Cotton On's Rules to Trade agreement is implemented.
3. **Describe** the benefits received by overseas workers and the impact these conditions may have on their lives.
4. Suggest how ethical sourcing may provide Cotton On with a competitive edge.
5. **Investigate** the ethical sourcing policy of one of the following:
   a. David Jones
   b. Target
   c. Coles.

REVIEW ACTIVITY 10.2

Part 1: Digital quiz
Please see the Interactive Textbook to access a digital activity.

Part 2: Short-answer questions
Answer these questions on paper or in the Interactive Textbook.

1. **Identify** and **describe** four factors that should be considered when choosing a supplier.
2. **Define** the term 'supplier' and provide an example of two suppliers for each of the following:
   a. a school
   b. a builder
   c. a supermarket.
3. **Outline** the advantages of maintaining a good relationship with a group of reliable suppliers of high-quality inputs for a business.
4. **Distinguish** between corporate social responsibility and procurement policy.
5. **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.
6. **Discuss** the implications of adopting corporate social responsibility principles as key criteria in selection of suppliers.
7. **Analyse** the potential advantages and disadvantages of using a local Australian supplier rather than one from overseas.

10.3 Policies and procedures relating to legal requirements

Learning intentions – at the end of this chapter section I will be able to:	**10.3.1** Describe the need for policies and procedures to achieve compliance with legal requirements and establish business routines

A policy is a written statement detailing the processes, procedures, rules and regulations that are expected to be followed in certain situations. It is important that a business develops policies and accompanying procedures to ensure it complies with legal and other regulatory requirements. Clear policies and procedures are an important aspect of managing risk in an organisation. Policies ensure that the values of an organisation are clearly communicated. **Business routines** or procedures involving tasks or processes that are completed regularly are often embedded in a workplace policy to ensure continued, consistent application. With consistent and uniform standards, policies foster stability and confidence in the workplace.



Figure 10.10 A workplace policy clearly establishes the expectations regarding employee behaviour and performance.

A workplace policy clearly establishes the expectations regarding employee behaviour and performance. A workplace procedure informs employees about how to implement the policies. When combined and communicated effectively, policies and procedures provide safe, fair and positive workplaces. Policies are developed in a range of different areas including a:

- **Code of conduct**, which establishes the rules that employees are expected to follow and frequently includes:
  - attendance and absence
  - employee behaviour
  - company values
  - dress code
  - confidentiality
  - reporting misconduct.
- Recruitment policy, which outlines the process of hiring new employees with the aim to promote fair and consistent approaches and may cover:
  - equal opportunity and anti-discrimination
  - selection processes
  - internal and external hiring preferences
  - how to check references.
- Health and Safety policy to cover a business's legal obligations to protect employees and may include:
  - employee safety training
  - first aid information
  - safe handling of materials and substances
  - maintenance of equipment
  - mental health information
  - accident training
  - emergency procedures.

business routines processes that are regularly practised in a business

code of conduct guidelines to regulate standards of behaviour and conduct either within an organisation or within an industry

- Procurement policy, which supports good planning to ensure value for money, quality goods and reliable customer service from suppliers. Without planning, businesses may find operating expenses much higher than expected, which will impact on the final price and customers may find the higher prices unacceptable. Typical features include:
  - determining who has purchasing authority
  - budget limits
  - processes for the ordering system.
- Financial management policy, including bank accounts, which should reflect a business's values and include:
  - when and how new accounts are opened
  - insurance and risk management
  - new suppliers and how to choose them.
- Customer service policy to guide employees in a consistent approach to customer service.
- Emergency management procedures policy, which is a legal requirement that all businesses have a policy to deal with emergency management and evacuations. By developing a policy, a business will need to consider how it might cope with events and unforeseen emergencies.

ACTIVITY 10.4

Policy in action

Read the following Workplace Bullying Policy template created by Safe Work Australia for organisations to potentially implement.

6 APPENDIX A – EXAMPLE OF A WORKPLACE BULLYING POLICY

[PCBU Name] - Workplace bullying policy

Our commitment

[PCBU name] is committed to providing a safe and healthy workplace free from bullying.

Workers are protected by this policy whether they feel bullied by a supervisor, another worker, client, contractor or member of the public.

[PCBU name] will treat reports of workplace bullying seriously. We will respond promptly, impartially and confidentially.

This policy will be made available to all workers including contractors. New workers will be given a copy of this policy at their induction. Managers and supervisors will remind workers of the policy from time to time.

Expected workplace behaviours

Under work health and safety laws, workers and other people at our workplace must take reasonable care that they do not adversely affect the health and safety of others.

[PCBU name] expects people to:

- behave in a responsible and professional manner
- treat others in the workplace with courtesy and respect
- listen and respond appropriately to the views and concerns of others, and
- be fair and honest in their dealings with others.

This policy applies to behaviours that occur:

- in connection with work, even if it occurs outside normal working hours
- during work activities, for example when dealing with clients
- at work-related events, for example at conferences and work-related social functions, and
- on social media where workers interact with colleagues or clients and their actions may affect them either directly or indirectly.

What is workplace bullying?

Workplace bullying is repeated and unreasonable behaviour directed towards a worker or a group of workers that creates a risk to health and safety.

Repeated behaviour refers to the persistent nature of the behaviour and can refer to a range of behaviours over time.

Unreasonable behaviour means behaviour that a reasonable person, having considered the circumstances, would see as unreasonable, including behaviour that is victimising, humiliating, intimidating or threatening.

Single incidents of unreasonable behaviour can also present a risk to health and safety and will not be tolerated.

What is not workplace bullying?

Reasonable management action taken by managers or supervisors to direct and control the way work is carried out is not workplace bullying if the action is carried out in a lawful and reasonable way, taking the particular circumstances into account.

What can you do?

If you feel you are experiencing or witnessing workplace bullying, and are not comfortable dealing with the problem yourself, or your attempts to do so have not been successful, you should raise the issue promptly either with your supervisor, health and safety representative or other manager within the organisation. If you are a member of the union you may also raise any issues with your delegate.

If you witness unreasonable behaviour you should bring the matter to the attention of your manager as a matter of urgency.

How we will respond

If workplace bullying or unreasonable behaviour is reported or observed we will take the following steps:

- The responsible supervisor or manager will speak to the parties involved as soon as possible, gather information and seek a resolution to satisfactorily address the issue for all parties.
- If issues cannot be resolved or the unreasonable behaviour is considered to be of a serious nature, an impartial person will be appointed to investigate. Both sides will be able to state their case and relevant information will be collected and considered before a decision is made.
- All complaints and reports will be treated in the strictest of confidence. Only those people directly involved in the complaint or in resolving it will have access to the information.
- There will be no victimisation of the person making the report or helping to resolve it. Complaints made maliciously or in bad faith may result in disciplinary action.

Consequences of breaching this policy

Appropriate disciplinary action may be taken against a person who is found to have breached this policy. The action taken will depend on the nature and circumstance of each breach and could include:

- a verbal or written apology
- one or more parties agreeing to participate in counselling or training
- a verbal or written reprimand, or
- transfer, demotion or dismissal of the person engaging in the bullying behaviour.

If workplace bullying has not been substantiated

If an investigation finds workplace bullying has not occurred or cannot be substantiated, **[PCBU name]** may still take appropriate action to address any workplace issues leading to the bullying report.

Figure 10.11 Example of a workplace bullying policy

(Source: Safe Work Australia, 'Guide for Preventing and Responding to Workplace Bullying', pp. 26–7.)

1 Suggest why a workplace bullying policy template would be developed.
2 **Outline** the behaviours employees are expected to demonstrate in the workplace.
3 Definitions are often provided in a policy. Provide one reason why definitions are a feature.
4 **Describe** management's response should bullying or unreasonable behaviour of an employee be reported.
5 **Outline** the consequences for an employee who is found to be in breach of this policy.
6 Suggest two features of this policy that could be used in other policies.

Table 10.3 Policy development is essential in ensuring legal compliance requirements are being met by business.

Area of management	Legal requirements impacting policy development	Areas of policy development
Human resources	Equal opportunity, anti-discrimination and sexual harassment laws, workplace relations laws	Recruitment and selection Bullying and harassment policy Code of conduct Internet and email policy Staff induction and procedures policy
Operations	Occupational health and safety laws	Hazards control policy Workplace health and safety policy Emergency evacuation policy Procurement policy
Technology support	*Privacy Act* Australian Privacy Principles	Data management policy Privacy policy
Sales and marketing	*Competition and Consumer Act*	Customer service policies Returns and refunds policy Marketing policy Social media policy
Finance	*Corporations Act* Australian Accounting Standards Board (AASB)	Financial policy and procedures Bank account policy Use of business credit card policy New supplier policy Purchasing policy Customer debt collection policy

REVIEW ACTIVITY 10.3



Part 1: Digital quiz
Please see the Interactive Textbook to access a digital activity.

Part 2: Short-answer questions
Answer these questions on paper or in the Interactive Textbook.

1 **Explain** why a business should develop policies.
2 **Outline** three policies required by businesses to comply with legal requirements.
3 How do policies establish business routines? **Describe** one policy that may assist in establishing a business routine.

10.4 Technological and global issues

Learning intentions – at the end of this chapter section I will be able to:	**10.4.1** Describe technological and global issues that may affect decision-making when establishing a business, such as generating customer databases and contacts with overseas suppliers and retailers

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
- trends and data are tracked 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.

Databases are collections of organised information that are set up by information technology workers and save businesses time and money. When the information collected is analysed and actioned, databases help to strengthen a business, increase profits and help plan for future business growth. Ranging from automating routine tasks to identifying new customers, databases empower business owners to be more efficient and productive:

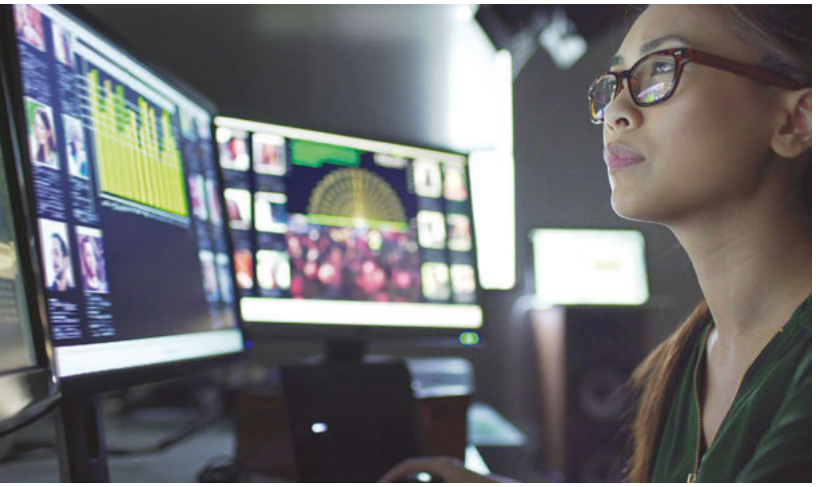


Figure 10.12 Customer relationship management (CRM) databases allow businesses to gather data on what customers are purchasing and to stay connected with their customers.

- Centralised systems enable managers to access data centrally, safely and securely.
- Improved management of human resources is made possible by streamlining the processing of data such as staff hours, leave, payroll, etc.
- Customer relationship management databases make it possible to manage customer data and relationships through the use of stored contact details and purchase history. Information can also be used to target marketing.
- Improved inventory management helps to maximise sales and to avoid the risk of stock wastage.

Customer databases

customer database the collection of information gathered from each customer

Amendments to the Commonwealth *Privacy Amendment Act 2012* became effective in 2014 with a 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 databases** cannot be used without a customer's consent. This data protection and maintenance is also often

handled and managed by use of 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.

CASE STUDY
10.3

Keep them coming back: innovative customer loyalty programs



More than 90% of businesses have some type of customer loyalty program. Loyalty programs have proven themselves as one of the most effective tactics for increasing revenue and inspiring customer loyalty. As many as 84% of consumers say they're more apt to stick with a brand that offers a loyalty program. And 66% of customers say the ability to earn rewards actually changes their spending behaviour.

While they can be effective, customer loyalty programs are nothing new. Most fall into one of four categories: points, tiers, social media and paid programs. That's why some retailers are looking to shake things up and find innovative new ways to build rewards programs and inspire customer loyalty.

How customer loyalty programs work

Customer loyalty programs reward customers who repeatedly interact with a brand. It's a customer retention strategy that encourages customers to continue buying from your brand rather than competitors. The more a customer buys or engages with the brand, the more rewards they earn.

Running a customer loyalty program means you'll need to give away something, be it discounts, sales, early access, etc. But the payoffs for having rewards programs are huge with customers telling family and friends, effectively referring new customers. Customers who find value in a program are more likely to remain. Almost 50% of consumers indicate that they spend more after joining. A successful loyalty program can turn regular customers into brand advocates. This group helps your company get in front of new customers through word of mouth, which is a low-cost marketing strategy versus paid ads.



Figure 10.13 Customer rewards programs can turn casual customers into repeat customers.

Types of programs

Points-based loyalty programs are the most common type where customers accumulate points to redeem for free items, cashback etc.; for example, Flybuys.

Tiered loyalty programs are a type of membership where customers get different benefits depending on their ranks. These programs give customers a goal, as higher the

tier, the more exclusive and better rewards they receive; for example, American Express.

Paid loyalty programs are fee based and give customers immediate and ongoing benefits; for example, Amazon Prime.

Value loyalty programs connect with customers on a deeper level. It involves donating a percentage of purchases to charity or welfare programs.

Source: Adapted from Lindsay Peacock, '7 Innovative Customer Loyalty Programs Keep Them Coming Back', Shopify blog, 29 April 2021.

CASE STUDY ANALYSIS

1. **Discuss** the benefits and issues in implementing a customer loyalty program from a business owners' perspective and that of customers.
2. **Discuss** with your family about the rewards programs that they are involved with.
   - a Which program seemed to be most beneficial and why? What type of program is it?
   - b Other than purchasing, what strategies have businesses attempted to encourage continued purchases?
   - c Which loyalty program was deemed as 'not worth it'? Establish why this is the case and determine how the program could have been improved.

CASE STUDY
10.4

Plant-based proteins start-up Fënn Foods raises $3 million for global push



Queensland plant-based food start-up Fënn Foods has raised $3 million as it looks to expand into offshore markets. The Sunshine Coast–based business was founded by Michelin-star trained chef Alejandro Cancino, from the highly lauded Brisbane restaurant Urbane.

Fënn produces premium plant-based foods and last year became the first company in the world to launch a certified carbon neutral plant-based mince under its vEEF brand. The product range includes 'beef' and 'chicken' burgers, mince, a schnitzel, 'meatballs', 'bacon' bits and pulled 'beef'.

Fënn Foods Executive Chairman Nicholas Simms said modelling suggests the sector has the potential to generate $3 billion in retail sales in Australia from more than $1 billion in manufacturing, and to employ over 6000 Australians.

'This injection of capital enables us to increase our investment in innovation, marketing and production, allowing us to meet the increasing demand for vEEF products, enter new categories and explore distribution into select international markets,' he said.

'Plant-based foods are one of the most rapidly growing segments of the global food market and, according to Food Frontier, in Australia alone, the plant-based market is estimated to generate approximately $3 billion in retail sales by 2030.

'The plant-based food market is growing rapidly both in Australia and globally and we see Fënn Foods as having a unique point of difference in this burgeoning market.'

Source: Adapted from Simon Thomsen, 'Plant-based proteins startup Fenn Foods raises $3 million for global push', StartupDaily, *11 February 2022.*

CASE STUDY ANALYSIS

1. Suggest why Fënn Foods has decided to expand into global markets in place of further establishing the business in Australia.
2. **Explain** why the plant-based food market is rapidly expanding locally and internationally.
3. **Propose** two issues that the business may encounter in the near future.

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.

Figure 10.14 Importing from foreign suppliers, or exporting goods to foreign markets, may be a necessary step in expanding a business.



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 that 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 free trade agreements with a large number of countries, including New Zealand, Singapore, Thailand, Malaysia, Korea, Peru and Chile. For an up-to-date list refer to www.dfat.gov.au/trade/agreements/in-force/free-trade-agreements-in-force.

In general, a business that is looking to import goods from overseas or sell in foreign markets needs to keep in mind that income tax is calculated on worldwide income, that local tax obligations may vary 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 a comprehensive compliance policy in place, to adhere to it, and ensure that suppliers and third-party manufacturers are frequently audited.

CASE STUDY
10.5

The global supply chain in crisis



In pre-pandemic times, consumers across the globe could 'add to basket' and anticipate delivery at the forecast time. In simple economic terms, our demand was supplied. In the background was a series of complex and interconnected activities to ensure that the supply chain was functioning efficiently with retailer contacting distributor, who in turn placed an order with the manufacturer that ordered the required inputs to produce the product. Transport was smoothly coordinated using shipping, airlines, trucking and parcel delivery that facilitated their business at sea ports, airports, warehouses and distribution centres.

The end of 2021 saw the perfect storm of events that led to global supply chains being unable to meet consumer demand with predictions that supply disruptions will continue for a further two years. Shortages in gaming consoles, computers and even cars are due to the alarming poor supply of semiconductor chips that led to a full-blown global supply chain crisis.

As a result of the COVID-19 pandemic, supply is playing catch-up with demand. Issues include a shortage of empty shipping containers used for transporting products such as electronics, white goods and clothing. Additional factors exacerbating supply include:

- continued global lockdowns impacting workplaces along the supply chain. Shipping lines have reduced the number of ships in services, and there are fewer port workers and vessel crews, resulting in many ports being overwhelmed and unable to send containers back to Asia where they are needed.
- closure of some ports due to high numbers of COVID-19, including Singapore, and Shanghai and Ningbo in China.
- higher levels of demand being placed on some products, with many people working from home and not travelling, choosing instead to spend their money on home appliances and entertainment.

Australia is dependent on imported, overseas-made consumer goods; however, we import more than we export, which creates a container trade imbalance. Australia is also reliant on truck delivery which does not operate 24 hours a day, unlike shipping. In addition, local manufacturers cannot produce as much as they want due to their own supply shortages.



Figure 10.15 Australian businesses will need to consider more efficient and reliable methods in managing the supply chain as a consequence of the global pandemic.

Adapted from 'The global supply chain crisis that stole Christmas', RMIT website ('News'), 17 November 2021.

CASE STUDY ANALYSIS

1. **Identify** the key elements of the global supply chain and **describe** how interruptions along the global supply chain can impact supply of goods and component parts in Australia.
2. **Propose** and **justify** one strategy suggesting how Australian business could best manage the current shortages and meet consumer demand.
3. Research the current state of the global supply chain. Has the global supply chain recovered from the pandemic? Have there been any changes in the way Australian businesses utilise the global supply chain as a result of the severe interruptions during the pandemic?

REVIEW ACTIVITY 10.4

Part 1: Digital quiz
Please see the Interactive Textbook to access a digital activity.

Part 2: Short-answer questions
Answer these questions on paper or in the Interactive Textbook.

1. **Describe** why a business should consider technology when in the planning phase.
2. **Explain** the benefits for a business in developing and maintaining a customer database.
3. **Describe** two benefits for Australian businesses looking to expand into global markets.
4. **Discuss** the costs and benefits associated with working with overseas suppliers and retailers.
5. **Identify** one global issue that affects business planning and **describe** how the identified issue may impact on business planning.

Chapter 10 review

Summary

Create your own summary notes for this chapter on paper or in a digital document. A model summary is provided in the Area of Study review chapter for Unit 2 Area of Study 1, which can be used to compare with yours.

Developing clear definitions

By writing a brief explanation of each of the following terms, you will gradually build up a glossary of comprehensive terms for revision. Define these terms in your exercise book.

Financial management	Record keeping	Cash flow
Separate entity	Customer database	Procurement
Supply chain	Environmental sustainability	Policy

Extension questions

Muscle Nation originated in the kitchen of Chris Anastasi's home, using what is now a signature custard powder that was added to a protein bar. After signing a huge financial deal with one of Australia's largest supermarket chains, the owners of Muscle Nation understood the urgent need to change their current level of business planning to accommodate substantial business growth.

1 **Explain** why it is important for Muscle Nation to establish financial control systems and record-keeping strategies.
2 Part of the marketing message for Muscle Nation involves maintaining corporate social responsibility through their supply chain. **Discuss** the benefits and limitations of seeking CSR in the supply chain.
3 **Distinguish** between a policy and a procedure. **Identify** one area of business activity in which a policy would ensure certainty and consistency for Muscle Nation, and **propose** a plan for Muscle Nation to follow in developing the policy.
4 **Discuss** the potential benefits in developing a customer database for Muscle Nation. **Propose** and **justify** a loyalty-based program that would suit this business.

Checklist

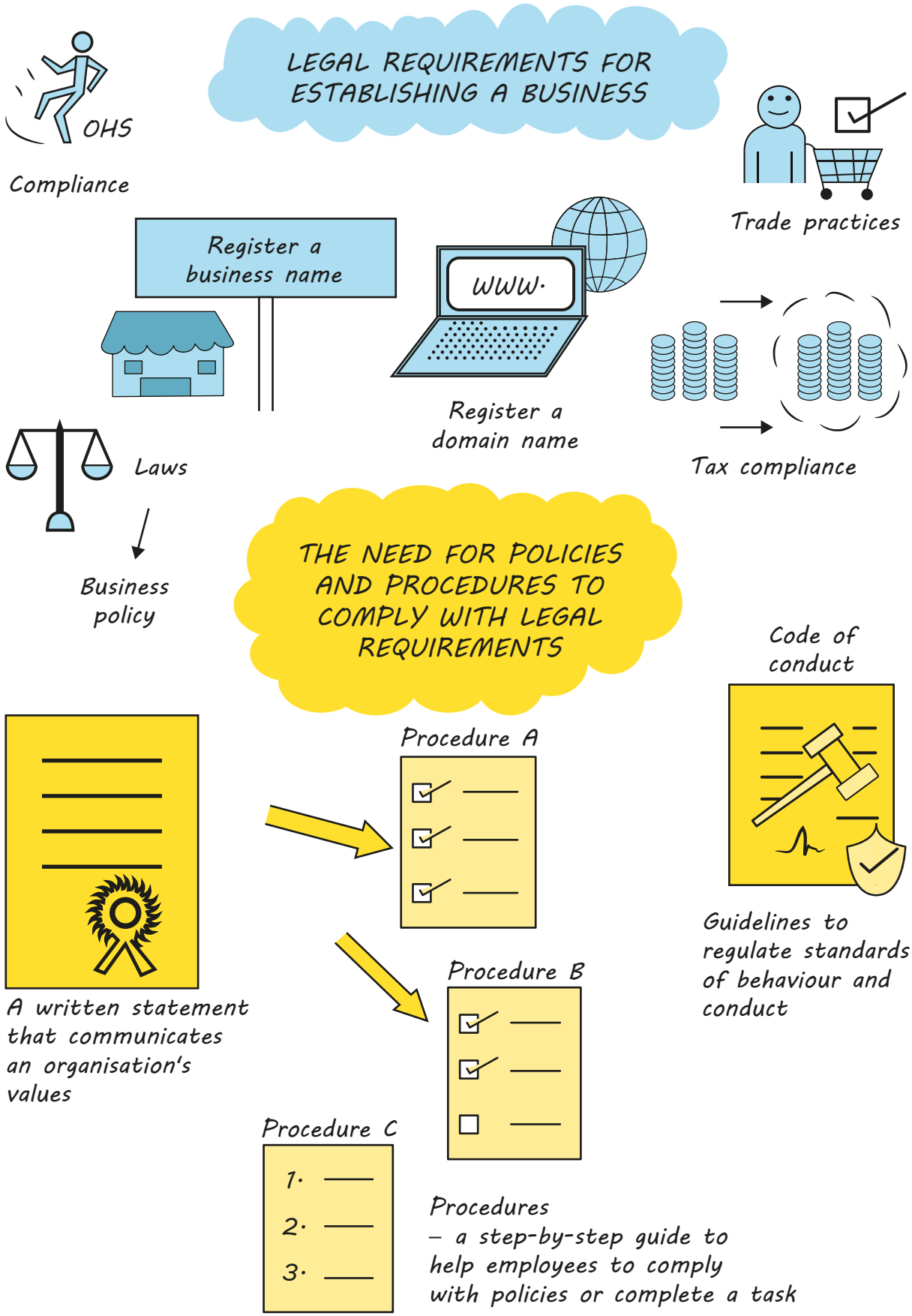
The success criteria are linked to the learning intentions from each section of this chapter and have been written based on the key knowledge and skills of the VCE Business Management Study Design. Completing the linked questions per success criteria will thoroughly prepare you for success in this subject. Fill in, print, or photocopy this checklist and tick the boxes when you have answered the corresponding questions correctly.

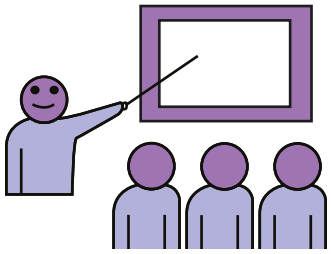
Success criteria – I am now able to:		Linked questions	Completed (Y/N)
10.1 The importance of establishing bank accounts, financial control systems and record-keeping strategies	**10.1.1** Explain the importance of establishing bank accounts, financial control systems and record-keeping strategies	Activity 10.1 Activity 10.2 Activity 10.3 Case study: 10.1 Review activity 10.1: Part 1 & Part 2 Extension: Q1	Yes ☐ No ☐
10.2 The importance of choosing appropriate suppliers	**10.2.1** Describe the importance of choosing appropriate suppliers and discuss the benefits and limitations of suppliers that meet the corporate social responsibility objectives of the business	Case study 10.2 Review activity 10.2: Part 1 & Part 2 Extension: Q2	Yes ☐ No ☐
10.3 Policies and procedures relating to legal requirements	**10.3.1** Describe the need for policies and procedures to achieve compliance with legal requirements and establish business routines	Activity 10.4 Review activity 10.3: Part 1 & Part 2 Extension: Q3	Yes ☐ No ☐
10.4 Technological and global issues	**10.4.1** Describe technological and global issues that may affect decision-making when establishing a business, such as generating customer databases and contacts with overseas suppliers and retailers	Case study 10.3 Case study 10.4 Review activity 10.4: Part 1 & Part 2 Extension: Q4	Yes ☐ No ☐

Digital activities

- Access the Interactive Textbook via Cambridge GO to complete a Scorcher timed competitive quiz for this chapter.
- From their Cambridge GO account, your teacher can also assign practice VCAA-style assessment questions with model responses.

Unit 2 Area of Study 1 review Conceptual summary

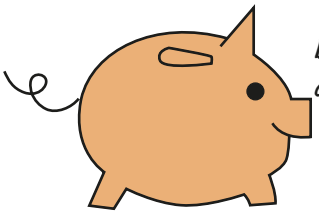




THE ROLE OF EXTERNAL PROFESSIONALS

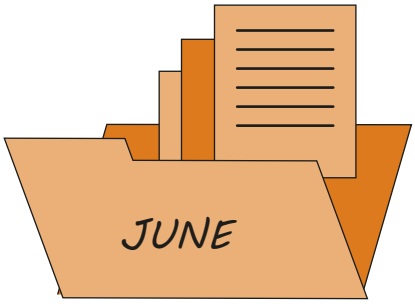
System
process
advice
coaching

ESTABLISHING FINANCIAL CONTROL SYSTEMS



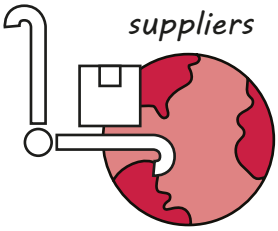
Bank
accounts

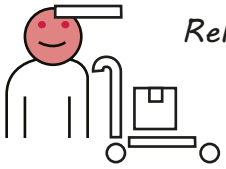




Record keeping
and control

Overseas
suppliers



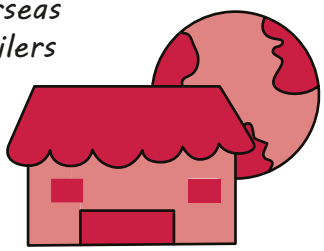


Reliability

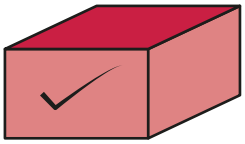


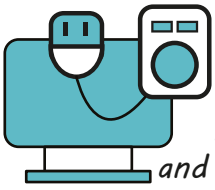
Corporate
social
responsibility

Overseas
retailers



THE IMPORTANCE OF CHOOSING APPROPRIATE SUPPLIERS



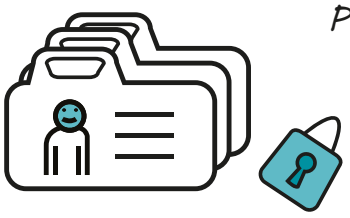


Hardware
and software

$

Price

Quality



Customer
databases

TECHNOLOGICAL ISSUES

Key knowledge summary: Unit 2 Area of Study 1

Key knowledge	Summary
• An overview of key legal requirements for establishing a business, such as registering the business name, registering a website domain, trade practices legislation, business tax compliance and Worksafe insurance	• A business must be aware of its legal, ethical and social responsibility obligations; otherwise it runs the risk of prosecution, which may also involve hefty fines. • ASIC requires the registration of business names, including names of companies. • The ATO issues businesses with an ABN, which is a unique 11-digit number that confirms a business identity. • An ABN will allow a business to obtain an Australian domain name. • Local councils are empowered to create rules, by-laws and regulations that are most suited to the needs and resources of the local area. Businesses are expected to operate within the established guidelines in relation to areas such as parking, footpath trading and health regulations. Required licences, permits and approvals are applied for at local council level. • Requirements to maintain occupational health and safety at workplaces is a legal obligation for all employers. In Victoria, OH&S laws are implemented by WorkSafe. • Employment laws exist to protect employees and to ensure that there are equal rights and responsibilities in workplaces. Employers are expected to provide equal opportunity throughout all of the stages of employment, including the application process. • Employers are expected to provide employees the 11 National Employment Standards (NES). • There are mechanisms for resolving disputes in the workplace outlined in industry awards and enterprise bargaining agreements. • Australian trade practices law exists to support fair competition to Australian businesses and includes Australian Consumer Law, which outlines the rights of consumers. Business owners are expected to be responsible in assuring that the rights of consumers are maintained. • Some insurances are compulsory for business owners. Trades, such as electrical contractors, are expected to show evidence of their public liability insurance when completing registration renewal every three years.
• An overview of the role of external professionals when establishing a business	• Seeking the advice from professionals external to the business works well to support gaps in knowledge and skills. • Businesses frequently seek specialist services in the legal, financial and information technology areas. • Both federal and state governments have developed websites to support businesses and to provide advice. • Advertising and marketing consultants are frequently sought to prepare and implement campaigns designed to increase sales and brand loyalty.



Key knowledge	Summary
• The importance of establishing bank accounts, financial control systems and record-keeping strategies	• 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. • A cash book is one the simplest forms of financial record keeping.
• The importance of choosing appropriate suppliers, including the benefits and limitations of suppliers that meet the corporate social responsibility objectives of the 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 a selection of suppliers are price, reliability, quality and the levels of social responsibility exhibited by the supplier. • A good supplier brings advantages 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.
• The need for policies and procedures to achieve compliance with legal requirements and establish business routines	• 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.
• Technological and global issues that may affect decision-making when establishing a business, such as generating customer databases and contacts with overseas suppliers and retailers	• 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. • Businesses need to develop and maintain databases. • Businesses in Australia are working at establishing contacts and relationships with overseas suppliers and retailers.

Source: VCE Business Management Design extracts © *VCAA; reproduced by permission*

Sample assessment questions and advice

Unit 2 Area of Study 1: Legal requirements and financial considerations

In this section we will look at some sample assessment-style questions. Although there is no external examination for Units 1&2, the following questions are written in a VCAA-examination style to prepare you for these types of questions.

Unit 2 Area of Study 1, Legal requirements and financial considerations is covered in Chapters 9 and 10 of the text. When establishing a business, business owners must ensure that legal requirements have been met.

Establishing a business involves complying with a wide range of legal requirements and financial expectations.

The establishment phase of a business requires processes and systems to be put into place in areas such as establishing a system of financial record keeping, and establishing effective policies and procedures.

Area of Study 1 requires students to explain the importance of complying with legal requirements and financial record keeping, and establishing effective policies and procedures when establishing a business.

The key knowledge is:

1 an overview of legal requirements
2 the importance of establishing financial systems
3 what procurement and CSR are
4 the need for policies and procedures to achieve compliance
5 and the impact of technological and global issues that affect decision-making.

Today, we are focusing on the following skills:

- applying business management knowledge to practical and/or simulated business situations
- evaluating the costs and benefits of decisions when establishing a business, and justifying the strategy chosen.

Let's explore how these skills might be assessed through the following example questions based upon a case study.

Case study practice

Arepaland is a new food truck venture that offers traditional Venezuelan food. Arepas are the South American equivalent of Mexican tortillas. The owner, Fernando Rey, has left his lucrative IT career to focus on developing his business venture. However, Fernando is concerned that his business may not be meeting all expected legal requirements and financial obligations.

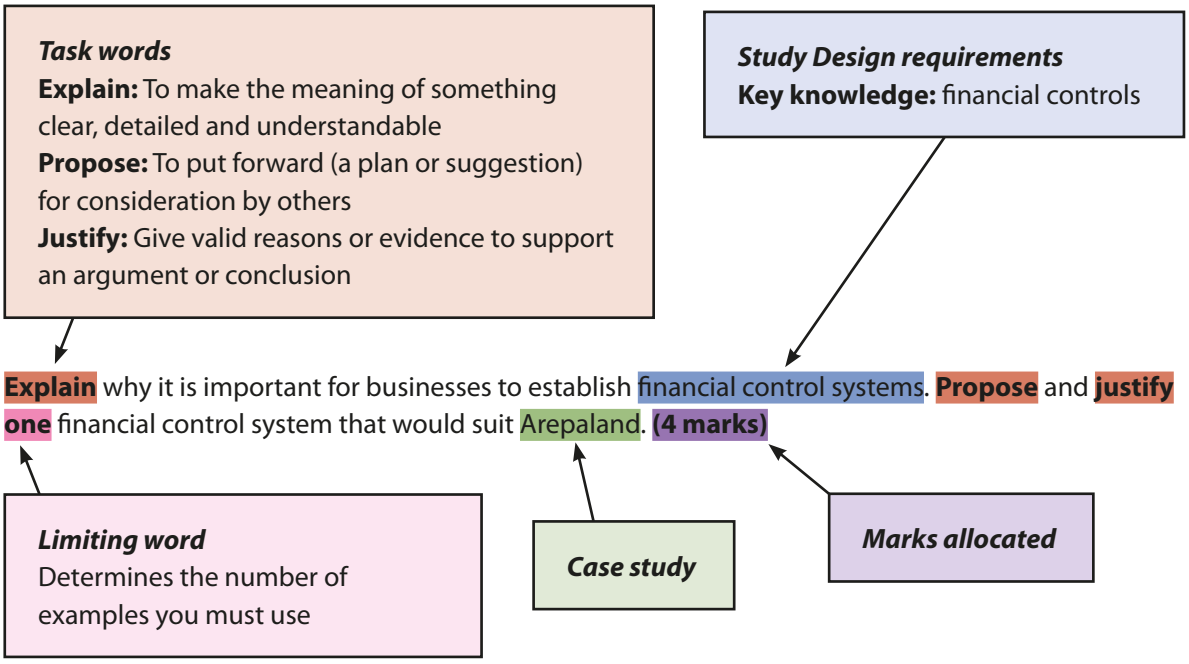
Your responses to the following two questions are to be based on this case study.

It is important for students to read the case study carefully, as the questions following will be directly related to the case study, requiring you to apply your understanding of the relevant key knowledge.

Question 1

Explain why it is important for businesses to establish financial control systems. **Propose** and **justify** one financial control system that would suit Arepaland. **(4 marks)**

Extended response question – let's unpack it



Hints:

- The first task word is 'explain', which requires making the meaning of something clear with the use of detail.
- The second task word is 'propose', which requires a suggestion to be put forward.
- The third task word is 'justify', which requires a reason to be given to what has been proposed.

A possible answer to the question might be:

Sample response
Financial control systems enable a business to safeguard its assets from potential fraud, ensuring that financial information is both accurate and reliable. Financial control systems also assist in achieving legal compliance.
As a small business handling mainly cash sales, Arepaland should develop a cash accounting system, which will be quite simple to learn, implement and maintain in the future. It is also more cost-efficient for a small business. This system should track all financial transactions, such as cash and credit sales, and the payment of expenses including employee wages.

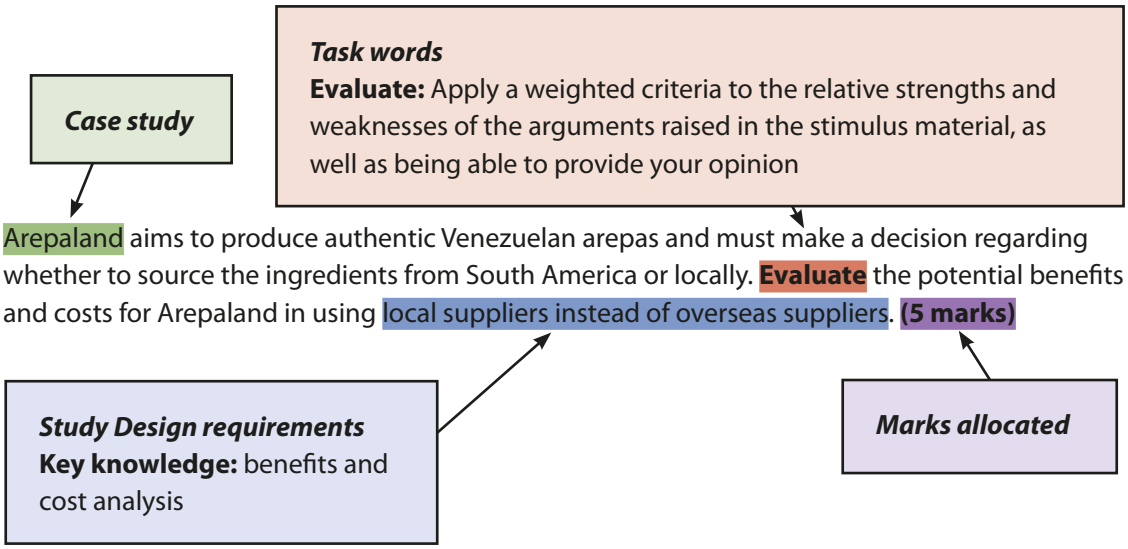
Marking guide:
- 2 marks for identifying the importance of financial control systems to a business
- 2 marks proposing a suitable financial control system and describing its relevant application to the case study.

Total 4 marks

Question 2

Arepaland aims to produce authentic Venezuelan arepas and must make a decision regarding whether to source the ingredients from South America or locally. **Evaluate** the potential benefits and costs for Arepaland in using local suppliers instead of overseas suppliers. **(5 marks)**

Extended response question – let's unpack it



Hints:
- The task word is 'evaluate'.
- 'Evaluate' requires an analysis of the benefits and costs (or advantages and disadvantages).
- An 'evaluate' question also requires a student to conclude with an opinion.
- The case study is explicit in the question and requires the student to tailor their response to suit the case study.

A possible answer to the question might be:

Sample response

There are several benefits for Arepaland in using local suppliers, especially proximity, offering faster delivery and service. In addition, the goods can be physically inspected. A second benefit could be reliability, with close proximity and good communication meaning the supply of goods should be more reliable.

A potential cost to Arepaland of using local suppliers is that the goods may be more expensive than using overseas suppliers, due to different labour costs and conditions. There also could be limitations to the ingredients that can be sourced locally (especially for South American dishes).

In conclusion, Arepaland should source its ingredients from overseas, as this will maintain the integrity of the product. With reduced labour costs, it may also be cheaper for Arepaland to import key ingredients from South America.

Given that Arepaland's marketing is based on the idea of 'authenticity', they are best to continue importing key ingredients to meet their customers' expectations. As the business grows, there may be an opportunity to review their sourcing.

Marking guide

- 2 marks for describing potential benefits sourcing ingredients from local suppliers
- 2 marks for describing costs in sourcing ingredients from local suppliers
- 1 mark for overall opinion related to the case study.

Total 5 marks



AREA OF STUDY 2
MARKETING A BUSINESS

AREA OF STUDY DESCRIPTION

Establishing a strong customer base for a business is an important component of success. In this Area of Study students develop an understanding that marketing encompasses a wide range of management practices, from identifying the needs of the target market and creating a brand presence through to consideration of the 7Ps of marketing and the impact of rapidly changing technology on marketing practices. They also consider effective public relations strategies and the benefits these can bring to a business.

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OUTCOME 2

On completion of this unit the student should be able to explain how establishing a customer base and a marketing presence supports the achievement of business objectives, analyse effective marketing and public relations strategies and apply these strategies to business-related case studies.

To achieve this outcome the student will draw on key knowledge and key skills outlined in Area of Study 2. [These are listed at the start of each chapter.]

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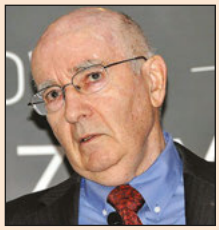
CHAPTERS IN THIS AREA OF STUDY	
	11 Marketing the business
	12 Marketing mix, product life cycle and marketing strategies, features and value of customer relations and technological developments in marketing
	13 Public relations and corporate social responsibility management considerations

CHAPTER 11
Marketing the business

'Within five years, if your business is the same as it is now, you are going to be out of business.'

Philip Kotler (1931–)

About the author:
Philip Kotler is an American consultant and professor and author of *Marketing Management*, a widely used marketing textbook.





KICKSTARTER ACTIVITY

Explain what you consider to be the meaning of the above quote by Philip Kotler.

CHAPTER OVERVIEW

In this chapter, the relationship between marketing and establishing a customer base and business objectives will be explained. In addition, internal and external (macro and operating) factors affecting the establishment of a customer base and the creation of 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.

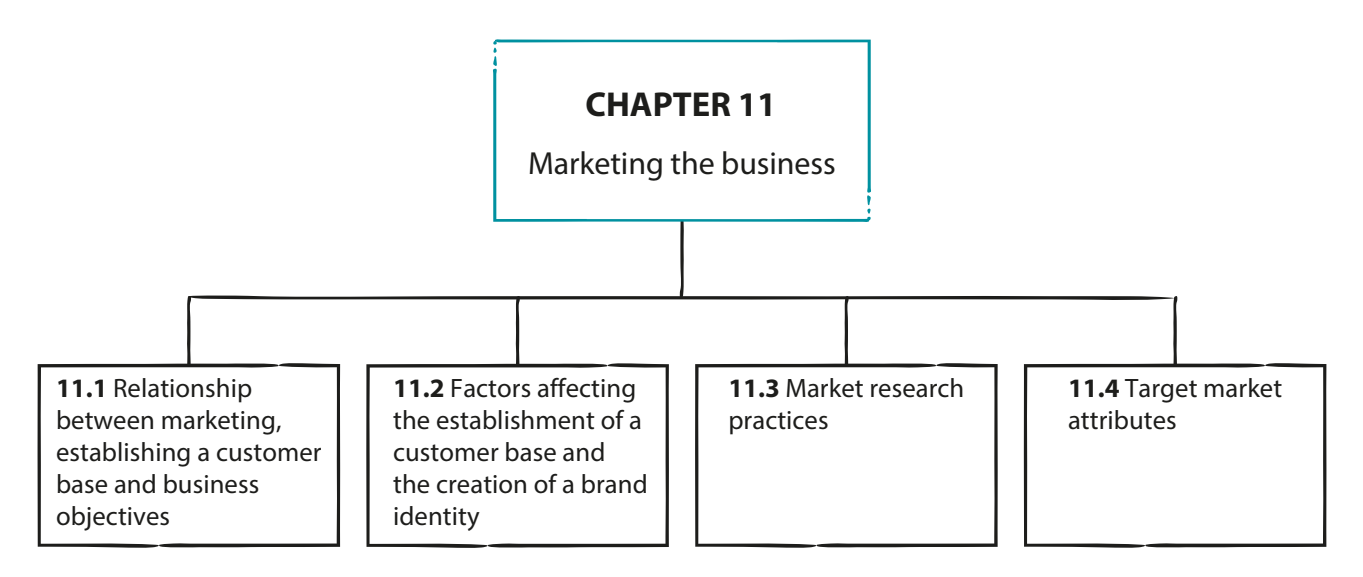
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Key knowledge and learning intentions

Key knowledge	Learning intentions – at the end of this chapter I will be able to:
The relationship between marketing, establishing a customer base and business objectives	**11.1 Relationship between marketing, establishing a customer base and business objectives** 11.1.1 Define business management terms 11.1.2 Identify and describe the relationship between marketing, establishing a customer base and business objectives
Internal and external (macro and operating) environment factors affecting the establishment of a customer base and the creation of a brand identity	**11.2 Factors affecting the establishment of a customer base and the creation of a brand identity** 11.2.1 Define business management terms 11.2.2 Identify and describe internal factors affecting the establishment of a customer base 11.2.3 Identify and describe internal factors affecting the creation of brand identity 11.2.4 Identify and describe external factors affecting the establishment of a customer base 11.2.5 Identify and describe external factors affecting the establishment of brand identity 11.2.6 Analyse and evaluate impact of macro factors on businesses 11.2.7 Analyse case studies 11.2.8 Discuss business information and ideas
Market research practices such as data collection techniques, analysis and interpretation	**11.3 Market research practices** 11.3.1 Identify and define market research practices 11.3.2 Discuss concepts 11.3.3 Compare and evaluate business information
Target market attributes such as market dimensions, segments, consumer trends and behaviour	**11.4 Target market attributes** 11.4.1 Define business management concepts and terms 11.4.2 Construct a customer profile 11.4.3 Identify and describe consumer trends and behaviour 11.4.4 Identify and describe the concept of 'target market' 11.4.5 Discuss business strategies and ideas 11.4.6 Analyse case studies and contemporary examples

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What's ahead



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11.1 Relationship between marketing, establishing a customer base and business objectives

Learning intentions – at the end of this chapter section I will be able to:	**11.1.1** Define business management terms
	11.1.2 Identify and describe the relationship between marketing, establishing a customer base and business objectives

Marketing: what is it?

marketing the process that provides the link between producers or providers of goods and services and the consumers of these

brand a powerful business asset that is essentially a maker's mark; it creates and brings with it awareness, desirability and power

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:

- goods – the tangible items that businesses wish to sell such as food, commodities, clothing and housing
- services – such as those provided by hotels, car rental businesses, dentists, hairdressers, accountants, doctors, solicitors, engineers, management consultants, airlines, real estate agents
- experiences – such as a visit to a museum or an art gallery events, the AFL for its games, Victoria Racing for the Spring Racing Carnival, rock concerts
- personalities – Nigella Lawson, Jamie Oliver and Curtis Stone, for example, all have their own marketing teams who work to create their image and **brand**.



Figure 11.1 Marketing

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** was developed when the focus of businesses changed from just selling a product or service to actually satisfying the needs of customers and consumers. 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. The four essential elements to the marketing concept are outlined in Figure 11.2.

marketing concept where the business focuses on satisfying the needs of the customer/consumer rather than just selling a product or service

market-oriented approach a business strategy that focuses on the needs and wants of consumers and develops products to meet them

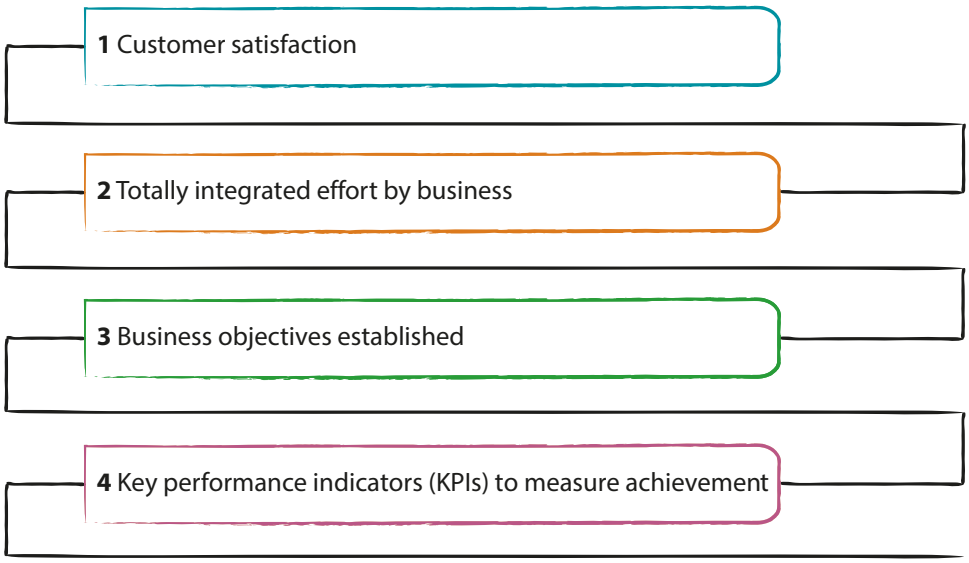


Figure 11.2 Four essential elements of the marketing concept

If a business is to be fully committed to the marketing 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 11.3 Repeat customers are important to establishing the customer base of a business.

customer base the people or entities that regularly purchase products or services from a business

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

It is very important that businesses recognise that approximately 80 per cent of their business is 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.



Figure 11.4 Pareto Principle: 80 per cent of the revenue comes from 20 per cent of your 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.

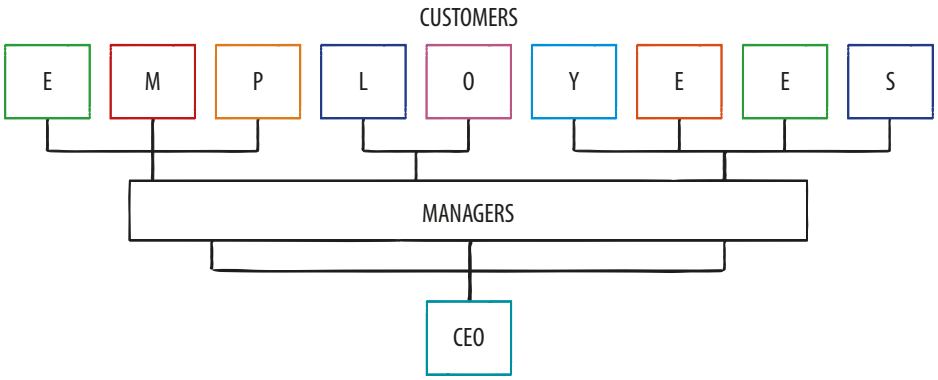


Figure 11.5 Customer-oriented organisation chart

REVIEW ACTIVITY 11.1

Part 1: Digital quiz
Please see the Interactive Textbook to access a digital activity.

Part 2: Short-answer questions
Answer these questions on paper or in the Interactive Textbook.

1. **Define** the term marketing and use the term in a sentence to demonstrate your understanding.
2. **Describe** how marketing relates to establishing a customer base.
3. **Describe** how marketing relates to business objectives.
4. **Describe** the Pareto Principle and explain its relevance to marketing.
5. **Explain** the market concept and how it fits within the market-oriented approach to marketing.

11.2 Factors affecting the establishment of a customer base and the creation of a brand identity

Learning intentions – at the end of this chapter section I will be able to:	
	11.2.1 Define business management terms
	11.2.2 Identify and describe internal factors affecting the establishment of a customer base
	11.2.3 Identify and describe internal factors affecting the creation of brand identity
	11.2.4 Identify and describe external factors affecting the establishment of a customer base
	11.2.5 Identify and describe external factors affecting the establishment of brand identity
	11.2.6 Analyse and evaluate impact of macro factors on businesses
	11.2.7 Analyse case studies
	11.2.8 Discuss business information and ideas

Factors drawn from all levels of the business environment, namely internal and external (macro and operating), 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.

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.



Figure 11.6 Building a brand identity

Internal environmental factors

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 be used by the public to criticise a business, if the actions of the business are harmful or unethical.

Owners and managers

Business owners and managers need to understand and possess the skills required to establish their customer base and create their brand identity. Larger businesses will seek to employ a marketing manager and team who already possess this required knowledge and the skills to write and implement a marketing plan for the business. Smaller businesses may seek assistance from external consultants, or simply rely on their own abilities.



Figure 11.7 Providing support and excellent service to customers is one way that employees can help a company cement a positive brand identity for their employer.

Employees

Employees act as the 'front line' in their daily contact with customers. It is therefore important that their relationship with customers is positive. They need to provide polite, friendly and efficient service, which in turn will lead to the customer returning to that business and also being happy to identify with the brand.

External environmental factors: macro

The customer base and brand identity of a business can be affected by a range of external environmental factors. In the macro environment, economic and technological developments and legislative requirements are important factors to which businesses need to respond.

Economic factors

It is important that businesses consider the current economic conditions under which they are operating, as these can affect their customer base and their brand's identity. If the economic conditions are strong, the business may take the opportunity to expand its customer base, as employment and consumer confidence levels will be high. In more difficult or challenging economic times, the business needs to change its strategy to place more emphasis on the brand providing value for money to their customer base.

Technological developments

Technological developments have had a large impact on how businesses develop 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. Once such business is Canva, which provides an online visual communications platform to its customers.

CASE STUDY
11.1

Canva: online visual communications platform

The Australian-owned graphic design platform Canva, co-founded by CEO Melanie Perkins, was launched in 2013 with its mission to empower everyone in the world to design and publish anything and everywhere.

It offers a free, simple user interface and a range of templates for presentations, social media graphics, posters, apparel and videos, plus a huge library of fonts, stock photography, illustrations, video footage and audio clips; with the goal that anyone can take an idea and create something beautiful. Canva is offered on desktop, web, iOS and Android.

In 2021, Canva was ranked 3rd in the Forbes 2021 Cloud 100 top private cloud companies in the world. It moved up from 7th place in 2020, placing it as the only Australian-based company to appear in the Top 50. It was also recognised as the winner of the 'Overall Design Collaboration Company of the Year' for 2021 by Remote Tech Breakthrough, a leading independent market intelligence organisation.



Figure 11.8 Melanie Perkins, co-founder and CEO of Canva

CASE STUDY ANALYSIS

1. **Identify** and **describe** the customer base that Canva is aiming to establish and expand.
2. **Identify** and **describe** the brand identity of Canva.
3. **Analyse** and **evaluate** whether Canva winning many awards will assist it to further its brand identity.

CASE STUDY
11.2

Kogan: the most recognisable face of online retailing in Australia



This case study is available in the Interactive Textbook.

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 what customers/consumers think of them. However, with social media at 'our fingertips', a business can be negatively impacted within a very short time by 'customer dissatisfaction' from a bad review.

Legislation and regulators

Legislation at both federal and state levels has been enacted to protect customers and consumers in the event of a business misleading them. Regulatory bodies have been established to administer these laws.

- The *Competition and Consumer Act 2010* regulates fair trading in Australia and governs how all businesses operating in Australia deal with their customers, competitors and suppliers. This Act is administered by the Australian Competition and Consumer Commission (ACCC). In 2021, the ACCC began legal proceedings against Telstra, Optus and TPG over allegedly misleading claims about some of their NBN plans.
- The Australian Consumer Law and *Fair Trading Act 2012* is administered in Victoria by Consumer Affairs Victoria.
- The Australian Securities and Investments Commission (ASIC) and the Australian Prudential Regulation Authority (APRA) act as corporate watchdogs to protect consumers from misleading statements made by businesses when advertising their products and financial matters affecting customers.

An adverse finding of a business or a complaint lodged with the above regulators will have a negative impact on how a business is able to establish its customer base and create a positive brand identity.

External environmental factors: operating

Customers

Businesses should be aware that there are four generations of people in the workforce who have earned money to spend on goods and services: baby boomers, generation X, generation Y (millennials) and generation Z (iGeneration). 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 previously, customers' appetite for customised products continues to be a huge trend in retail. Many consumers now have more disposable income than in previous decades, and they want to have a personal connection with the products they buy. For a business, product customisation can lead to increased sales revenue as a higher price can be charged. It also gives the customers a platform to express themselves, increases their customer loyalty and provides the business with a unique way of getting ahead of its competitors. For example, upmarket car manufacturer Tesla allows customers to design their own cars by selecting from a range of available options. Another way businesses are customising their offerings to customers or users is to ask them to identify their preferences. For example, streaming service Netflix asks users to select a few shows they like and then displays a list of options based on their original choices, creating a feeling of engagement for the user.



Figure 11.9 Tesla customers can add customised design features to their car.

Mistreating customers can have a detrimental effect on businesses. In 2021, it was reported that Origin Energy had allegedly breached its own hardship policies by making a 'unilateral' change to customers hardship plans, cancelling some plans and failing to consider customers' actual ability to repay the plans. The Australian Energy Regulator (AER) instituted proceedings in the Federal Court against Origin Energy. The media attention brought to this case may lead to customers choosing another energy company in the future.

Competitors

Establishing and increasing both their customer base and market share are key objectives for our major supermarket chains. It is, however, proving to be a constant battle. Since the arrival of ALDI in 2001, Woolworths, Coles and IGA (Independent Grocers of Australia) have been cutting shelf prices and increasing the depth and frequency of their promotions. The strategy of reducing everyday shelf prices on the products which draw customers into the store is aimed at building confidence in their customer base in the prices charged by those stores.

The arrival of ALDI into the Australian marketplace and its successful marketing strategies used to establish its customer base and brand identity has certainly impacted the other major supermarket chains. ALDI now has 570 stores operating in all eight Australian states and territories. According to Roy Morgan Research, ALDI has captured 12.4 per cent of the Australian supermarket market (see Figure 11.10). While this share of the market is still not anywhere close to those of its two main competitors (Woolworths 32.9 per cent with 1000 stores and Coles 26.5 per cent with 800 stores), it is increasing on an annual basis. In 2021, ALDI was rated by customers undertaking the CANSTAR Survey as their favourite supermarket for the fourth consecutive year and rated it best with five stars for its product freshness, quality of private label items, deals available, store layout and presentation, value for money and overall satisfaction.

Establishing and increasing both their customer base and market share are key objectives for the major retailers.

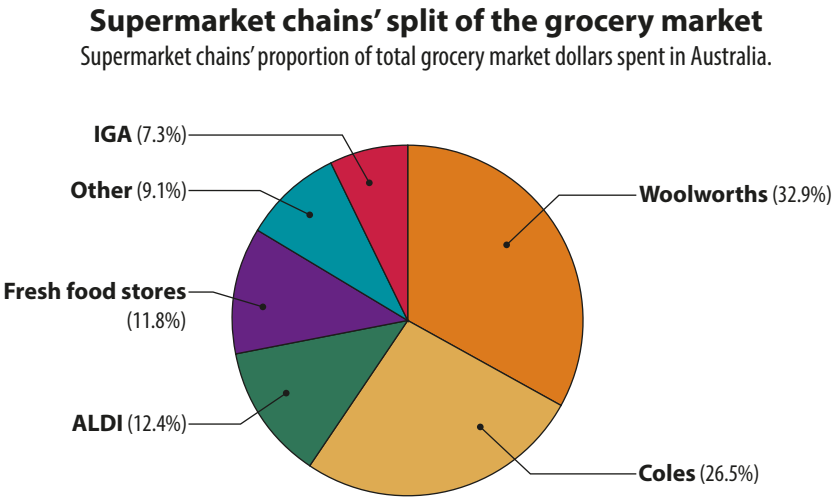


Figure 11.10 Shares of the $110 billion spent at supermarkets over the 12 months to December 2019 according to Roy Morgan data.

ACTIVITY 11.1

1. **Identify** the strategies that major retailers Woolworths and Coles are using in their quest to narrow the price gap with ALDI.
2. **Identify** which retail store Woolworths regards as its major competitor.
3. **Analyse** whether you believe ALDI's strategies of broadening and increasing their product range, and revamping their store layout will be successful in increasing ALDI's appeal to middle-income customers.

A change in external operating conditions can present some great opportunities for the growth of the customer base for some businesses. Unfortunately, the COVID-19 pandemic caused many businesses to shut down, while others were able to continue trading with modified operations. Businesses which were able to operate with an online presence increased their customer base, by servicing customers who normally would visit a bricks-and-mortar shop. Once normal trading conditions return, the long-term impact of these changes in operating conditions will be tested for businesses which increased their customer base during those challenging times.

REVIEW ACTIVITY 11.2

Part 1: Digital quiz
Please see the Interactive Textbook to access a digital activity.

Part 2: Short-answer questions
Answer these questions on paper or in the Interactive Textbook.

1. **Define** the terms 'internal environment factors' and 'external (macro and operating) environment factors' and then use these terms in sentences to demonstrate your understanding of them.
2. **Identify** and **describe** three factors from the macro and operating environments that can affect the customer base of a business.
3. **Identify** and **describe** three factors from the macro and operating environments that can affect the brand identity of a business.
4. **Identify** and **describe** two internal factors that can either positively or negatively affect the brand identity of a business.
5. **Analyse** and **evaluate** the impact of the COVID-19 pandemic on how businesses market themselves and their brand identity.

11.3 Market research practices

Learning intentions – at the end of this chapter section I will be able to:	**11.3.1** Identify and define market research practices
	11.3.2 Discuss concepts
	11.3.3 Compare and evaluate business information

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
- predict future changes or trends in a product or service.



Figure 11.11 Market research assists a business to know their customers.

If 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 want 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.

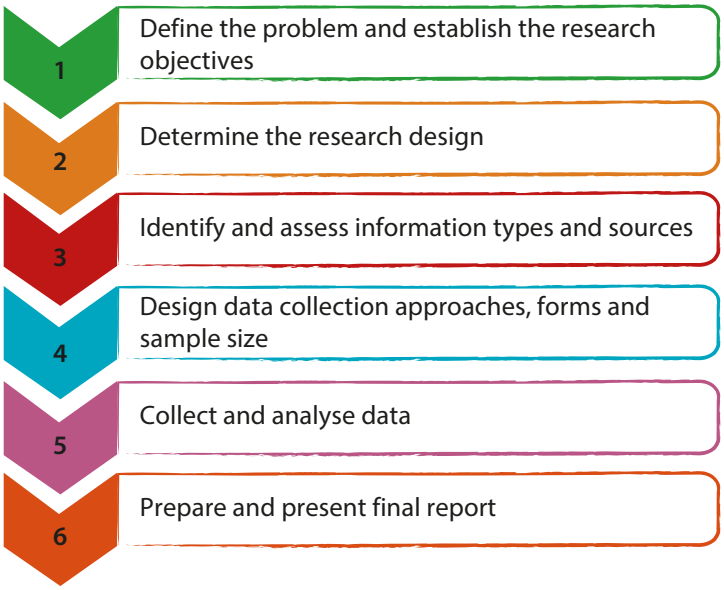


Figure 11.12 Steps when using a systematic approach to market research

A systematic approach to market research

The following six steps constitute a systematic approach to market research (see Figure 11.12).

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. Generally, market research objectives relate to the potential demand for a product or service, the marketing environment, or a business's competition.

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

primary data information that a business collects directly from first-hand experience and sources

secondary data information that has been gathered previously by external sources

Step 2: Determine the research design

There are three basic types of research design:

1. **Exploratory research** involves collecting information in an unstructured and informal manner, such as reading a magazine or article, using a particular product or service and gaining an impression and feeling about the product or service.
2. **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.
3. **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.

Step 3: Identify and assess information types and sources

There are two basic types of information available: primary data and secondary data.

1. **Primary data** refers to information gathered by the business owners or market researchers themselves, specifically to service the current research objectives.
2. **Secondary data** refers to information previously collected. This information can come from internal records of the business or sources external to the business.

Table 11.1 Primary and secondary data sources

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

ACTIVITY 11.2

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:

- survey
- focus group
- internet search
- electoral roll
- magazine
- exit poll
- direct mail-out
- product tests
- shopping centre interviews
- computerised databases
- email blasts
- company annual report.

Step 4: Design data collection approaches, forms and sample size

It would be an impossible task for a market researcher to collect information first-hand 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, including questionnaires, observation, focus groups and experiments.

- A **questionnaire** is a 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**.



Figure 11.13 A questionnaire is a standard form of survey used to gather data.

sample a proportion or subset of the total population being studied

population the entire group under study as defined by the research objectives

target market the market at which a product or service is primarily aimed

questionnaire a 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

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 the previously determined objectives.



Figure 11.14 Customer being observed while checking product range: primary research method

- 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.
- **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.
- 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.

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

Step 5: Collect and analyse data

Often the data is collected by trained interviewers who work for a market research company and ask a series of questions or leave a questionnaire for a person to complete in their own time. Many interviews are conducted over the telephone, with the interviewer reading scripted questions from the computer screen and entering responses directly into the computer.

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.



Figure 11.15 Example of part of a market research analysis report

REVIEW ACTIVITY 11.3

Part 1: Digital quiz
Please see the Interactive Textbook to access a digital activity.

Part 2: Short-answer questions
Answer these questions on paper or in the Interactive Textbook.

1. **Identify** three ways a fruit and vegetable shop could use market research to decide whether to add an organics section.
2. 'Why undertake market research? It is a waste of time and money'. **Discuss** whether you agree or disagree with this comment.
3. **Explain** why a business will use a 'sample' of a population when undertaking market research.
4. **Compare** the terms 'qualitative research' and 'quantitative research'. Provide examples of each form of research to support your explanation of how these two forms of research differ.
5. In the following table, link the name of the research with its correct description.

Type of research	Description
Exploratory	Intended to find the cause and effect of certain actions. For instance, price could be changed to see the impact it would have on sales volume
Descriptive	Involves collecting information in an unstructured and informal manner; e.g. reading a magazine or article, using a particular product or service
Causal	Incorporates consumers' attitudes, intentions and behaviour, and may be gathered through observation of consumers' behaviour. Can be related to the image of the product or service

11.4 Target market attributes

Learning intentions – at the end of this chapter section I will be able to:	
	11.4.1 Define business management concepts and terms
	11.4.2 Construct a customer profile
	11.4.3 Identify and describe consumer trends and behaviour
	11.4.4 Identify and describe the concept of 'target market'
	11.4.5 Discuss business strategies and ideas
	11.4.6 Analyse case studies and contemporary examples

market a group of customers with similar needs and desires who may purchase products or services from sellers through the exchange of money or other things of value

A **market** comprises customers and potential customers with similar needs and desires who may purchase a product or service through the exchange of money or other things of value.

There are four basic types of markets, as shown in Table 11.2.

Table 11.2 The four types of markets

Types of market	Explanation
Consumer	Involves businesses selling mass consumer goods, such as soft drinks, food and household products, to customers and consumers
Business	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 or service
Not-for-profit and government	Organisations that are formed to provide assistance to or infrastructure for society

Market dimensions

mass marketing a marketing strategy that seeks to attract the attention of all market segments through the use of mass distribution and mass media

When a business is working out its marketing strategies, one of the first questions that needs to be addressed is the anticipated size of the market for their product or service. This will directly impact on the approach they should 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, Stan, Amazon Prime and Foxtel Now 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



Figure 11.16 STP: acronym for segmentation, targeting and positioning

material into daily newspapers. It raises the question – is this the most effective way for them to market their product and service?

For marketing to be effective, the mass market needs to be broken into segments, using the four forms of segmentation and their variables (see Table 11.3).

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 market is a subset of a larger market with its own particular needs or preferences

market segment relatively similar (homogeneous) group of customers who are likely to respond in similar ways

market positioning where 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 to improve a business's precision marketing. Not everyone likes the same drinks, food, clothes, hotels and movies. Marketers try to identify certain groups of potential customers who have a preference towards a diverse range of products and services, and they make use of the seven variables of the **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, so it can 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 11.3.

market segmentation an approach that is midway between mass marketing and individual marketing; it defines and subdivides a large generic market into distinct subsections of potential customers who have similar specific needs and wants

marketing mix the seven variables that are used when undertaking marketing strategies: product, price, place, promotion, people, physical evidence and process

Table 11.3 Forms of segmentation and their variables

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/ethnicity	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, social • benefits sought – quality, service, economy, speed • loyalty status • kind of shopping – convenience, comparison, speciality • purchasing frequency

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 (paint and coating manufacturing company) sees its customers as people who:

- are building a new home, renovating or redecorating
- 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.



Figure 11.17 A market segment should ultimately be a relatively similar (homogeneous) group of customers who are likely to respond in similar ways, such as mothers with young children.

ACTIVITY 11.3

Using the market segmentation dimensions in Table 11.3, construct a likely customer profile for two of the following businesses:

- Cotton On
- Subway
- Smiggle
- Uniqlo
- Tesla
- Metro Trains Melbourne.

generic market a market where broadly similar needs of customers are met by sellers offering a variety and often diverse range of products



Figure 11.18 The target market is the group of customers to whom the business actually wants to sell its products and services.

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 (such as 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 prestige car that Mercedes, BMW or Audi may enter as players in this specific product market (i.e. prestige cars). The current desire of consumers for smaller and more fuel-efficient cars or SUVs has produced other specific product markets. In the future, consumers may desire an electric or driverless car, creating another product market.

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, or few, 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. Melbourne rates as one of the best cities in the world in which to drink coffee. Its roasters and baristas are very accomplished, inventive and technically capable. Its cafes often set the standard for new brewing techniques or gadgets. Selling a cup of filtered coffee can change from being a product, to a niche product regarded as a speciality, when the coffee beans have been grown organically and dry roasted. This creates an expectation of better quality and promise of being better for the environment. A cafe serving this niche speciality coffee would expect to charge a higher price for the product.



Figure 11.19 A niche product: organic and dry-roasted coffee

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. The bushfire crisis in 2019–20 and then the COVID-19 pandemic deeply impacted retail and other business sectors in Australia. These events created for many consumers a feeling of looking inward and seeking out brands with which they feel an emotional connection. The enforced lockdowns, store closures and physical distancing measures associated with the pandemic acted to elevate 'digital' to new levels for consumers.

Some examples of these trends and behaviours resulting from the bushfire crisis and COVID-19 pandemic include:

- increased e-commerce transactions and general usage of technology. Restrictions to movement imposed by the COVID lockdowns accelerated online sales, with consumers spending more time browsing, researching and purchasing online. *Inside Australian Online Shopping: eCommerce Industry Report 2021*, issued by Australia Post, stated that the online share of retail spend was 16.3 per cent in 2020, reflecting a 57 per cent growth year-on-year.

- a shift to the suburbs and support of local businesses. Multiple lockdowns and work-from-home orders negatively impacted on CBD retailers, especially department stores. With more people working from home during the pandemic, there has been an increase in people shopping locally and supporting local producers, cafes and restaurants. Consumers are showing greater interest in supporting Australian products; that is, where they are made, where they are designed and where they are manufactured. For example, iconic Australian brands Driza-bone garments (designed in Melbourne) and Rossi Boots (designed and made in South Australia) are experiencing an increased demand for their products.
- a change in purchases mix. Consumers spending more time at home resulted in a change of purchase needs. Initial purchases focused on furniture, electrical products and home furnishings. Home cooking resulted in increased grocery sales, and garden products increased as people were restricted to their own garden and not allowed into local parks for recreation. There was an increase in leisurewear sales and a decrease in work wear.



Figure 11.20 Farmers' market: a popular venue to purchase fresh produce

Apart from the recent consumer trends due to the pandemic, there are many other consumer trends that businesses need to be aware of and respond to:

- Buying consumables (meat, fruit and vegetables): when purchasing consumables, in-store shopping is still 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, being able to develop a personal relationship with the grower and get additional information about how the product was grown. 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, many retail businesses now include a coffee shop within their store, capitalising on the trend of being part of a 'cafe society'.
- Purchasing ready-to-eat meals: consumers have been able to buy ready-to-heat and ready-to-eat food for many years. One more recent trend is that consumers are now looking to buy 'gourmet' meals, not just the normal offerings of spaghetti bolognaise or pizza. Businesses such as HelloFresh and Marley Spoon are meeting the customers' desire to cook by supplying specific gourmet ingredients to use when preparing entrees, main courses and desserts. The important factors for businesses wanting to respond to this trend are that they meet the customers' need to feel confident that they are buying good-quality, tasty food. Many restaurants now also offer gourmet meals delivered to the customer, using other businesses such as UberEats, Deliveroo and DoorDash. Fast-food chains, such as KFC and McDonald's have responded to efficiently serve their customers by setting up double-lane drive-throughs.



Figure 11.21 Businesses that offer the convenience of either cooking at home or delivering meals

- E-commerce: electronic transactions have increased, with more consumers now expecting the convenience of paying digitally. Electronic payment systems allow customers to pay for goods or services electronically and include tap-and-go (contactless) payments, credit and debit cards, EFTPOS, online payments, and smartphone or tablet card processing.
- Consumers have now become 24/7 purchasers. 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. Coles and Woolworths have experienced a significant increase in demand for home-delivered groceries. To service this increased demand both retailers have established centralised fulfilment centres where they are able to dispatch home delivery orders directly to the consumer rather than using individual local stores. Consumers are also using online services to book airline tickets, holidays and entertainment.
- Many consumers want to be treated as individuals in their purchasing decisions, as they are tired of the mass marketing approach and want to be listened to and treated as special. Cotton On provides a personalised service where a customer's initials or names can be put on a variety of items such as diaries, dressing gowns, slippers, handbags, towels, pyjamas, footless tights and children's clothing.
- Consumers are more conscious of their health and better informed about nutrition. They are also more aware and concerned about environmental and social issues. 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.
- A growing number of consumers are questioning and wanting to be able to trust the motives of businesses from whom they are purchasing products or being provided with services. It has led to them questioning marketing campaigns, brand images and business practices. These sceptical consumers are demanding evidence of ethical labour, product and supply-chain practices to justify their purchasing decisions.
- 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.



Figure 11.22 An example of a personalised item from Cotton On

ACTIVITY 11.4

Refer to the list on the previous page as a guide.

1. **Identify** and **describe** consumer trends that you believe directly relate to your age group.
2. **Identify** and **describe** consumer trends that you believe directly relate to adults.

consumer behaviour the study of the behaviours and strategies of customers when choosing, using and disposing of products or services

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.

Table 11.4 Factors influencing consumer behaviour

Cultural	Social	Personal	Psychological	Situational
Inherent values and beliefs developed through parental and environmental influences, such as nationality, religion or ethnic background or social groupings	Actions and beliefs of those with whom they associate, such as family, peers, sport, religious or other community groups	Consumer's age, stage of life (i.e. single, newly married, married with dependents, single parent, divorced with dependent children, widowed), occupation, economic situation, lifestyle and personality	What is motivating the consumer to purchase a particular product or service	*When* – is there a particular time of day, week or season? *Where* – where is actual buying decision made and where actual purchase occurs; i.e. planned or impulsive *How* – relates to behavioural issues such as whether the consumer makes single or multiple pack purchase of items



Figure 11.23 Factors that can influence consumer behaviour

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.

CASE STUDY
11.3

Smiggle: behind the smiles and giggles



Smiggle opened in Melbourne in 2003 with the grand plan of becoming the world's most exciting and fabulous stationery brand. Its colourful, fun, fashion-forward stationery is aimed at being the go-to brand for school, lifestyle and stationery product categories for bags, lunchboxes, drink bottles, pencil cases, books, writing tools, headphones, collectibles and accessories.

The growth of Smiggle has been exceptional, from the original 20 stores, it has expanded to over 300 wholly-owned Smiggle stores across 10 countries. In addition, it is represented in more than 10 concession shops in prestigious department store retailers (including Harrods and Selfridges) in four countries.

Figure 11.24 The Smiggle logo

The products sold by Smiggle are well designed and innovative, using bold colours and quirky graphics. Smiggle's ultimate goal is 'to inspire and develop the creative spirits of its customers, by delivering original, fun and affordable stationery'. Visit a Smiggle store and you can't help but notice its extremely colourful and bright fit-out.

Source: Smiggle website, 'About Smiggle'.

CASE STUDY ANALYSIS

1. **Identify** the target markets for this fun and rapidly expanding business.
2. Have you visited any Smiggle stores? **Explain** whether or not the store's colourful fit-out and friendly staff made you want to purchase one or more of Smiggle's products.
3. **Identify** which of the five factors that influence a consumer's behaviour are being addressed and satisfied by this business.

ACTIVITY 11.5

Twice a week, ALDI adopts a 'special buys' promotional strategy, which offers customers heavily discounted general merchandise in its stores. On each visit to the store, the customer is asked whether they would like an ALDI brochure setting out the specials for the week ahead.

At the end of October 2021, Coles introduced a 'Best Buys' promotional strategy. This online platform for its Best Buys range aims to give shoppers massive savings on big-ticket lifestyle products and popular tech. It is intended that new products will be added to this online exclusive collection from existing and emerging brands.

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'? If so, **describe** the factors or influences that caused you to make the purchase.
3. **Discuss** whether or not you believe this strategy is working to attract customers to ALDI stores.
4. **Identify** the characteristic of consumer behaviour that ALDI is using in this marketing strategy.
5. **Identify** and **describe** the target market you believe Coles is aiming its 'Best Buys' promotional strategy.

REVIEW ACTIVITY 11.4

Part 1: Digital quiz
Please see the Interactive Textbook to access a digital activity.

Part 2: Short-answer questions
Answer these questions on paper or in the Interactive Textbook.

1. **Describe** the factors that influence consumer behaviour.
2. **Describe** the difference in approach needed when marketing a product to a mass market or a niche market.
3. **Discuss** whether you think that the 'digital marketplace' has changed the traditional approach to how a product is promoted.
4. **Define** the term 'market segmentation' and explain why it is a useful activity to undertake when determining how to market a particular product or service.
5. Markets can be described as 'generic', 'product', or 'niche'. **Describe** each of these types of market and explain their relationship to the marketing of a product to a customer.

Figure 11.25 Every consumer is different and has a distinct set of needs. It is the role of the marketer to understand them and how to approach them.



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Chapter 11 review

Summary

Create your own summary notes for this chapter on paper or in a digital document. A model summary is provided in the Area of Study review chapter for Unit 2 Area of Study 2, which can be used to compare with yours.

Developing clear definitions

By writing a brief explanation of each of the following terms, you will gradually build up a glossary of comprehensive terms for revision. Define these terms in your exercise book.

Marketing	Brand	Market-oriented approach
Customer base	Internal environment	External environment
Pareto principle	Market research	Primary data
Secondary data	Quantitative research	Qualitative research
Market	Niche market	Market segment
Marketing mix	Target market	Consumer trends
Consumer behaviour		

Extension question

Farouk owns and operates a very popular and profitable bakery in one of Melbourne's eastern suburbs. During the COVID-19 pandemic, the bakery's sales of bread products increased dramatically, as locals supported their neighbourhood business. The range of bread products offered by the bakery is large; however, some of his existing customers have asked him whether he would be interested in extending his range of bread to include making and selling gluten-free products. Farouk has investigated this idea in the past and found out that to be able to make and certify the products as gluten-free, he would need to make major changes to his current bakery, as it is important that the same machinery is not used for gluten and gluten-free products. Making the necessary changes would be a costly exercise and he believes this would not result in a sufficient increase in revenue to the business.

Farouk has asked you to provide him with advice on how to:

- **identify** what other issues, apart from cost, he needs to consider that will assist him to make a decision on whether to respond to his customers' requests to bake gluten-free products
- **identify** ways that he could undertake market research to determine whether there is a strong demand by his existing customer base for gluten-free products.

Checklist

The success criteria are linked to the learning intentions from each section of this chapter, and have been written based on the key knowledge and skills of the VCE Business Management Study Design. Completing the linked questions per success criteria will thoroughly prepare you for success in this subject. Fill in, print, or photocopy this checklist and tick the boxes when you have answered the corresponding questions correctly.

Success criteria – I am now able to:		Linked questions	Completed (Y/N)
11.1 Relationship between marketing, establishing a customer base and business objectives	**11.1.1** Define business management terms	Review activity 11.1: Part 1 & Part 2 (Q1)	Yes ☐ No ☐
	11.1.2 Identify and describe the relationship between marketing, establishing a customer base and business objectives	Review activity 11.1: Part 1 & Part 2 (Q2–5)	Yes ☐ No ☐
11.2 Factors affecting the establishment of a customer base and the creation of a brand identity	**11.2.1** Define business management terms	Review activity 11.2: Part 1 & Part 2 (Q1)	Yes ☐ No ☐
	11.2.2 Identify and describe internal factors affecting the establishment of a customer base	Case study 11.1: Q1 Case study 11.2: Q2–3 Review activity 11.2: Part 1 & Part 2 (Q2)	Yes ☐ No ☐
	11.2.3 Identify and describe internal factors affecting the creation of brand identity	Case study 11.1: Q2–3 Case study 11.2: Q4 Review activity 11.2: Part 1 & Part 2 (Q3–5)	Yes ☐ No ☐
	11.2.4 Identify and describe external factors affecting the establishment of a customer base	Activity 11.1 Case study 11.1: Q1 Case study 11.2: Q2–3 Review activity 11.2: Part 1 & Part 2 (Q1–2)	Yes ☐ No ☐
	11.2.5 Identify and describe external factors affecting the creation of brand identity	Case study 11.1: Q2–3 Case study 11.2: Q4 Review activity 11.2: Part 1 & Part 2 (Q3, 5)	Yes ☐ No ☐
	11.2.6 Analyse and evaluate impact of macro factors on businesses	Activity 11.1 Review activity 11.2: Part 1 & Part 2 (Q1)	Yes ☐ No ☐

Success criteria – I am now able to:		Linked questions	Completed (Y/N)
	11.2.7 Analyse case studies	Case study 11.1 Case study 11.2	Yes ☐ No ☐
	11.2.8 Discuss business information and ideas	Extension	Yes ☐ No ☐
11.3 Market research practices	**11.3.1** Identify and define market research practices	Activity 11.2 Review activity 11.3: Part 1 & Part 2	Yes ☐ No ☐
	11.3.2 Discuss concepts	Extension	Yes ☐ No ☐
	11.3.3 Compare and evaluate business information	Extension	Yes ☐ No ☐
11.4 Target market attributes	**11.4.1** Define business management concept and terms	Activity 11.4 Review activity 11.4: Part 1 & Part 2 (Q4)	Yes ☐ No ☐
	11.4.2 Construct a customer profile	Activity 11.3	Yes ☐ No ☐
	11.4.3 Identify and describe consumer trends and behaviour	Activity 11.4 Case study 11.3: Q3	Yes ☐ No ☐
	11.4.4 Identify and describe the concept of 'target market'	Activity 11.5: Q5 Review activity 11.4: Part 1 & Part 2 (Q4–5)	Yes ☐ No ☐
	11.4.5 Discuss business strategies and ideas	Activity 11.5 Extension	Yes ☐ No ☐
	11.4.6 Analyse case studies and contemporary examples	Case study 11.3 Extension	Yes ☐ No ☐

Digital activities

- Access the Interactive Textbook via Cambridge GO to complete a Scorcher timed competitive quiz for this chapter.
- From their Cambridge GO account, your teacher can also assign practice VCAA-style assessment questions with model responses.

CHAPTER 12

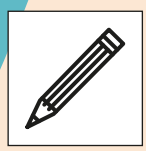
Marketing mix, product life cycle and marketing strategies, features and value of customer relations and technological developments in marketing

'A good company offers excellent products and services. A great company also offers excellent products and services but also strives to make the world a better place.'

Philip Kotler (1931–)

About the author:
Philip Kotler is an American consultant and professor and author of *Marketing Management*, a widely used marketing textbook.





KICKSTARTER ACTIVITY

Discuss whether this statement made by Philip Kotler is good advice for businesses or if it's too idealistic.

CHAPTER OVERVIEW

In this chapter students will continue to develop their understanding of how marketing, using the extended marketing mix (the 7Ps), extend to considerations on product, price, place, promotion, people, physical evidence and process. Students will gain an understanding of the life cycle of a product and the marketing strategies appropriate to each stage of this cycle. The features and value of customer relations strategies, such as providing quality customer service and loyalty programs, will be examined. A variety of technological developments in marketing will also be considered.

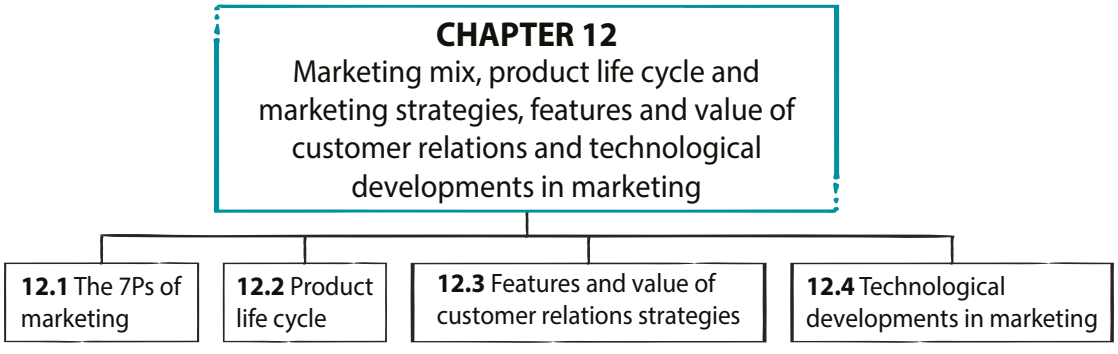
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Key knowledge and learning intentions

Key knowledge	Learning intentions – at the end of this chapter I will be able to:
The 7Ps model of marketing: product, price, place, promotion, people, physical evidence and process	**12.1 The 7Ps of marketing** 12.1.1 Identify, define and describe the 7Ps of marketing 12.1.2 Discuss and apply business management knowledge to practical or simulated situations 12.1.3 Analyse case studies and contemporary examples
The product life cycle: introduction, growth, maturity, and decline/ extension, and the relationship between each of these stages and the choice of marketing strategy	**12.2 Product life cycle** 12.2.1 Identify stages of product life cycle 12.2.2 Describe marketing strategies relevant to product life cycle
The features and value of customer relations strategies such as providing quality customer service and establishing customer loyalty programs	**12.3 Features and value of customer relations strategies** 12.3.1 Define and describe terms and concepts 12.3.2 Propose marketing strategies 12.3.3 Apply business management knowledge to practical or simulated business 12.3.4 Interpret business information 12.3.5 Explain and apply business management concepts
Technological developments in marketing such as social media, email marketing, search engine optimisation, artificial intelligence, data analytics and management of data.	**12.4 Technological developments in marketing** 12.4.1 Define, identify, describe, explain and apply business management concepts and terms 12.4.2 Discuss business management information 12.4.3 Describe and analyse contemporary examples of business management

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What's ahead



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12.1 The 7Ps of marketing

Learning intentions – at the end of this chapter section I will be able to:	
	12.1.1 Identify, define and describe the 7Ps of marketing
	12.1.2 Discuss and apply business management knowledge to practical or simulated situations
	12.1.3 Analyse case studies and contemporary examples

P1 – product

product a good or service in its final state after having gone through all stages of the production process

consumer profile a statistical picture of the typical consumer of a product based on demographic data; for example, income, age, gender and occupation

Product is the first component of the 7Ps of the marketing model. 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 based on their characteristics relating to purchasing habits. The **consumer profile** will then impact the form of marketing best suited to that category of product.



Figure 12.1 The 7Ps of the marketing model

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

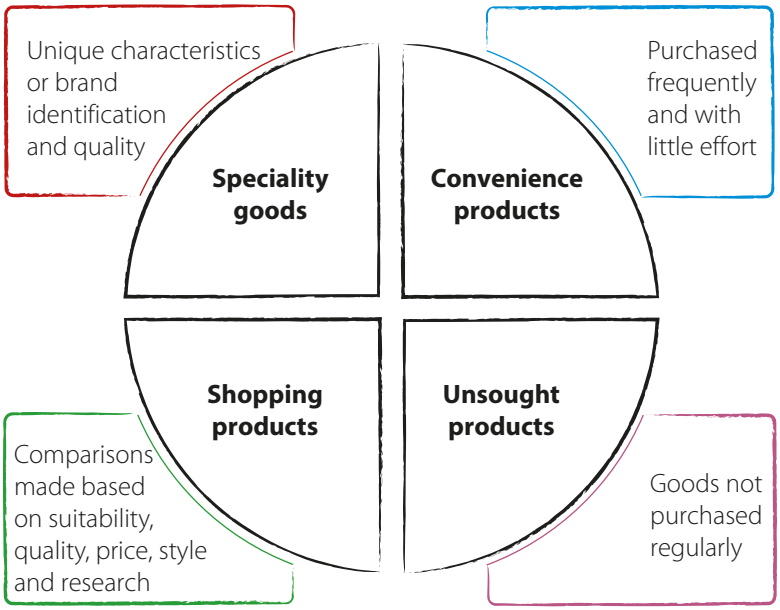


Figure 12.2 Consumer products classification system

Table 12.1 Types of consumer goods, their classification and impact on marketing strategies

Product classification	Groups	Marketing strategies
Convenience goods	• Staples – items bought on a regular basis; e.g. newspapers, bread, milk, toothpaste, shampoo, food items • Impulse – items bought with no planning; e.g. chocolate bar, chewing gum, magazines • Emergency – items 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 colourful displays on checkout counters • Prominent display positioning; e.g. displaying product near checkout counters
Shopping goods	Examples: 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	Examples: new cars (luxury), photographic equipment, computers	Limited production coupled with exclusive distribution rights means that marketing strategies can be directed at specific targets
Unsought goods	Examples: 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

ACTIVITY 12.1

Classify each of the following consumer products according to its classification and group. **Explain** why you have chosen this category:

- takeaway meal/snack
- fiction novel
- fashion clothing
- drone
- umbrella
- beach towel
- bed
- shampoo
- electric car
- iPad (tablet).

Developing the product

Businesses should aim to keep their product range appealing to the marketplace. 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.

product development the design and development of new or existing products

There are five stages involved in **product development**; that is, in getting a new product developed and out to the market.

Table 12.2 Stages in the new product development process

Stage	Title	Description
1	Idea development	Ideas can be generated from input from both staff and customers or as a result of market research. A current product could be modified, enhanced (innovated) or extended. Product ideas could come from current consumer trends or analysis of a competitor's product.
2	Idea screening	How well does the idea fit with the objectives and profile of the business? Does the new idea sit within the current product range or become an extension of the current range?
3	Idea evaluation	Test the concept with market analysis to determine demand and gain reaction of customers, identifying target markets, working out cost of producing the product and forecasting sales and profits.
4	Developing the product	The actual product 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.
5	Commercialisation of the product	Product enters the marketplace through a product launch and accompanying marketing campaign. The product's success is judged against the forecasts made during the idea evaluation stage.

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 business. 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 have 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**).

product differentiation where 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

The business with the largest share of the market is known as the market leader (or **brand leader**). It has been estimated that a successful brand is a powerful asset to a business and may account for between 50 per cent and 70 per cent of the total value of a business.

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? Over the past 22 years, the Reader's Digest Trusted Brands survey has researched which Australian brands have the best customer reputation.

ACTIVITY 12.2



Visit the Trusted Brands Australia website and answer the following questions.

1. Select five of the most trusted brands and **describe** the features that you believe each of these brands possesses to make it 'most trusted'. For example, in 2021 Bunnings Warehouse was voted Australian Iconic Brand, and Bendigo Bank as Bank of the Year.
2. **Describe** what you believe makes a brand connect with the consumer.



Figure 12.3 A brand is a powerful business asset that is essentially a maker's mark.

Importance of brand

A brand can convey a range of meanings: attributes, benefits, values, culture, personality and type of user. Taking the example of luxury cars such as Mercedes-Benz, BMW and Tesla, it is possible to analyse these brand meanings:

- attributes of the product – all three cars suggest an expensive, well-built, well-engineered, long-lasting, high-prestige automobiles
- benefits – both functional and social status. They will last for a long time and can make some people feel important and admired for owning and driving one of these products. All three brands have zero emission models.
- values – these cars say something about the manufacturer's values relating to high performance, safety and prestige
- culture – these brands may represent a certain culture of the business such as efficiency, precision and high quality
- personality – all three brands project a certain and different personality. Mercedes-Benz: safe and conservative motoring, BMW: high status and interested in on-road performance, Tesla: quiet and makes a statement
- type of user – who would we expect to see behind the wheel of a Mercedes-Benz, BMW, or Tesla?

leverage using (something) to maximum advantage

brand stretching using an established brand name in order to introduce unrelated products



Figure 12.4 Luxury brands – Mercedes-Benz, BMW and Tesla



Figure 12.5 Chemist Warehouse, 'Australia's cheapest chemist'

The importance of branding is recognised by all luxury car manufacturers. 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.

Chemist Warehouse, established in 2000, is a privately owned Australian company operating a chain of retail pharmacies. This business is heavily reliant on the marketing strategy of brand recognition as 'Australia's cheapest chemist' to ensure its success. This dependence on its brand recognition and loyalty to ensure that it gets a very large number of customers through the door or purchasing online follows on from the company spending more than $100 million annually on marketing, while working on a lower profit margin than other community chemists.

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. Not only is Dulux the winner of the most trusted paint brand (Reader's Digest Trusted Brands) in 2021, but the company also features an English sheepdog (named Digby) as part of its brand recognition. Digby is seen as a powerful trademarked symbol of the Dulux brand for consumers. Research confirms that the inclusion of Digby in any promotional material increases the memorability and branding for the consumer.



Figure 12.6 'Digby' the Dulux Dog – the powerful trademarked symbol of Dulux paints

ACTIVITY 12.3

1. **Identify** two luxury brands (other than cars) where the business is 'cashing in' on the brand name to gain an additional revenue stream; for example, Liberty and Harrods department stores in London.
2. **List** at least five products where the brand name has become accepted as the 'common name' for the product; for example, Speedo (bathers).
3. Select two different products and **describe** the range of meanings attached to those products in terms of attributes, benefits, values, culture, personality and types of user.

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', a portable cooler as an 'esky', and reusable adhesives as 'blu tack'. This kind of product recognition is a marketing advantage.





Figure 12.7 Blu tack and Esky – two products where the brand name has become the common name for the product

Businesses also now want to monopolise the colour they use in their brands. Over the years there have been a number of cases brought contesting the use of certain colours in the brands of businesses.

Table 12.3 Contested colours

Colour contested	Businesses	Outcome
Red, blue and silver	Red Bull and another soft drink distributor	Red Bull won this case in 2002 stopping other businesses using these colours
Blue and red on a yellow background	Clark Rubber and Oasis Foam and Rubber	Clark Rubber won an injunction in 2006 to stop the use of this colour scheme by competitors
Green	BP and Woolworths	BP wanted to register 'green' under the *Trade Marks Act 1995* (Cth) to protect its brand. Woolworths opposed this application.
Purple	Cadbury and Darrell Lea	Fought a five-year battle in Australia's Federal Court over the right to use 'purple' in their packaging and advertising. Federal Court told Cadbury it did not own sole right to use this colour and rejected its attempt to sue Darrell Lea.

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, which is to not be coloured, or contain any imagery, corporate logos, or trademarks. The packaging must have a standard colour and font, with a large, graphic health warning. While Australia was the first country to introduce this debranding, there are now more than 23 countries around the world at various stages of implementing, progressing, or investigating plain packaging laws.



ACTIVITY 12.4

1 **Identify** the colour/s you associate with the following brands:

- Coles
- Bakers Delight
- Bunnings
- David Jones
- John West
- Toyota
- National Australia Bank
- Woolworths
- Metro Trains
- Australia Post.

2 Are there any similarities in the colours used by the brands. How many of these are based on the primary colours of red, yellow and blue?

CASE STUDY
12.1

Ampol



Ampol Limited was established over 80 years ago; however, the Ampol brand was phased out in the mid-1990s when the company adopted the branding of one of its other companies, Caltex Australia.



Figure 12.8 The Ampol brand is one that strongly resonates with Australians.

In 2021, the Ampol brand returned with a new logo designed to reflect the growth and evolution of the company into new markets for this nation-wide fuel network. The fresh symbol is aimed at connecting a new generation of customers and underpins its commitment to once again make it Australia's most loved and admired fuel brand. The design of the new Ampol logo draws on key elements from the heritage Ampol brand, by including the original red and blue bands, which capture its proud history as a company built for Australians. The new, simple and modern symbol with the distinctive leaning 'A' was designed to draw attention to the company's forward momentum. The company is intending to leverage its position as the only major Australian fuel brand to win new customers.

Source: Ampol website, 'Who we are/our history'.

CASE STUDY ANALYSIS

Discuss whether you believe that the return of Ampol and highlighting it as 'the only major Australian fuel brand' will assist in it gaining a competitive advantage over the other multi-national fuel companies operating in Australia.

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 your 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.

generic brand a brand that attributes its identity to the retailer rather than the manufacturer

Some large supermarkets offer products that have **generic brands** or private label brands that attach specifically to that supermarket chain, rather than the various manufacturers of the product. These brands are produced by a variety of unacknowledged manufacturers, and are 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 its brands use the same colour palette as the well-known brands stocked by its competitors.

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 and 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 example, 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; and purple (luxury) with Cadbury chocolates.

label placed on a product to inform the customer/consumer with information such as manufacturer, ingredients and use-by date

Labels can be used to provide information about the product, the manufacturer and its trademark or the retailer. When a business is designing labels for its products, it is imperative it ensures that it complies with the *Competition and Consumer Act 2010*, which specifies that businesses cannot provide customers with false, misleading, or deceptive information. Labels can be attached directly to the product or form part of the packaging.

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. 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.



ACTIVITY 12.5

1 Select three products and **analyse** their packaging based on the following criteria:
   a design – use of colour, placement of logo or business name
   b consumer information; for example, ingredients, name of manufacturer, country of origin

c level of packaging – primary or secondary
d brand recognition
e environmental friendliness.

2 **Identify** and **describe** a product where you consider the packaging to be a reason why you would choose not to buy that particular product.

3 A well-known food retailer designs some of its products' packaging in similar ways to other more expensive brands. **Discuss** whether you think that this practice is legal and whether it gives that retailer a competitive advantage.

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.

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.

There are three main ways that the pricing of a product or service is determined.

price the amount for which something is sold

mark-up pricing determined by adding gross profit to the direct cost per unit; usually expressed as a percentage

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

Table 12.4 The methods of determining price

Method of determining price	Explanation
Cost-based or cost-plus	This method enables the business to recover the total costs (both fixed and variable) associated with actually getting the product to the point of being ready for the marketplace. The business calculates 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.
Competition-based	Customers compare prices and quality between items being offered by a business and that of its competition. To be competitive in the marketplace, it is 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.

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Marketing strategy	The pricing strategy differs 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 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.

penetration pricing a strategy 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 relationship with those customers.

skimming pricing a strategy where high prices are set to ensure high profits before marketing advantage is lost

loss leader where the price on a product is set low in order to attract customers to buy other products in the range that have a higher profit margin

psychological pricing a strategy whereby the price is set in accordance with the value consumers place on the product

complementary pricing where the price is set low on one item and high on another item that would normally go together

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 a price seem to be lower than it actually is. The price of $1999 appears lower than $2001; similarly, $0.99 instead of $1.01. If you visit a Chemist Warehouse store, you will observe that this pricing strategy is used throughout the store with the intention of leading the customer to believe the price is lower than it actually is. In reality, the price will be rounded up at the checkout. 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.
- 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, or coat and scarf.



Figure 12.9 Factors that determine price of a product or service

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.

price inelastic where 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

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.

The government may periodically regulate or control the maximum prices for certain products. It is often those items considered to be staples, such as milk, bread, eggs and petrol. The government also regulates prices through the provisions of the *Competition and Consumer Act 2010*, and in some instances prohibits certain pricing practices, such as:

- price fixing, 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, 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.



Figure 12.10 Bread, milk and eggs can all be considered price inelastic.

ACTIVITY 12.6

1 Suggest a pricing policy that you would recommend the following businesses adopt:
   a a school cafeteria
   b a women's clothing (fashion) boutique at the start of the winter season
   c a women's clothing (fashion) boutique at the end of the winter season
   d an organic food store in a local shopping strip
   e a local hardware store located near a store of a very large hardware chain.

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 or 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.

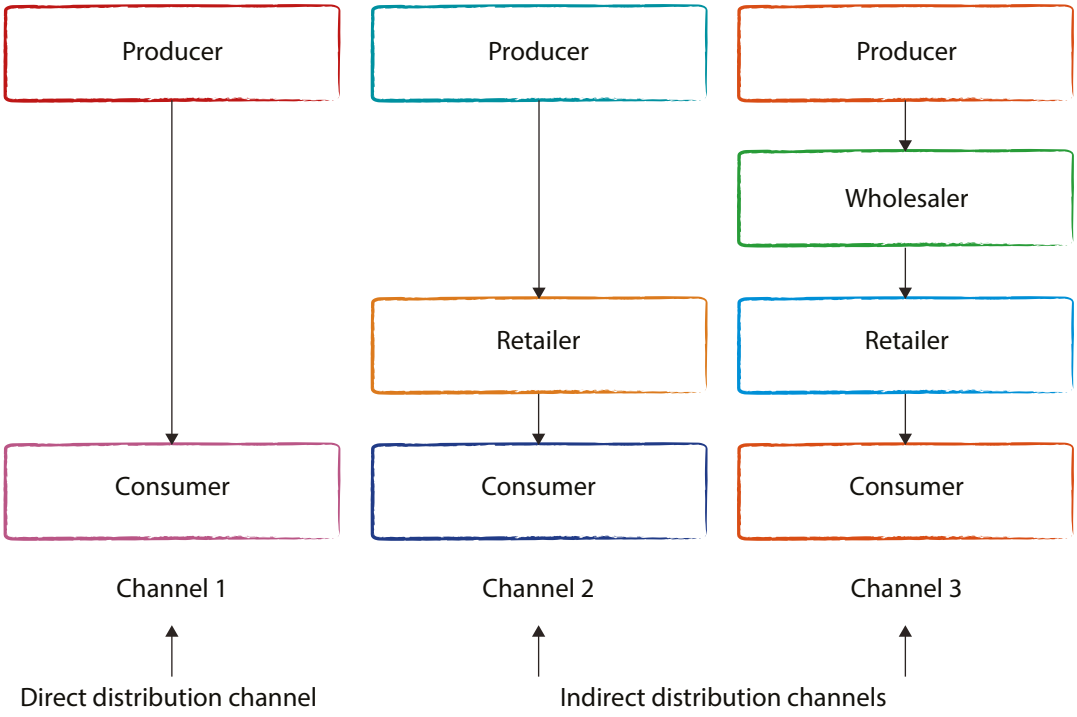


Figure 12.11 Direct and indirect distribution channels

Direct distribution channel

direct distribution sales channel where a manufacturer sells the product directly to the customer

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 its product; however, it allows it 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.

Indirect distribution channel

indirect distribution channel where a manufacturer sells their product to a wholesaler and/or retailer (intermediary) who then sells it to the customer

multi-channel where a retailer sells products both online and in bricks-and-mortar stores

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. The online department store is now an established business model. One very successful example is Kogan.com, recognised as 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 is Temple & Webster, which is Australia's No. 1 online-only furniture and homeware retailer. Other types of distribution channels occur where a retailer adopts a '**multi-channel**' approach by selling its products both online and in 'bricks-and-mortar' stores or uses the 'click-and-collect' model to assist its time-poor customers. Adopting these distribution models can give the retailer the opportunity to adopt different pricing strategies.

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.

The process of planning and organising transportation, warehousing and storage of goods is known as logistics. Having an efficient logistics operation can provide a business with a strong competitive advantage.

Table 12.5 Advantages and disadvantages of direct distribution to the customer

Advantages	Disadvantages
Cuts out the profit margins of the retail intermediary	Manufacturer/producer needs to warehouse the stock, adding to storage costs
Pricing and marketing of the product/service are under the full control of the manufacturer/producer	Product is not on display in a retail outlet for the consumer to browse and make comparisons with other products
Takes advantage of increased popularity of online purchasing. Can be regularly updated	If selling online, need to ensure web presence is appealing and up to date
Able to provide 24/7 access	May need to provide after-hours support for online purchasers

Table 12.6 Advantages and disadvantages of indirect distribution to the customer

Advantages	Disadvantages
Manufacturer/producer has passed on the cost of holding and storing stock to a retailer	Profit margin is shared with the retailer or intermediary
Manufacturer/producer is given more freedom to focus on producing a product ordered by a retailer	Customers can view a wider range of items from different sources and make price comparisons
Retailer can create an online presence to complement physical store	Marketing decisions relating to price are now out of the control of the manufacturer/producer and are made by the retailer
Online retailer can provide 24/7 access not available with physical store	If selling through an online store, retailer needs to ensure web presence is appealing and up to date

ACTIVITY 12.7



1. Visit the online department store websites of Kogan and Temple & Webster and **describe** how they undertake the distribution of the products they sell.
2. Use the internet to **investigate** which major retail stores have established an online store. **Explain** why you believe these businesses may have adopted this strategy.

P4 – promotion

Promotion is the fourth component of the 7Ps of the marketing mix and the most public aspect of marketing. **Promotion** involves the business communicating with its actual or potential customers by informing them about the business's products or services 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 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.

Promotional techniques

advertising informing potential buyers about a product

Advertising

Advertising is a powerful medium of mass communication that is designed to inform, compare and persuade, and remind and reinforce. Refer to Table 12.7 for more details.

Table 12.7 The roles of advertising

Purpose	Explanation
Inform	Giving information to potential customers about technical details, product use, key features, price and where the product may be purchased and if it is doing any social good. It is important to use this form of advertising when introducing new products.
Compare and persuade	Creating a distinct image or brand identity for the product. The advertisement is used to persuade consumers to buy a product and not that of a competitor 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 brands.
Remind and reinforce	When products are entrenched 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 competitor's product.



Figure 12.12 'Who Gives a Crap' informs and appeals to customers' social conscience.

Examples of business that have used advertising as a form of mass communication:

1 Three social entrepreneurs learnt in 2012 that more than 2 billion people across the world (i.e. approximately 40 per cent of the global population) didn't have access to a toilet or the availability of using toilet paper, to us a common household product. They also learnt that around 289 000 children under five died every year from diarrhoeal diseases caused by poor water and sanitation. This knowledge provided the impetus for them creating their social enterprise 'Who Gives a Crap'. Part of their advertising message is to inform customers that 50 per cent of their profits is donated to build toilets in areas of need.
2 ALDI often runs comparative advertisements on its products to highlight the price difference between well-known brands stocked by its competitors and its 'product of Australia' homebrand. One such advertisement was based around its Confidence-branded toilet rolls where ALDI was attempting to gain a slice of the market worth $2 billion, currently dominated by three brands (Sorbent, Kleenex and Quilton). Market research had shown that an

important criterion for choosing this essential product is 'softness'. ALDI not only made a price comparison in its advertisement but ensured that on the packaging on its Confidence toilet paper the word 'soft' was included.



Figure 12.13 Aldi's Confidence toilet paper competes with Sorbent, Kleenex and Quilton.

Types 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 leather jackets in a magazine about vegan lifestyles. Set out below are the most common forms of media used by marketers to advertise their product or service.

Table 12.8 Types of advertising media

Form of media	Explanation
Newspapers – national, state and local Print copy and online	Provides for large amounts of detailed information. Advertisements can vary in size – full-page to very small. Can be costly – full-page colour advertisements in the *Herald-Sun* (Monday to Friday) would cost in excess of $70 000. Higher price for Saturday. Newspapers: • run special-interest sections, so it is possible to aim at particular target market; e.g. travel • in addition to print version, newspapers also operate multi-media platforms that extend to desktop, mobile and table coverage.
Television	Very expensive medium that can provide high impact as it relies on visual, movement, sound and special effects to communicate the message. Suits simple messages delivered in 30-second time frames. Products can be demonstrated. Potential audiences can easily skip or miss and advertisement when: • channel surfing using remote controls • time shifting using a digital video recorder • streaming television shows.
Radio	Can provide a wide reach and ability to target market segments, particularly those based on age, music style and areas of interest. Often on in background when people are working, studying or driving, meaning that attention can in fact be at a low level.
Magazines	Appealing due to high quality of their print and colour. Ideal for fashion items, food and anything associated with glamour. Usually read in a leisurely manner and passed on to multiple readers so extending the longevity of the advertisement's time frame.
Internet	Fastest-developing advertising medium and has the advantage of providing businesses with the opportunity to advertise their products to both local and global markets. Provides customers with easy access to details of products and prices and the ability to make comparisons. Pop-up and pop-under advertising is able to interrupt user's session to display message or product.

(continued)

(continued)

Social media platforms	An extremely popular medium with more than 17 social networks worldwide with active users. Important that businesses create a social media marketing strategy to reach these audiences.
Direct mail	The most personal and selective form of advertising media. Lists of names and addresses can be purchased, which have already undergone sorting based on various demographic or target segmenting characteristics. Cost are incurred due to printing and postage fees, but there's less waste circulation.
Outdoor advertising	Wide range of techniques, such as billboards, neon signs, bus and tram shelter, railway stations, back of taxis and sides of buses. Can reach a large percentage of the population. Only appropriate for very simple or reminder messages.
Yellow Pages	Available in print and electronic format. Low-cost medium used by smaller businesses. Print format has greater penetration in regional areas.



ACTIVITY 12.8

Construct a chart and provide an example of an advertisement based on each of the nine advertising styles listed in Table 12.8.

Table 12.9 Advantages and disadvantages of advertising used as a form of promotion

Advantages	Disadvantages
Able to reach a broad or mass market	May be expensive and difficult to gauge effect
Acts to persuade if creative techniques are used	Impersonal
Able to target market segments through directed media	Inflexible or not as compelling as a salesperson
Able to create powerful brand image and product recognition	Consumer is able to tune out

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 are 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 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.

Table 12.10 Advantages and disadvantages of direct marketing/selling

Advantages	Disadvantages
Allows for one-to-one personalised communication with targeted market	Possible invasion of privacy, as customer questions where/how you gained their personal details
Increases opportunity for generating customer loyalty and higher frequency	Negative image created with unwanted phone calls (particularly at meal times)
Flexible	Relatively expensive due to high costs of making direct contact rather than the broad approach of advertising

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 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. While using this marketing strategy will result in a higher occupancy rate (i.e. more guests), in overall financial terms it may not be judged as successful. The financial impact is due to the costs the hotel bears to ensure all its facilities are fully operational while only gaining a smaller revenue increase from the heavily discounted marketing offer.

Table 12.11 Advantages and disadvantages of sales promotion

Advantages	Disadvantages
Provides additional support (reinforcement) to an advertising campaign	A technique that can be easily copied and improved upon by competitors
Offers short-term incentives to increase sales, without long-term pricing implications	Short-term solution to product promotion, but does not generally lead to long-term improvement in product sales
Provides opportunity for immediate feedback on effectiveness of the technique	

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.



Figure 12.14 This advertisement uses the sales promotion technique to promote a quality accommodation package at a bargain price.

Personal selling

personal selling where a product is sold by a salesperson, preferably trained

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.

Table 12.12 Advantages and disadvantages of personal selling

Advantages	Disadvantages
Customer is actually dealing with a salesperson who has product knowledge	Requires sales staff to be trained and adequate staffing levels to be maintained to satisfy needs of customers
Customer is able to ask questions and get immediate answers	Largest single operating expense of a business and costly on a per-customer basis
Customer gets immediate feedback – not left to wonder what the answer will be; can gain a response even by body language or facial expression	Unless a large sales force is used, it may only be possible to reach a limited number of customers

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.

Table 12.13 Considerations of internet marketing

Considerations	Explanation
Do the goods or services have online promotional potential, and how can that potential be used?	Goods or services that require a first-hand experience or demonstration to appreciate their benefits would be more difficult to sell online
Type of website	Does it need to be simple and easy for customers to use? Does it adequately reflect the brand and image of the business?
Form of advertising on website	Banner (headline advertisements) on top of popular website drawing customers to your website
Registration and referrals	Using a search engine or links to direct customer product or service enquiries

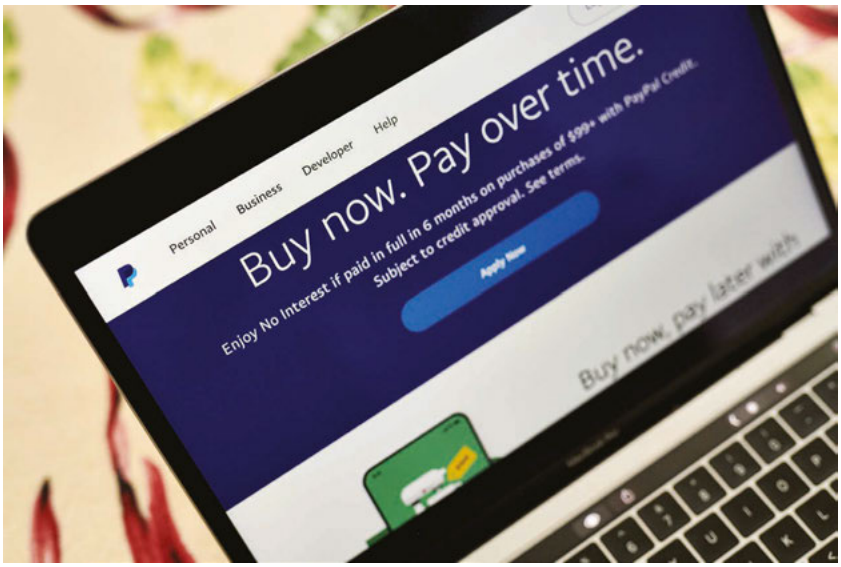


Figure 12.15 The website of a business is often the customer's first experience of the business.

ACTIVITY 12.9

Visit four of the following websites and answer the questions below.

- Bunnings
- Nike
- Qantas
- AFL or sporting club of your choice
- Visit Victoria
- Metro Trains
- Harvey Norman

1. **Identify** the aim of the website.
2. Deduce the gender and age of the product or service's target market.
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?

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 a 'free' form of mass communication with the aim of attracting favourable attention to a business. Methods include media releases, open days, sponsorship and brochures.

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.

Table 12.14 Advantages and disadvantages of publicity and public relations

Advantages	Disadvantages
Low cost, as the business generates the communication	Difficult to be in total control of the publicity a business receives
High credibility	Can be negative as well as positive
Allows the business to build a positive brand image	



ACTIVITY 12.10

Listed below are 10 different products and services.

Identify which form(s) of promotional technique you would recommend be best to market that particular product or service. **Justify** your choice.

- Victorian coastal holiday resort
- pharmacy
- university or TAFE
- babysitting service
- solar heating installer
- community bank
- plumber
- gymnasium/fitness centre
- financial planner
- VCE tutoring service

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.

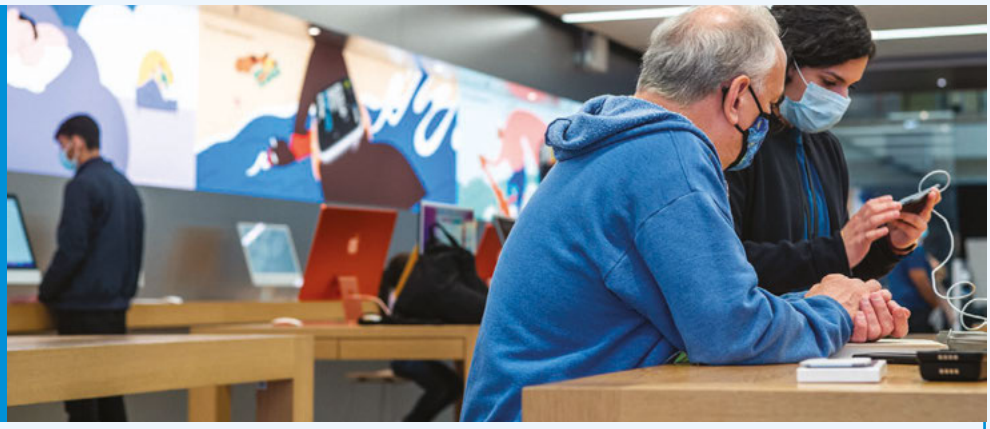
Staff must be appropriately trained and motivated, have the right attitude and be suited to their role. If a customer is happy with how they are treated they can become a powerful advocate for the business and its brand. In addition to pre-sales support and advice, if a business can provide the same manner of service post-sale, this can often become more important to a customer than the price paid for the product.



Figure 12.16 Bunnings prides itself on employing qualified tradespeople as its sales staff.

CASE STUDY
12.2

Apple's Five Steps of Service



This case study is available in the Interactive Textbook.

An Australian business that recognises the importance of well-trained staff marketing and selling its products is paint manufacturer, the Dulux Group. To support is customers (hardware stores) it has established a training academy providing on-site courses, run by qualified and experienced trainers knowledgeable in the Dulux Group range of products, to the retailers of its products. Recognising the importance of not taking staff away from the retail outlet, the Dulux Training Academy comes to the shop premises delivering the courses from their mobile training trailer.



Figure 12.17 Dulux is a business that believes in the 'people' approach to marketing.

P6 – physical evidence

Physical evidence can take a variety of forms:

- Evidence showing 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. There are physical elements to almost all services, even if the service that a customer pays for is not a physical thing. For example, a visit to your doctor will result in your medical records being updated and a claim being made to Medicare. A trip to the hairdresser will entail the salon keeping your contact details, recording what treatment you received – for example, foils and colour of dye – and booking a future appointment. 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; or alternatively providing an online quote followed up with an email.



Figure 12.18 The MCG – an iconic stadium

- 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, or loud music and bright lights at a pop concert.
- 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, and players wearing their team colours and clothing. The MCG and Marvel Stadium have their own physical presence and atmosphere.

ACTIVITY 12.11

Each year your school undertakes a marketing campaign to attract Year 7 student enrolments for the following or subsequent years.

1. **Identify** the ways that your school markets itself to prospective students, parents and the broader 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 could be made to improve the marketing of your school to the community.

P7 – process

Customer satisfaction is becoming increasingly important to marketing success. The process 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.

REVIEW ACTIVITY 12.1



Part 1: Digital quiz
Please see the Interactive Textbook to access a digital activity.

Part 2: Short-answer questions
Answer these questions on paper or in the Interactive Textbook.

1 **Identify** and **explain** which promotional techniques would be the most appropriate for the following products and services. Provide more than one technique for each product or service:
   - **a** organically produced soft drink
   - **b** hair-care products
   - **c** vinyl records
   - **d** weight-loss meals
   - **e** cars – new and pre-used
   - **f** house paint and timber finish products
   - **g** gardening products
   - **h** sporting equipment
   - **i** legal services
   - **j** a restaurant.

2 **Identify** the kind of physical evidence of marketing you would expect to receive when attending a pop concert.

3 Direct-to-customer and factory outlets have become a very popular shopping alternative for many customers. From the point of view of both the manufacturer and the customer, **explain** why they are successful.

4 The technology company Apple uses price skimming (i.e. high prices) as a marketing strategy when it releases new products. **Identify** what characteristics or attributes Apple believes its products possess to allow it to adopt this pricing strategy.

5 Water is the ultimate commodity readily available to us to use straight from the tap at a minimal cost. It is, however, a $600 million industry. **Analyse** why people are willing to spend a high price for a bottle of water in a decorative bottle or from a particular named brand.

12.2 Product life cycle

Learning intentions – at the end of this chapter section I will be able to:	**12.2.1** Identify stages of product life cycle
	12.2.2 Describe marketing strategies relevant to product life cycle

product life cycle the stages through which all products pass: launch (introduction), growth, maturity, and decline or extension

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

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.

Stage 1: Introduction

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 non-existent 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 entered the market.

Stage 3: Maturity or saturation

The level of sales has stabilised and competition for the product is strong; however, profits may start to decline. The initial consumer demand for the product has been satisfied and the product does not yet 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.

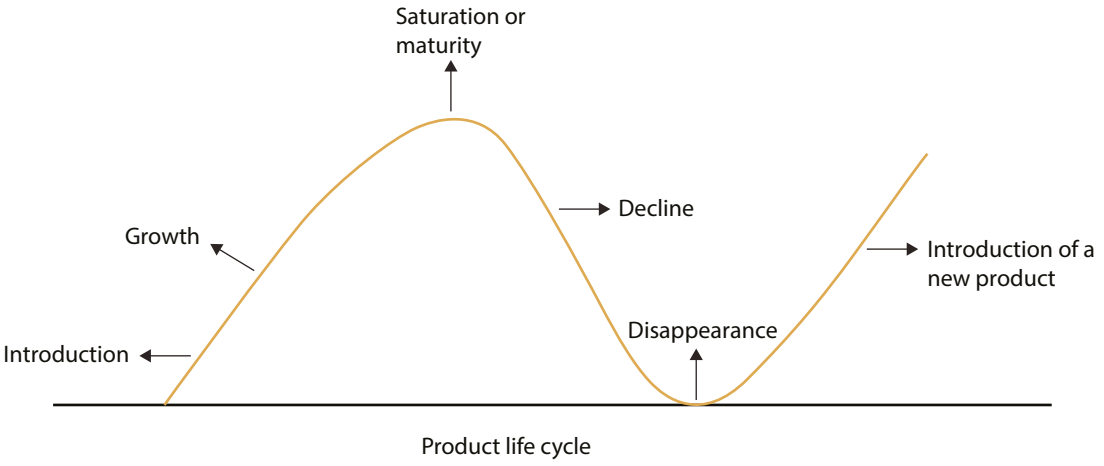


Figure 12.19 The product life cycle

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 that 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 12.15 sets out the relationship between the first four elements of the marketing mix and the four phases of the life cycle of a product.

Table 12.15 Product life cycle relationship to the first 4Ps of the marketing mix

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

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

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

REVIEW ACTIVITY 12.2

Part 1: Digital quiz
Please see the Interactive Textbook to access a digital activity.

Part 2: Short-answer questions
Answer these questions on paper or in the Interactive Textbook.

1. **Identify** two reasons why an understanding of the product life cycle is so important to the success and profitability of a business.
2. **Identify** what stage in the product life cycle the following products or services have currently reached:
   - streaming services
   - vinyl records
   - automated (driverless) cars
   - hybrid cars
   - drones
   - carbonated drinks
   - bottled water
   - digital cameras
   - smartphones
   - solar panels.
3. **Describe** the marketing strategies related to price and place you would suggest for a product that is in the 'decline' stage of its product life cycle.
4. **Describe** the marketing strategies related to price and promotion you would suggest for a product that is in the 'introduction' stage of its product life cycle.
5. **Describe** the marketing strategies related to place and promotion you would suggest for a product that is in the 'growth' stage of its product life cycle.



Figure 12.20 How might you withdraw a product if it was in the decline stage of the product life cycle?

12.3 Features and value of customer relations strategies

Learning intentions – at the end of this chapter section I will be able to:	
	12.3.1 Define and describe terms and concepts
	12.3.2 Propose marketing strategies
	12.3.3 Apply business management knowledge to practical or simulated business
	12.3.4 Interpret business information
	12.3.5 Explain and apply business management concepts

customer relationship marketing (CRM) a business process that uses marketing strategies and activities to develop relationships with clients, gain customer loyalty and bring value to the brand

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)**.

When selling any product, being able to identify your buyer (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 vegetarian or vegan groups.



Figure 12.21 Know who your target market is.



Figure 12.22 Uniqlo: an international fast-fashion brand making its presence felt in the Australian retail market

CASE STUDY
12.3

Online shopping and the COVID-19 pandemic

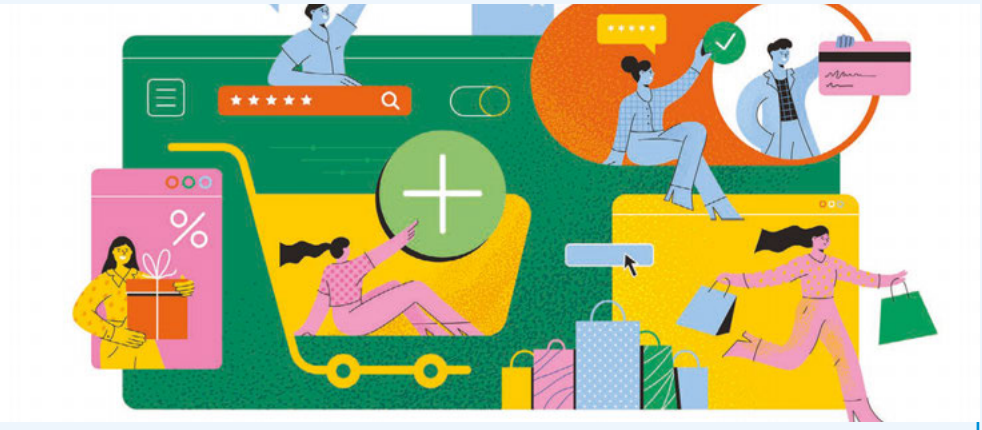




Figure 12.23 How have your shopping habits changed as a result of the COVID-19 pandemic?

The changing face of clothing and homewares retail has led to retailers needing to concentrate more closely on their customer relations strategies.

The retail industry in Australia has been affected by the growth of online retailing, particularly during the COVID-19 pandemic. This change has provided customers with a greater ability to comparison shop. Many customers are now using their mobile phones to check online offerings while standing in a bricks-and-mortar store.

Established retailers Myer, which is regarded as a middle-class retail outlet, and David Jones, with its brand image of being a prestigious department store, have both had to adapt their mode of operations to include online retailing. Cotton On, Australia's own brand leader in the fast-fashion industry, has also adapted its business model to meet the demand for both instore and online retailing.

Greater demand from consumers who have been exposed to global brands through social media is anticipated to provide international labels with the confidence to pursue expansion in Australia. One such international retailer that has gained a valuable market share in the latest fashion-forward market segment is Uniqlo. In the homewares market, online store Temple & Webster is making its present felt.

CASE STUDY ANALYSIS

1. **Describe** the concept of customer relationship marketing.
2. **Propose** a range of marketing strategies that established retail brands such as Myer and David Jones could adopt to reposition themselves in the ever-changing retail market.
3. Choose a business where you are currently a customer and **describe** the marketing strategies and activities that business uses to gain your customer loyalty and makes you value that brand.

Providing quality customer service

Providing excellent customer service gives value to a business while also acting 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, and whether they have good product knowledge
- providing prompt service to customers both pre- and post-sale
- being responsive, accessible, available and willing to help customers whenever they have a problem
- establishing a policy for dealing with customer complaints or return of goods.



Figure 12.24 Quality customer service is important to gain repeat customers.

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.

Establishing customer loyalty programs

The use of loyalty programs is extensive and can take the form of earning points or getting special offers, freebies and discounts. Using loyalty programs, particularly in retail, gives customers an incentive to keep coming back to that store.

In recent years, there has been ongoing discussion as to the relative worth of these programs, as they can be very expensive to operate. Businesses can gain a lot of information about consumers using loyalty cards. Every time the card is used, the transaction is recorded against the consumer's account. Over time the business can create a profile of the consumer's habits: what and when they buy, how they spend and how they pay. Retailers and marketers 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. Major food retailer Woolworths has a loyalty program called Woolworths Everyday Rewards. The Coles Flybuys loyalty card network not only credits customers when they purchase items from Coles, but has now been expanded to allow cardholders to collect points from Bunnings and Officeworks and transfer points to Virgin Australia. Loyalty reward schemes are big business for the airlines, such as Virgin and Qantas. Both Virgin's Velocity and Qantas Frequent Flyer programs each have in excess of 10 million members.



Figure 12.25 Qantas Frequent Flyer loyalty card

While large businesses gain the benefit of accessing 'big data' from loyalty reward schemes, many small businesses 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 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.

ACTIVITY 12.12

Conduct research with your class members and family to determine the following:

1. How many students in your class have customer loyalty cards?
2. How many members of your family have customer loyalty cards?
3. Which shops/business are they for?
4. **Describe** the benefits/rewards gained from having these cards.

REVIEW ACTIVITY 12.3

Part 1: Digital quiz
Please see the Interactive Textbook to access a digital activity.

Part 2: Short-answer questions
Answer these questions on paper or in the Interactive Textbook.

1. **Identify** the various criteria that can be used to judge the quality of customer service being provided by a business.
2. Businesses need to 'acquire, retain and grow' relationships with its target customers and market. **Identify** strategies that a business could put in place to develop this ongoing relationship with their customers.
3. **Explain** how establishing and retaining customer loyalty can provide value to a business.
4. **Explain** the concept of customer relationship marketing.
5. **Explain** the importance and value to a business of 'word of mouth' recommendations by customers.

12.4 Technological developments in marketing

Learning intentions – at the end of this chapter section I will be able to:	
	12.4.1 Define, identify, describe, explain and apply business management concepts and terms
	12.4.2 Discuss business management information
	12.4.3 Describe and analyse contemporary examples of business management

Developments in technology have had a massive impact on marketing and it is important that businesses, regardless of their size, look to see how these developments can aid their business success. Technology has transformed marketing by helping businesses to create more targeted and personalised marketing strategies and campaigns.

Social media

Social media are forms of electronic communication through which users create online communities to share information, ideas, personal messages and other content, such as videos. Social media, when used for marketing purposes, means using content that is tailored to a specific social platform to get a message across to its users. Marketers may want to use social media to increase sales, raise awareness of a brand or product, improve a brand's image, or improve customer engagement.

social media forms of electronic communication through which users create online communities to share information, ideas, personal messages and other content

While there are many social media platforms, the most popular ones currently are outlined in Table 12.16.

Table 12.16 Most popular social media platforms

Platform	Description
Facebook	Offers a multitude of advertising and marketing options as it allows for creation of groups, business pages, placing advertisements, or case studies. Able to create a business page containing business name, business category and accurate contact information. Provides good selection of content mix; e.g. videos, images, text posts. Can provide comprehensive analytical data allowing a business to easily evaluate the performance of their marketing strategies.
Instagram	Relies on visual content. A picture can be uploaded and enhanced using a selection of built-in filters. Allows for short video clippings to go live. Allows collaboration or co-promotion with influencers having the same target market.
YouTube	Google-owned video-only platform that can be used for demonstrations, tutorials, promotions and video blogs. Able to be cross-promoted from website of business, emails and newsletters.

(continued)

(continued)

social capital refers to the resources available to people and entities because of their networks. The assets we possess due to the social relations we develop and maintain, and the shared values which arise from those networks, make up social capital.

LinkedIn	A social network for professionals. Can be used to drive traffic to website of business, its blog posts and advertising campaigns.
Twitter	Perceived as a news channel; however, it allows a business to contact its customers. Social listening tools, such as Sprout Social, can be used to track brand mentions. Able to build **social capital** of the business by retweeting popular and relevant tweets. Locate relevant hashtags to improve content visibility for the business. Able to create Twitter-exclusive deals for followers.
Snapchat	Targets teenage demographic who share videos and pictures.
TikTok	Tends to appeal to younger users; 41% of its users are between the ages of 16 and 24.

Social media marketing has now become a must-have marketing technique for businesses. It provides brand visibility, voice and engagement, and is cheaper than traditional marketing methods. Businesses need to decide which social platforms best suit their businesses and target audience.

CASE STUDY
12.4

LEGO: using social media as one of its key marketing strategies



This case study is available in the Interactive Textbook.

Email marketing

Email marketing is both a form of direct marketing and digital marketing as it uses email to promote the products and services of a business. It can be an important marketing channel as a business can use it to build relationships or keep customers engaged by making them aware of its latest products or offers. Email marketing can also act to direct customers to social media or a blog.

It is important that when a business is developing their email marketing list they are aware of a few guidelines, such as:

- Creating your own email lists. This can be done by asking customers when they purchase a product if they would like to sign up to your email list. It is important to confirm for customers that the personal information contained on the list will be confidential and subject to security measures. Being on the emailing list could entitle the customer to discount offers.
- Ensuring you are aware of and compliant with any legal requirements such as privacy.
- Not flooding your customers' inbox with superfluous emails. Send emails that are relevant and engaging, which will help to establish their loyalty to your business

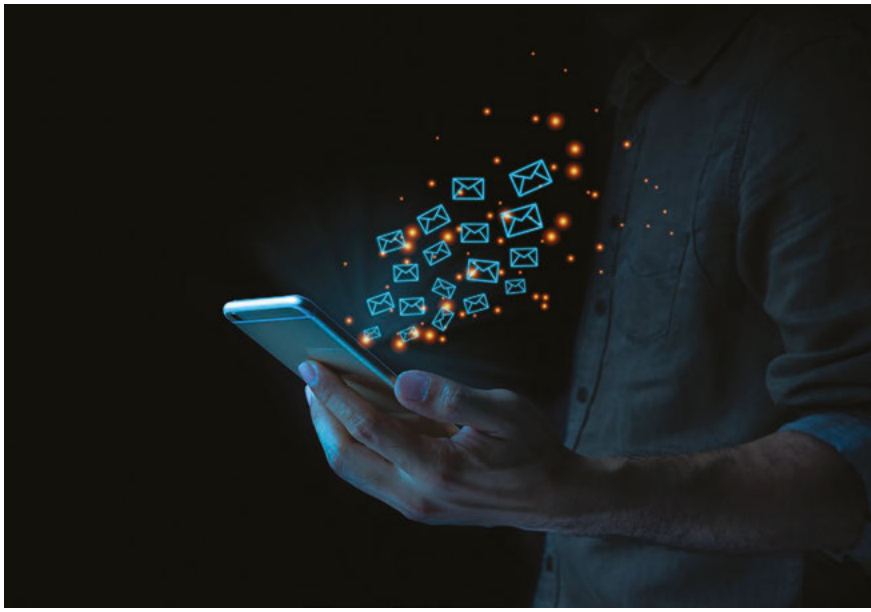


Figure 12.26 Email marketing can reach customers directly.

ACTIVITY 12.13

1 How many times have you been asked, 'Would you like to be included in our email list?' What is your answer? If no, why not? If yes, **describe** what benefits you believe you will receive by being on that list.

2 **Discuss** with your classmates and family if they have ever asked to be removed from an email list. If so, why?

Search engine optimisation

Search engine optimisation (SEO) is a set of practices designed to improve both the appearance and positioning of webpages resulting from organic searches (that is, unpaid search results). The search engine results page (SERP) shows unpaid listings determined as being most relevant to the enquiry made by the user.

Search engines such as Google and Bing use **crawlers**, also called bots or spiders, to gather information about all the content they can find on the internet. The crawler starts from a known web page, following internal links to pages within that website. It also follows external links to pages from other websites. The content on those pages, plus the context of the links it has followed, helps the crawler to understand what each page is about and how it relates to other pages within the search engine's database, called an index.

Following a user typing or speaking a query into a search box, the search engine then uses complex algorithms to find and pull out from the index the most accurate and useful results for the initial query. What is found could be: web pages, news articles, images, videos, or business names. A lot of factors go into the search engines' algorithms, and those factors are evolving all the time to keep up with changing user behaviour and advances in machine learning. If a business wants to earn and maintain high SERP rankings leading to lots of high-quality user traffic, it needs to employ marketing strategies that recognise consumers' priorities and changing consumer trends and behaviour.

search engine a program that searches for and identifies items in a database that corresponds to key words or characters specified by the user, specifically for finding particular sites on the World Wide Web (www)

search engine optimisation (SEO) the process of maximising the number of visitors to a particular website by ensuring that the site appears high on the list of results returned by a search engine

crawler an internet bot that systemically browses the World Wide Web operated by search engines for the purpose of indexing

Artificial intelligence

artificial intelligence (AI) combines computer science using an expert system with access to robust databases to assist with problem solving

data analytics a process where raw unstructured data is examined to make predictions, find trends, answer questions and draw conclusions

Artificial intelligence (AI) enables problem-solving through combining computer science using expert systems with access to robust databases. The role of artificial intelligence in digital marketing means that it is easier to forecast consumer behaviour and decisions.

Marketers using these AI platforms can acquire a more sophisticated and comprehensive knowledge of their target market, which assists them to determine which strategies they need to implement to enhance the level of customer satisfaction and ultimately sales revenue. Artificial intelligence can help in tailoring emails and sales communications to the correct target market based on their behaviour and preferences. It is also a useful tool to analyse customer data, determine best contact times and creating the best content and subject lines that get the most clicks on the website. Potential customers can be helped to find what they are looking for with their web search with the inclusion of chatbots to help convert the query into a purchasing decision. Social media platforms use AI extensively to promote material based on the users' searches and viewing habits.

Data analytics

Data analytics is the process where raw unstructured data is examined to make predictions, find trends, answer questions and draw conclusions. Specialised software, such as a Customer Relationship Management (CRM) system, is often used to gain insight into a customer's purchasing history. Using this historical marketing data (big data) provides useful insights and information on which marketers can plan their strategies to personalise and engage their customers in their message and the different offers they will make to them. Customers are one of the most valuable assets for a company as they are the ones that turn a company into a brand. If the company fails to meet the expectations of its customers, it could well lead to a decline in that business.



Figure 12.27 Data analytics are a powerful marketing tool.

Data analytics also extends to examining how customers interact with all facets of a business, including its brands, website, products and services. Common sources for data collection are websites, CRM systems, call centres, marketing automation systems and billing systems referred to as touch points. The data is collected with the goal of obtaining a full picture of a customer and insight into what would be the best way to attract that customer. The ability to target the right market at the right time is one of the most valuable marketing skills.

Using predictive analytics tools, it is possible to identify which marketing channels (e.g. social media, email marketing and advertising) will provide the best results for customer engagement and response rates.

Big data can assist with email marketing as it provides information to help judge which email subject lines can attract customers, the correct timing of a campaign, and content that should be personalised to gain more clicks and conversations.

Information about influencers and the community in which they operate can be gained using big data. Discovering and managing influencers and being able to develop relationships with the group can become a strong marketing tool, especially how their recommendations link to the brand of the business.

CASE STUDY
12.5

How Amazon uses big data for monitoring its customers



Amazon is regarded as being one of the leading e-commerce platforms. It offers online shopping as well as services such as Amazon Pay, Amazon Pantry and Amazon Web Services (AWS). Therefore, the amount of data it collects on a regular basis is enormous. Amazon uses predictive analytics for targeted marketing, which helps them increase customer satisfaction and gain increased loyalty to their brand. They use a variety of approaches to gain this data.

- Alexa voice recognition offers virtual assistants such as Echo and Echo Show, which include a camera and speakers. The audio recordings are uploaded to Amazon's servers and stored in the cloud. If privacy is a concern to customers, they can arrange for the recordings to be deleted.
- Personalised Recommendation System – this system uses a comprehensive, collaborative filtering engine (CFE) that uses purchasing patterns of customers from previous purchases, items in the shopping cart or on their wish list, or products reviewed and rated by them. The information gained is then used to recommend additional products that other customers purchased when buying the same items. This approach is working on the power of suggestion to encourage impulse purchases and has proven to be successful generating 35% of its annual sales.
- One-Click Ordering is a patented feature of Amazon. Once the order is placed, a shipping address is provided, and payment made, the customer has 30 minutes to decide on whether to change their purchase; otherwise, it is automatically charged and processed.

Following collection of this information about consumers, Amazon uses those insights as follows:

- To provide increased efficiency in their supply chain to ensure orders are quickly despatched and tracked. Amazon has a spread of warehouses worldwide and they choose the closest one to the customer to reduce shipping costs.
- Managing the pricing of their products to attract more customers. Prices are set based on activity on the website, competitors' pricing, product availability and desired profit margins. Analysis of big data will allow for prices to be altered frequently and discounts to be offered.
- To screen purchases and returns to see if there are any fraudulent patterns emerging.
- To encourage customers to place larger orders through product recommendations and related items.

Source: Adapted from Ritesh Pathak, 'How Amazon uses Big Data?', analyticSteps.com blogs, 4 November 2020.

CASE STUDY ANALYSIS

1 **Describe** the approaches adopted by Amazon using predictive analysis for target marketing.
2 **Describe** how Amazon then uses the information to manage its supply chain and pricing of products.



Figure 12.28 Data needs to be managed correctly in order for it to be beneficial to the organisation.

Management of data

Data is obtained from a vast array of sources and can be defined as either structured or unstructured. Structured data is highly organised information that has already been indexed, uploaded into databases and used by search operations or algorithms. This data can be gathered from point-of-sale transactions, e-commerce or online purchases, and behavioural transactions such as clickstream data. Unstructured data is generally people-generated, often language-based and reveals more about people's opinions, emotions and relationships between the customer and the product. This data is often sourced from information contained in emails, audio and video files, blogs and postings on Twitter, Facebook, Instagram and other social media platforms.

The data, both structured and unstructured, then needs to be transformed and managed to become actionable knowledge for marketers to use. There are two common techniques used: data mining and text mining.

- Data mining reviews large amounts of data searching for consistent patterns or relationships. One technique is to try to establish a pattern through the process of association. For example, people will often purchase bread and milk together as they are staple pantry items. Another is by classifying or defining attributes of a customer based on age, income and where they live. How often have you been asked your postcode when making a purchase?
- Text mining is often limited to numerical data and uses technology to analyse numerous documents, locating key concepts, phrases, or word usages. It is used to identify and classify key elements using predefined categories, such as people's names, locations or companies. It can also be used to identify and categorise opinions contained in a text to determine the writer's reaction to a topic.

The ongoing management of data by a company is important if it is to be used by marketers in their quest to increase the market share of a business. To become useful information on which to base marketing decisions, data must be timely and accurate.

REVIEW ACTIVITY 12.4

Part 1: Digital quiz
Please see the Interactive Textbook to access a digital activity.

Part 2: Short-answer questions
Answer these questions on paper or in the Interactive Textbook.

1 Data can be classified as 'unstructured' or 'structured'. **Define** each of these terms.
2 a Provide examples of how unstructured data is sourced.
  b Provide examples of how structured data is sourced.
3 **Identify** how technology has assisted business to transform their approaches to marketing.
4 **Explain** how the website of a business can appear high on the list of websites when undertaking a web search for a product or search.
5 **Explain** why email marketing is regarded as an important marketing channel for a business.

Chapter 12 review

Summary

Create your own summary notes for this chapter on paper or in a digital document. A model summary is provided in the Area of Study review chapter for Unit 2 Area of Study 2, which can be used to compare with yours.

Developing clear definitions

By writing a brief explanation of each of the following terms, you will gradually build up a glossary of comprehensive terms for revision. Define these terms in your exercise book.

7Ps of marketing	Product	Product mix
Brand leader	Price	Skimming pricing
Penetration pricing	Psychological pricing	Place
Direct distribution channel	Indirect distribution channel	Promotion
Advertising	Sales promotion	Publicity
Product life cycle	Brand loyalty	Market saturation
Consumer profile	Customer relationship marketing	Product development
Product placement	Generic brand	Social media
Data analytics	Search engine optimisation	Artificial intelligence

Extension questions

1 Select one product that would be classified as a staple convenience good (i.e. purchased frequently and without much effort), such as toothpaste, a bottle of water, or a snack bar.

2 Select one product you have purchased recently that would be classified as a shopping good (i.e. a comparison is made between goods based on certain criteria), such as furniture for your bedroom, household appliances, or sporting or musical equipment.

3 **Analyse** the purchase of both the above products, based on which of the following factors were important to you when making the purchasing decision.

- Product – where did it fit in the product life cycle?
- Packaging – was it attractive and appealing to the eye? How much information did it contain about the product?
- 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?

- Promotion – what techniques were used to attract you to the product?
- People – were the salespeople good at their job and did they convince you to buy the product?
- Physical evidence – will you receive a keepsake from buying this product?
- Process – was the purchasing and after-sales service good?

4 **Explain** whether, after analysing the above factors in Question 3, you considered any green (environmental) factors that impacted on your purchasing decision.

5 When marketing a start-up business, it is recommended that you 'focus on the point of differentiation of that new business and its products from those of its competitor and its products'. **Analyse** whether you believe that this recommendation of focusing on a clear and simple message will catch the attention of the target market for the new business.

Checklist

The success criteria are linked to the learning intentions from each section of this chapter, and have been written based on the key knowledge and skills of the VCE Business Management Study Design. Completing the linked questions per success criteria will thoroughly prepare you for success in this subject. Fill in, print, or photocopy this checklist and tick the boxes when you have answered the corresponding questions correctly.

Success criteria – I am now able to:		Linked questions	Completed (Y/N)
12.1 The 7Ps of marketing	**12.1.1** Identify, define and describe the 7Ps of marketing	Activity 12.1 Activity 12.4 Activity 12.10 Review activity 12.1: Part 1 & Part 2 Extension: Q3	Yes ☐ No ☐
	12.1.2 Discuss and apply business management knowledge to practical or simulated situations	Activity 12.5 Activity 12.6 Activity 12.11 Review activity 12.1: Part 1 & Part 2 (Q4)	Yes ☐ No ☐
	12.1.3 Analyse case studies and contemporary examples	Activity 12.3 Activity 12.7 Activity 12.8 Activity 12.9 Case study 12.1 Case study 12.2	Yes ☐ No ☐
12.2 Product life cycle	**12.2.1** Identify stages of product life cycle	Review activity 12.2: Part 1 & Part 2 (Q1–2)	Yes ☐ No ☐
	12.2.2 Describe marketing strategies relevant to product life cycle	Review activity 12.2: Part 1 & Part 2 (Q3–5)	Yes ☐ No ☐

Success criteria – I am now able to:		Linked questions	Completed (Y/N)
12.3 Features and value of customer relations strategies	**12.3.1** Define and describe terms and concepts	Case study 12.3: Q1	Yes ☐ No ☐
	12.3.2 Propose marketing strategies	Case study 12.3: Q2–3	Yes ☐ No ☐
	12.3.3 Apply business management knowledge to practical or simulated business	Activity 12.12 Case study 12.3: Q3 Extension: Q1–3	Yes ☐ No ☐
	12.3.4 Interpret business information	Review activity 12.3: Part 1 & Part 2	Yes ☐ No ☐
	12.3.5 Explain and apply business management concepts	Review activity 12.3: Part 1 & Part 2	Yes ☐ No ☐
12.4 Technological developments in marketing	**12.4.1** Define, identify, describe, explain and apply business management concepts and terms	Review activity 12.4: Part 1 & Part 2 (Q1)	Yes ☐ No ☐
	12.4.2 Discuss business management information	Case study 12.4 Case study 12.5 Review activity 12.4: Part 1 & Part 2	Yes ☐ No ☐
	12.4.3 Describe and analyse contemporary examples of business management	Case study 12.4 Case study 12.5 Extension	Yes ☐ No ☐

Digital activities

- Access the Interactive Textbook via Cambridge GO to complete a Scorcher timed competitive quiz for this chapter.
- From their Cambridge GO account, your teacher can also assign practice VCAA-style assessment questions with model responses.

CHAPTER 13
Public relations and corporate social responsibility management considerations

'If I only had two dollars left, I would spend one dollar on PR.'

(Bill Gates (1955–)

About the author:
Bill Gates is an American business magnate, software developer, investor, author and philanthropist. He is a co-founder of Microsoft.





KICKSTARTER ACTIVITY

Explain what the quote implies about public relations.

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 their most valuable assets: their business reputation. While unfavourable judgments 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. 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 crisis management strategies are in place to protect the business's reputation. There are significant implications if a business fails to do so. Businesses must consider how they manage their corporate social responsibility when establishing their customer base, specifically in areas such as green marketing and protection of customer privacy.

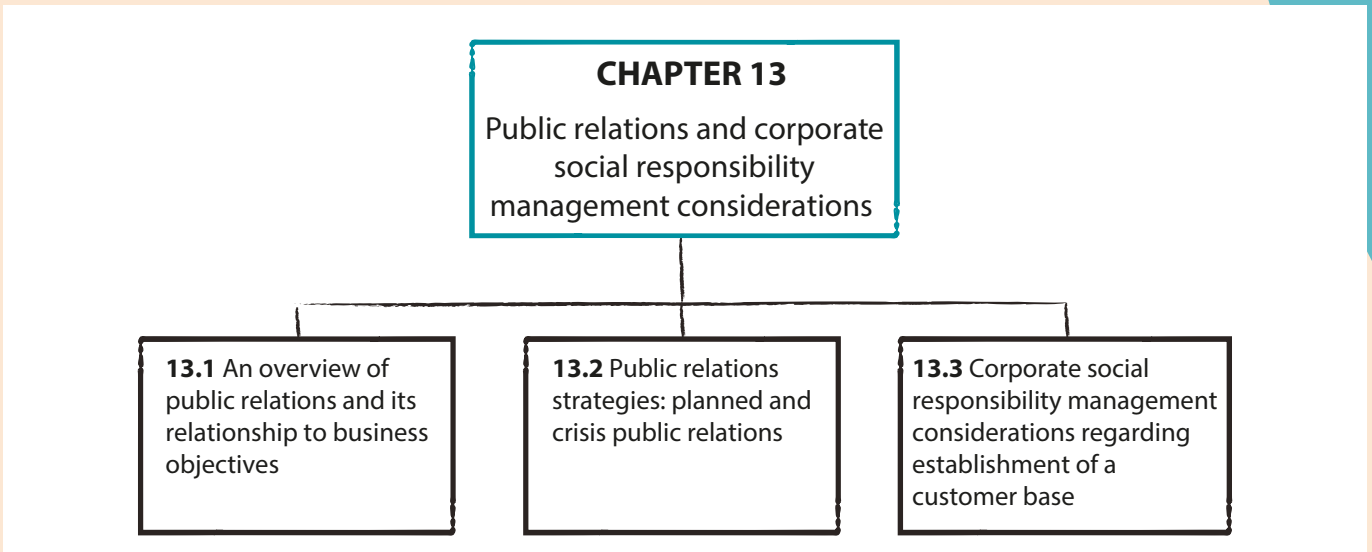
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Key knowledge and learning intentions

Key knowledge	Learning intentions – at the end of this chapter I will be able to:
An overview of public relations and its relationship to business objectives	**13.1 An overview of public relations and its relationship to business objectives** 13.1.1 Provide 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	**13.2 Public relations strategies: planned and crisis public relations** 13.2.1 Explain public relations strategies such as planned and crisis public relations 13.2.2 Describe the importance of maintaining a positive relationship with the customer base 13.2.3 Examine the implications if the PR relationship is not maintained
Corporate social responsibility management considerations regarding establishment of a customer base, such as green marketing and the protection of customer privacy	**13.3 Corporate social responsibility management considerations regarding establishment of a customer base** 13.3.1 Identify CSR management considerations regarding establishment of a customer base

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What's ahead



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13.1 An overview of public relations and its relationship to business objectives

Learning intentions – at the end of this chapter section I will be able to:	**13.1.1** Provide an overview of public relations and its relationship to business objectives

public relations the practice of promoting goodwill among the public to present a favourable image, PR is primarily concerned with the image which the business portrays to the public

The role of **public relations** is vital – businesses that develop effective networks and public relations 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 various media avenues. Some businesses also engage in charitable activities to convey a positive image. A large proportion of media stories develop from public relations leads, so businesses need to tap into this resource to enhance their profile, which can flow into increased sales and market share.

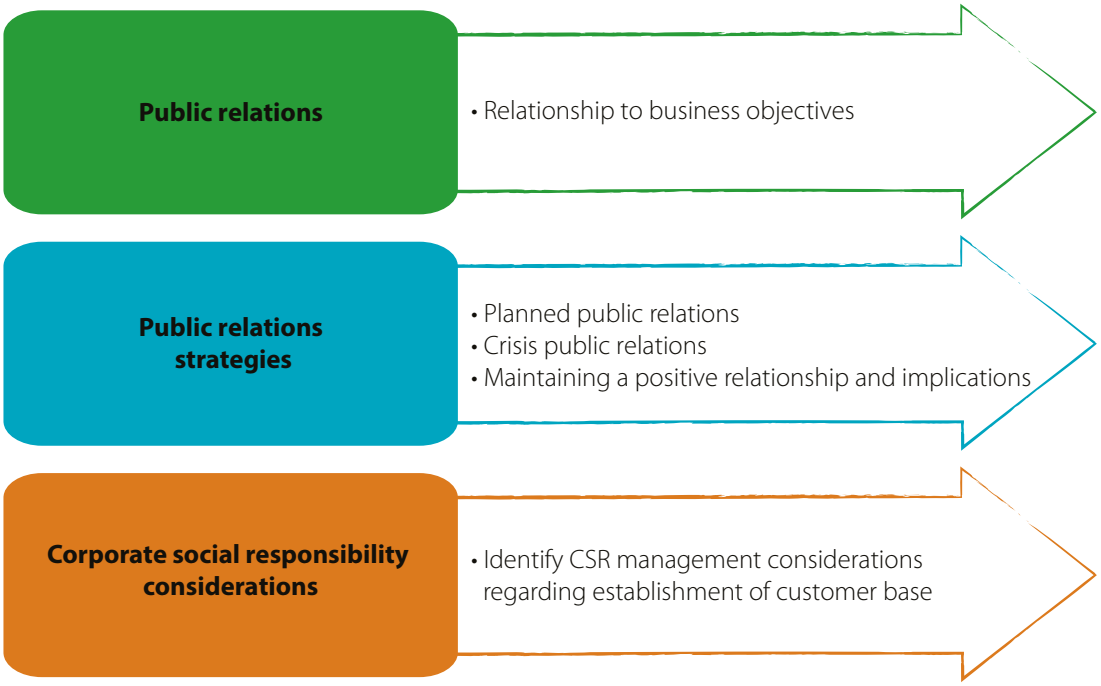


Figure 13.1 Public relations and its role in business

public the 'public' is the group/s that the business wants to attract and connect with. The public may include employees, customers of the business and suppliers.

There are several definitions of **public** relations including the following:

- 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 business 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.



Figure 13.2 It is important for businesses to understand the purpose of public relations.

The goals of public relations usually include:

- developing relationships with the community
- providing information to the public
- managing issues and crises
- gaining free publicity
- promoting the business.

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, and to develop a positive image of the business in general.

planned public relations strategies which are established ahead of time, setting out a series of steps to be undertaken and the methods that will be used

Well-planned public relations campaigns can contribute to the achievement of business objectives through:

- increasing the customer base
- increasing demand for products or services
- gaining a competitive edge
- enhancing credibility
- creating goodwill within the community.

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 or managers will usually have a strong public relations strategy.

Public relations aims to present positive information and to reduce negative perceptions by using a range of strategies. These strategies ensure that the messages and images which the business wishes to present to the public are implemented in line with its wide-ranging business goals.

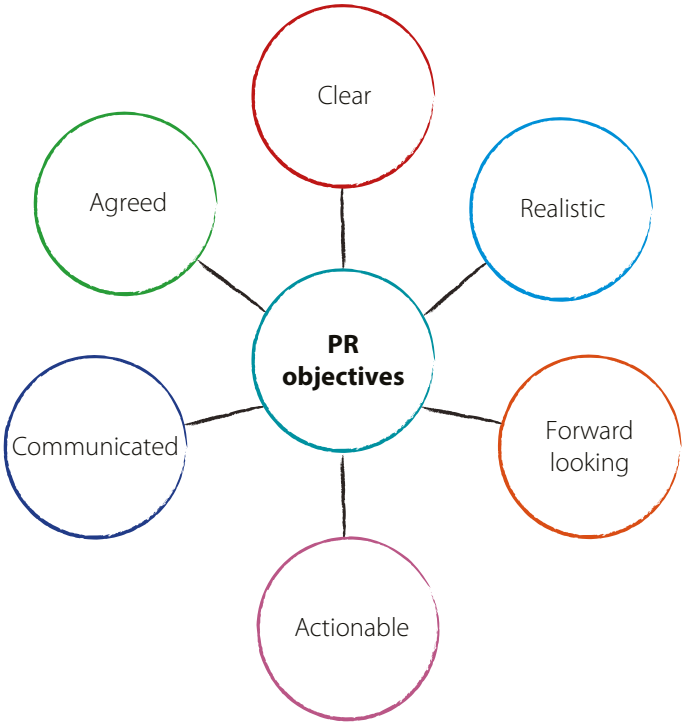


Figure 13.3 There are a range of requirements for developing practical public relations objectives in order to achieve business objectives.

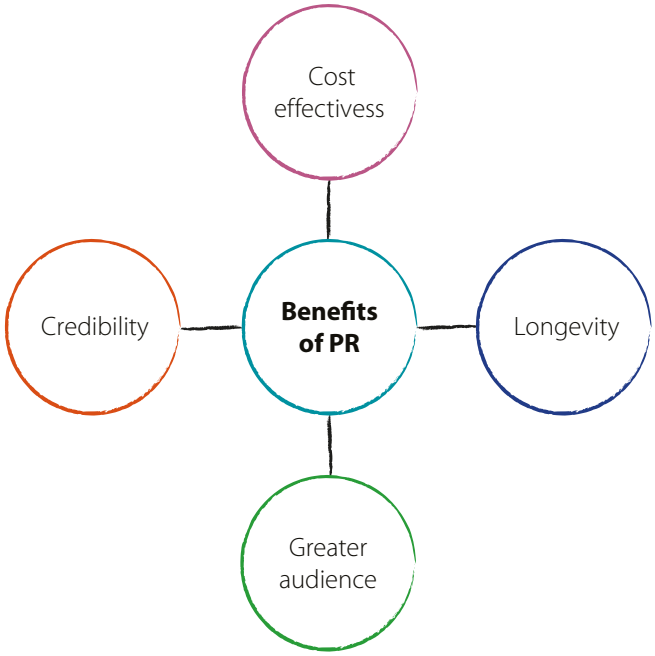


Figure 13.4 There are benefits associated with public relations.

When a business sets its public relations objectives, they should ensure that they are developed as shown in Figure 13.3.

It is also crucial that businesses, regardless of size, have policies and strategies in place to maintain positive relationships with their customers. The 'public' of one business is 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.

The public can be internal or external stakeholders:

- the internal public may include employees, shareholders and management
- the external public might include the local community, suppliers, competitors, customers 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, considering the business objectives and goals.

Businesses must ensure that they have developed and implemented public relations strategies to support them through a planned or unplanned crisis situation. Ideally, a business should never 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. Some of the benefits of public relations are set out in Figure 13.4.

ACTIVITY 13.1

1 **List** the 'public' for each of the following businesses:
   - a a coffee shop
   - b Melbourne Storm
   - c a local secondary school
   - d a hospital.

CASE STUDY
13.1

Public relations and business objectives: types of public relations



Public relations complements an organisation's marketing efforts and is an effective way to build on marketing strategies to create a stronger brand reputation. Having an effective public relations strategy is critical for all businesses.

There are several types of public relations every business needs to maintain:

Media relations

This refers to the relationships that a business builds with journalists and other media professionals in order to spread important information regarding their policies, plans and practices to the target audience. It includes giving media conferences and writing **press/media releases** to generate positive coverage of the business's products and services. An effective media relations strategy can help the company reach its desired target audience.

Investor relations

Investor relations is all about the communication between a company's corporate management and its investors, including government authorities, shareholders and the financial community. The main focus of investor relations is on ensuring that a company's investors get an accurate account of financial affairs through proper disclosure of key facts.

Investor relations practices are also required to be integrated with a company's legal and accounting departments and are subjected to more regulatory, financial and legal requirements by governments than general public relations.

Government relations

A branch of public relations that specifically focuses on how a business communicates with the various branches of government. It deals with communications regarding regulatory and legislative issues and engaging with policymakers for lobbying efforts.

Community relations

For any business, building positive local community relationships is important. Community relations is the part of public relations that deals with establishing and maintaining mutually beneficial relationships between a business and the communities in which it operates. When businesses take an active interest in their communities and are eager to accept their civic responsibilities, they appear more socially conscious and credible.

Customer relations

Customer relations refers to how a business manages its interactions with its existing customer base and also its past and potential customers. The focus of customer relations is on improving the customer experience, and it includes providing answers to short-term issues and creating long-term solutions for major roadblocks. As part of a wider public relations strategy, a great customer relations strategy can help boost customer acquisition, satisfaction and loyalty.

press/media release a statement used by a business to inform the media of a new product release, or a major announcement or change. Public relations officers will release a statement to encourage the media to write about the business or its product favourably.

Marketing communications

Marketing communications is a set of methods and tools deployed by a company to communicate either directly or indirectly to the customers. It includes public relations activities, advertising, branding, packaging, direct marketing, sales presentations, online promotions, and more. Marketing communications focuses on positioning and building a brand to create and sustain demand for the company's products.

Source: Adapted from 'The 7 types of public relations', OnePitch.co website, 25 February 2021.

CASE STUDY ANALYSIS

1. **Explain** why it is important for businesses to develop public relations processes that cover a number of different areas of the business.
2. **Explain** why it is important for a business to monitor and maintain its reputation across all areas and groups.
3. **Describe** how public relations links to the objectives of a business.

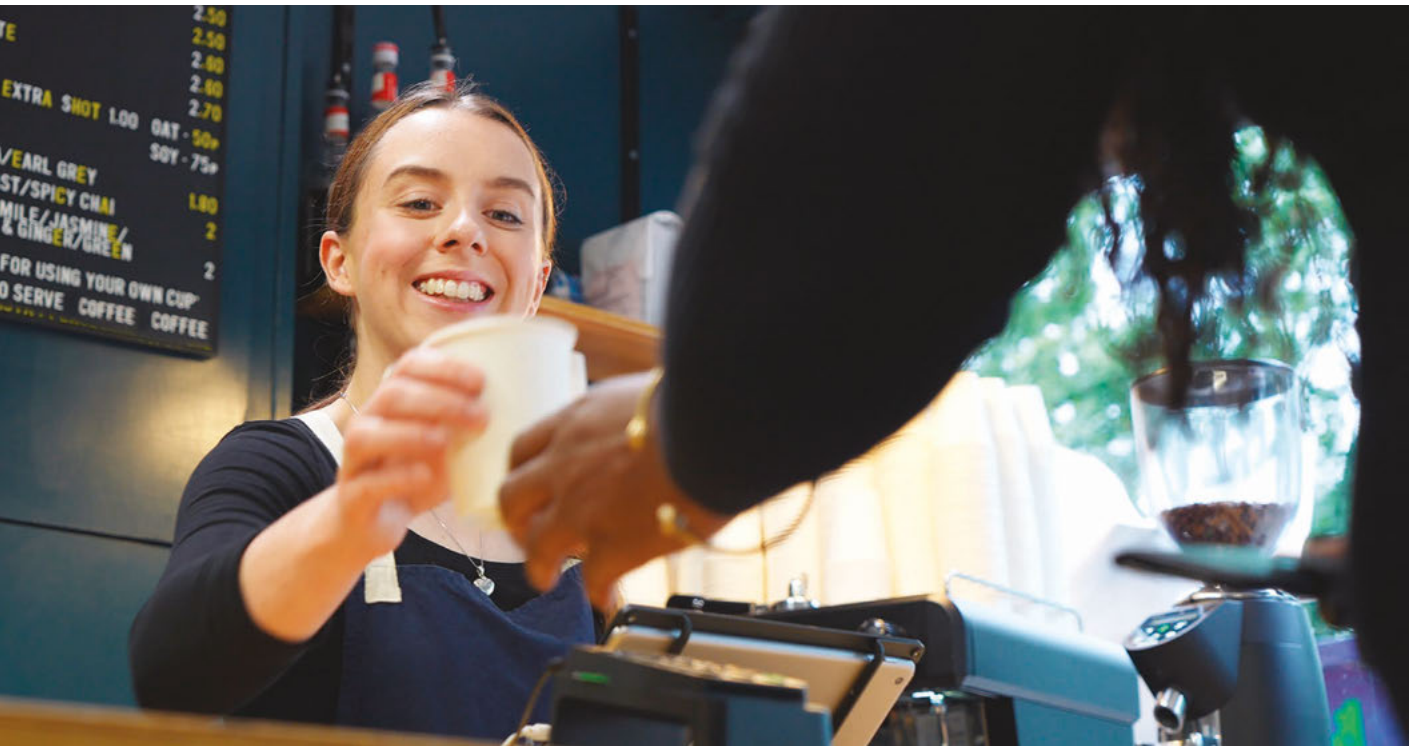
REVIEW ACTIVITY 13.1

Part 1: Digital quiz
Please see the Interactive Textbook to access a digital activity.

Part 2: Short-answer questions
Answer these questions on paper or in the Interactive Textbook.

1. **Define** the concept of public relations.
2. **Explain** the relationship between public relations and business objectives.
3. **Describe** why a business has to determine who its 'public' is.
4. There are a number of different types of public relations. **Distinguish** between two of these.

Figure 13.5 It is crucial that all businesses have policies in place to maintain positive customer relationships.



13.2 Public relations strategies: planned and crisis public relations

Learning intentions – at the end of this chapter section I will be able to:	**13.2.1** Explain public relations strategies such as planned and crisis public relations
	13.2.2 Describe the importance of maintaining a positive relationship with the customer base
	13.2.3 Examine the implications if the PR relationship is not maintained

Planned public relations

Taking advantage of planned public relations situations means that a business can make the most of opportunities over which it has control. In this way, it can ensure that publicity is positive and increases its exposure with the public. There are many ways that 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 others or change public opinion. For public relations to be effective, it is necessary to match the strategies and techniques to the situation and 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 marketing activities in a number of ways and it is important to ensure that the business considers the following:

- public relations has to lead a product launch of a new product or service
- the message is important
- public relations-led activities need to encompass a range of audiences or stakeholders
- 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 managers may need to attend media events and launches
- public relations needs to be ongoing and the business must work on continually building relationships with the media.

There are a number of methods or strategies that a business can use for planned public relations activities. Some of these are outlined on the following page.



Figure 13.6 Publicity is often more effective than advertising. Richard Branson successfully uses publicity in all of his businesses.



Figure 13.7 There are a number of methods or strategies a business can use for planned public relations, and presenting the desired image to the world is very important.

Free publicity

This could include issuing communications to inform 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.

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, a local gym may open to allow people to tour the facilities. Many retirement villages open their village so that prospective residents can see what the village offers. A factory may open its site to allay any fears about its impact on the environment.

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 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 in turn provides free publicity about the business, in addition to getting its specific message out. Social media is becoming increasingly important for all businesses as a quick and effective way to contact customers and the public in general.

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.

Social media platforms

Most businesses are now using social media as a means to communicate about the business. There are a number of benefits, including instant and timely release of information and that it's relatively inexpensive to send information. If a business has expertise in this area it can, regardless of its size, reach many people quickly and ensure that there is favourable information being released about the business and its brand.

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 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 or to inform customers and potential customers about the business. In this approach, 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.

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:

- sporting events, such as the Australian Tennis Open or the AFL Grand Final, or a local sporting club
- the arts, such as Opera Australia or the Australian Ballet
- charities, such as The Smith Family for their partnership with Officeworks' Back to School Appeal.

New technologies open up new communication channels – this means that businesses are in a changing environment when it comes to public relations. Some of the key trends in public relations are set out in Figure 13.8.

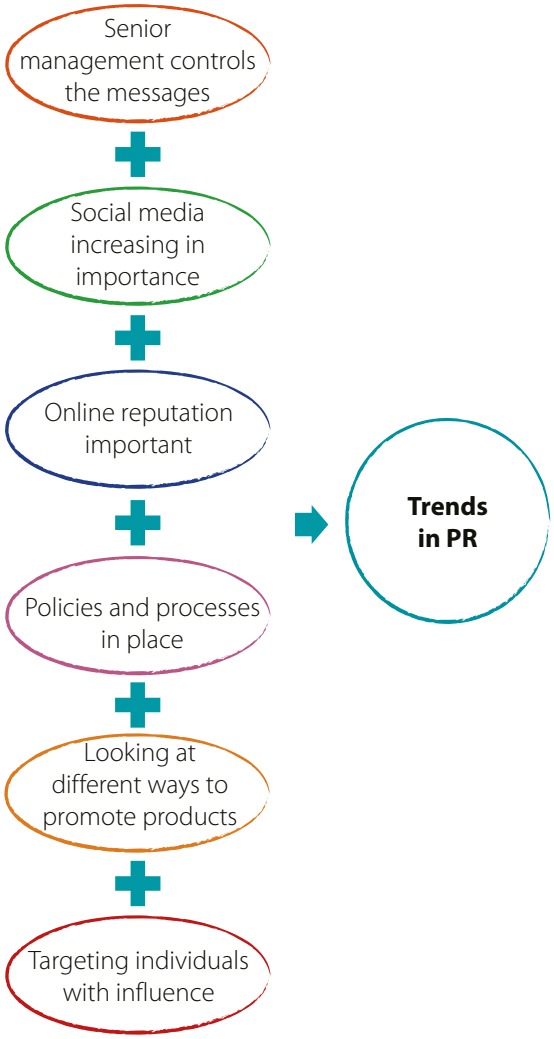


Figure 13.8 There are a number of trends in public relations.

ACTIVITY 13.2

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.

CASE STUDY
13.2

Examples of planned PR campaigns



This case study is available in the Interactive Textbook.

Crisis management in public relations

While public relations techniques 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 an unfavourable set of circumstances or a difficult situation that places immediate public attention on a business. Crises are often caused by issues such as accidents, equipment failure, or product recalls. Crises are particularly prone to media scrutiny as they generally have a strong human element to them. It is important for a business to act swiftly and to make careful plans regarding what information is revealed to the public and how, in a process that is often called crisis management.

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 poor service or quality (which can spread quickly via social media) can all have a serious negative impact on a business.

A crisis is never good for a business. The risks to public safety, financial losses and reputational damage can see businesses completely destroyed, and in some cases have legal proceedings brought against them. Effective crisis management is essential to minimise the impacts of a crisis on a business, its customers and the wider public. When dealing with a crisis, the business has the options to:

- prevent the crisis from happening in the first place
- resolve the crisis and address any issues before it escalates
- see the crisis as an ultimately positive experience and seek new opportunities.

An effective crisis management plan considers these three options and has steps to guide the business through each. Preventing a crisis is 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.

crisis public relations when a crisis or major issue has arisen that the business has to respond to and manage their brand

If **crisis public relations** fail it is important that the business does everything in its power to minimise the impact of the crisis. Keeping employees informed is also essential – this will reduce stress and allow them to better handle any extra pressure.

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 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.

The crisis management plan should contain the elements set out in Table 13.1.

Table 13.1 Crisis plan elements

Elements	Explanation
Key contacts	Outline individuals' responsibilities, include relevant forms and identify a team representing different sections of the business; for example, finance and human resources
'Face' of the business	This should be in place for the duration of the crisis to ensure consistency in the public messaging
Detailed plan	This should be detailed enough to act as a reference or a guide and enable the business to respond in a timely manner
Strategies determined	There should be a list of strategies that can be implemented for example, an apology, compensation to victims if relevant, reminder of previous good works and praise to those who assisted during the crisis

Not all businesses deal effectively with public relations crises. The way in which Volkswagen handled its issue of engine emission manipulations in 2015 not only evoked fears that the crisis might have an impact on the German economy (i.e. a huge financial impact), but also caused long-term brand damage as the company lost the trust of its customers. Volkswagen had promoted its cars in the United States on the basis of low emissions, but the US Environmental Protection Agency discovered that many of the cars had software allowing them to detect testing and adjust the recordings to get better readings. This breach of consumer trust through false advertising damaged Volkswagen's reputation worldwide.

CASE STUDY
13.3

Crisis in public relations: examples



Sharetea Australia

A national bubble tea chain, 22 of its franchisees and the Taiwanese company that owns it are in the sights of two federal watchdogs, with the most serious complaints alleging that it sourced supplies contaminated with flies and small insects.

The Fair Work Ombudsman, which is the national underpayment watchdog, stated it was investigating Sharetea Australia and urged anyone with pay issues to come forward.

Small Business and Family Enterprise Ombudsman Bruce Billson confirmed that his office had received complaints from 22



Figure 13.9 A Sharetea franchise shop

franchisees about ingredient costs, supplies, leasing arrangements and marketing funds.

One local franchisee, who asked to remain anonymous for fear of reprisal from Sharetea Australia headquarters, said she felt abandoned after opening her store four years ago, and that problems had become worse since a change in suppliers.

'I'm looking for justice. I feel so hopeless,' the franchisee said.

'We worry to death what the new ingredients are. We don't know what we're selling. It's so bad I don't even want to drink. How can I give it to customers?'

On top of its problems with staff and franchisees, Sharetea Australia is also in a legal dispute with the Taiwanese company that holds the international rights to the brand, Lian Fa International Dining Business Co. It claims Sharetea Australia has been unlawfully using its trademarks and recipes after Lian Fa terminated an agreement between the two companies. In contrast to Sharetea's claims that only a 'minute' number of franchisees had problems, Mr Billson said 22 local franchisees had raised concerns about several issues with the company, which the independent government agency was examining.

'These franchisees have cited a range of concerns including in respect of ingredient costs and supply, lease arrangements and the marketing fund,' Mr Billson said

He said reforms to the franchising code of conduct had been made this year that helped protect relationships between franchisees and franchisors.

Supply problems have been a focus of franchisees' complaints about the Australian head office.

The founder said the business was forced to change suppliers for two reasons: Lian Fa 'refused to supply stock' and Sharetea Australia encountered 'significant issues' with the quality and shelf life of Lian Fa's ingredients.

A local franchisee said the first sign that something was wrong was when Sharetea Australia 'suddenly' switched ingredients in May this year, and contaminants began appearing in some supplies.

An internal, unofficial survey completed by 25 franchisees unhappy with Sharetea Australia found 96 per cent had concerns about the change of supplier from Lian Fa to another firm, with particular concerns about the syrups Sharetea had secured.

'We can assure you it is business as usual for all our stores across the country, and nothing will change day-to-day operations of our franchise partners,' Mr Mu said in his letter. 'Sharetea Australia will continue to act in the best interest of our franchisees and protect their privacy.'

Separately, the chain told franchisees not to give any information to journalists calling to seek comment and instead direct all inquiries to head office.

Source: Adapted from Jessica Yun & Nick Bonyhady, '"Topping comes with a fly as a bonus": bubble tea chain under fire over wages, ingredients', The Age, *30 November 2021.*

Other examples of poor public relations in crisis include the following.

Pepsi and Kendall Jenner ad

Pepsi launched a campaign starring Kendall Jenner, an American media personality and model. It portrayed young people walking down the street and protesting peacefully while Jenner is filming a photo shoot nearby.

Jenner was then shown as having sort of an 'enlightenment' moment. Then, she stopped the photoshoot and joined the protestors. Smiling, she walks through the crowd directly towards police officers. She grabs a can of Pepsi, and hands it to one of the officers as the protestors cheer happily.

The ad came shortly after some of the biggest protests against racial inequality and police brutality in the USA. The protests were an important event in American history.

Pepsi thought it would be good to give some recognition to the protests and the new movement. But their intention didn't go so well with the public. Many people saw the ad as an insensitive and rather cheap way of product promotion at the expense of much bigger social issues. Afterward, Pepsi apologised and withdrew the campaign.



Figure 13.10 Kendall Jenner's ad for Pepsi misfired.

easyJet versus unsatisfied client

In the UK, easyJet's online response to criticism was seen as a poor public relations move. A passenger flying with easyJet from England to Switzerland posted a picture of an older woman on the plane sitting on a backless seat.

The passenger tagged easyJet in his tweet so the company could see what was happening in one of their planes. As journalists immediately started replying to the tweet asking for further information on the story, easyJet noticed the tweet and had one of the worst responses possible. They asked the passenger to take the tweet down and discuss the situation privately. easyJet's response, understandably, resulted in even more online backlash.

The lesson to take from easyJet's response: your brand is nothing without your customers.

Tesla unveiling' bulletproof' Cybertruck

Tesla, an American electric vehicle manufacturer, unveiled its new truck, which they described and praised as bulletproof prior to the official launch.

To prove the truck's strength and resistance, Elon Musk and colleagues used metal balls to attempt to shatter the truck's glass during its live reveal. Unfortunately, things did not go as they expected. The glass on the vehicle shattered twice.

While the brand was not damaged, it is a reminder that a business should thoroughly test its product before unveiling it.

CASE STUDY ANALYSIS

Using the information from the case studies, answer the following questions:

1. **Explain** why it is important for a business to make sure it is managing its public relations.
2. **Outline** the concerns around Sharetea and how this has impacted on the reputation of the business.
3. Why was the Pepsi ad seen as a public relations failure?
4. **Describe** the possible consequences of their actions on easyJet and Tesla.

The importance of maintaining a positive relationship with the customer base



Figure 13.11 Good customer service is crucial for businesses to maintain their customer base.

As outlined previously, a business needs to ensure that it considers public relations when looking at 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, the business may find it difficult to maintain a positive relationship with its customer base and the public, and consequently that its reputation can be irreparably damaged. Surprisingly, a number of large businesses still have issues that impact on their business. Virgin Australia, following practices in the United States, announced it would publicly honour all military personnel on their flights. One day later this was overturned. It is believed that Virgin misread the culture in Australia and chose the wrong cause to support. Essentially it attempted to import an American practice from Virgin Atlantic but did not understand that Australians would find it excessive and embarrassing.

CASE STUDY
13.4

Maintaining customer service



Businesses that can enhance and personalise the customer service experience stand to profit, according to Australian marketing company Freshworks.

Ever-growing competition in products and services means that brands must constantly find new ways to appeal to customers on every level. Precise and appropriate personalisation can sway customers, but many brands get this very wrong, according to research by Freshworks, with a recent report showing that many brands are pushing customers away with customer service that is slow and lacking in personalisation.

Proving that customer service failures send customers to competitors, Freshworks found that more than half of people surveyed stopped buying from a company as a result of its communications during the pandemic. Twenty per cent stopped dealing with a company when call wait times became too long, and a similar number went elsewhere when they could not get a response. 'Insensitive communications' also prompted 14 per cent to go elsewhere for

goods and services. According to the report, around three quarters of 18- to 34-year-olds are more likely to make a purchase after a personalised experience. The influence of personalisation drops to half for 55- to 64-year-olds, and it's even less for people over 65. However, Freshworks found only 14 per cent of Australians expect any personalisation and less than 10 per cent did not expect to be impressed by communications at all. Yet more than half (55 per cent) do expect brands to know about their values and for brand communications to take this knowledge into account. More than half (52 per cent) want companies to know more about us as individuals.

Overall, the Freshworks survey found more than half of Australians are disappointed with their customer service experiences. Most (56 per cent) even said they don't believe customer service matches brand reputation. The main complaints (35–38 per cent) were about how long it took to speak to someone, that customer queries got passed around in a loop, that responses were scripted and automated, and that responses lacked resolution. In a separate study, Qualtrics XM Institute found that top-rate customer service boosts customer loyalty, as nearly 80 per cent of its respondents said customer service influenced their relationship with a brand.

CASE STUDY ANALYSIS

1. **Describe** the main findings of the surveys.
2. Why should a business focus on excellent customer service?
3. **Propose** and **justify** two strategies a business could put into place to support positive customer experiences.

The implications if the PR relationship is not maintained

It is important for a business to consider the impact of poor public relations on the business, and steps should be taken to ensure that the business can control the messages as much as possible. A good public relations strategy, coupled with a crisis management plan, will assist a business if there is an issue. If no thought is given to how the business may be portrayed in the media after an issue, or if the business is on the defensive and reacts poorly, this will have serious consequences for the business. If the business reputation is lost, this may not be recovered.

If a business neglects public relations, it will have to manage a situation that it may not be able to control. Poor public relations strategies include poor timing and having no plan in place to ensure that publicity coincides with the release of a product or service. If a business publishes poorly worded press releases, this may make it less reputable to media outlets. It is important for a business to follow up on a media release in order to ensure that it will be published in a timely manner. If a business does not expend the necessary time and resources to complete research about its target markets and who it wants to receive its message, this may also lead to problems for the business.

A business needs to ensure that:

- it has a good strategy in place for managing public relations and media
- there is open communication with customers and other stakeholders
- it is proactive and responsive to any crisis or issue
- it maintains the relationships that it has developed.

CASE STUDY
13.5

Poor public relations: billionaire space race



A handful of billionaires spent 2021 blasting into space. But a growing public backlash against their extravagance could curb the future of space tourism.

More than three-quarters of people in the UK think wealthy individuals, such as Jeff Bezos (pictured above), Elon Musk and Richard Branson, 'should focus their resources on problems facing Earth, like climate change, before space travel', according to a new study.

An 11-minute space flight can create as much as 75 tonnes of emissions, according to a report by the Institute for Sustainable Development and International Relations. That's more than the average person creates during their entire lifetime.

Spending such vast sums of money, and burning so much carbon and other harmful emissions all in the name of tourism is callous, many argue. 'The billionaire class are out of touch with the problems facing the planet,' says Jordan Greenaway, partner at Transmission Private, a reputation management firm that conducted the study.

Popular opinion started turning against space tourism soon after both Virgin Galactic and Blue Origin launched their maiden manned flights in July. 'We've now reached stratospheric inequality. Billionaires burning into space, away from a world of pandemic, climate change and starvation … This is human folly, not human achievement,' said Deepak Xavier, Oxfam International's global head of Inequality Campaign, at the time.

Similar statements were voiced during the COP26 summit in 2021. British astronaut Tim Peak said he was disappointed to see space travel was now being treated as a luxury experience.

For space companies, such as Virgin Galactic, Blue Origin and a host of other start-ups that have launched, this could harm the future of their business.

Some space start-ups are looking to capitalise on the negative publicity attracted by these rocket companies. Space Perspective offers 'zero-emissions' trips that are 'flown gently by a space balloon instead of rockets.'

But the rocket companies are fighting back, trying to show the world that they are more 'professional,' says Greenaway. 'There needs to be a purpose to it over and above just wanting to fly up high and look at the world.'

Virgin Galactic says its rockets are reusable and the company aims to 'transform the current cost, safety and environmental impact of space-launch.'

'For some people this might be because they believe that investment in blue-skies high-end space tech will unlock innovation in other areas that could help us in new and different ways,' Greenaway said.

For others, such as the Japanese billionaire Yusaku Maezawa, it's about advancing society rather than technology. He spent 12 days on the International Space Station.

Source: Adapted from Ollie A. Williams, 'Billionaire space race turns into a publicity disaster', Forbes, *21 December 2021.*

CASE STUDY ANALYSIS

1 **Summarise** the main findings from the research about space travel.
2 Do you think the businessmen involved would have expected this type of reaction to their journeys?

REVIEW ACTIVITY 13.2

Part 1: Digital quiz
Please see the Interactive Textbook to access a digital activity.

Part 2: Short-answer questions
Answer these questions on paper or in the Interactive Textbook.

1 What is planned public relations?
2 **Explain** how public relations can be integrated into marketing activities.
3 How can developing a relationship with the community and using social media support a business in projecting a positive public image?
4 **Explain** the purpose of a crisis management plan.
5 What can happen to a business if it does not manage a public relations crisis?
6 **Explain** why it is important for a business to maintain a positive relationship with its customer base.
7 Read the case study below and answer the questions that follow.

A teenage girl walked into a clothing shop to buy a new jacket. The girl stated that when she walked in, she was followed around the shop by the saleswoman. She alleged that the woman had called her a shoplifter as she walked out the door. The girl went home and told her sister who posted the incident on her social media. Many people saw and commented on the post.

The owner of the clothing store issued an apology. However, later the store posted a further message stating that they found no evidence of the incident or comment occurring. After this, the store was bombarded with critical comments.

The store also found that its sales declined, since many potential customers had concerns about the behaviour of the staff and owner.

a **Outline** how this case study demonstrates poor customer service.
b What should the store have done instead (both at the time and after the alleged incident)?
c **Explain** why it is important for a business to maintain a positive relationship with its customers.

8 **Discuss** the importance of public relations and its link to customer relationships.
9 **Explain** why a crisis management plan is important for all businesses.
10 **Explain** the implications if public relations is not maintained.



Figure 13.12 It is important to plan for public relations.

13.3 Corporate social responsibility management considerations regarding establishment of a customer base

Learning intentions – at the end of this chapter section I will be able to:	**13.3.1** Identify CSR management considerations regarding establishment of a customer base

The management of corporate social responsibility (CSR) is an important way for a business to increase its competitive advantage. 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.

Green marketing

green marketing the marketing of products that are presumed to be environmentally preferable to others

Differentiating a product or service from that of its competitor is a common strategy used by businesses when seeking to establish their customer base. The strategy of sourcing raw materials from sustainable sources demonstrates to the customer that the business is being socially responsible in its business practices. While sourcing sustainable resources often comes at a higher price, many customers are willing to pay a premium price for the product, knowing its source. This approach (known as **green marketing**) can encompass a range of businesses activities, including changes to the production process, changes to the product, using sustainable packaging and modifying the advertising and marketing of products.

Businesses can gain green marketing opportunities for their products by:

- using recycled products in the product production process
- using green energy such as wind or geo-thermal
- decreasing the level of waste their business generates in energy usage and materials
- adopting eco-friendly methods such as sustainable and organic agriculture
- reducing transportation by buying and selling locally
- reducing packaging on products
- making products that are reusable and recyclable.

Businesses realise that making environmental claims for their products can be a very powerful marketing and public relations tool, while also acting to differentiate themselves from their competitors. The following are examples of such claims:

- 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.



ACTIVITY 13.3

1. **Identify** products where you consider 'energy efficiency' to be an important consideration for customers.
2. **Identify** products where you consider 'environmental claims' to be an important consideration for customers.

When making environmental claims on products, or when advertising products, it is imperative that businesses do not contravene Australian Consumer Law (ACL). Any business found guilty of misleading or deceiving consumers in any way can attract serious penalties, such as fines in excess of $1 million for companies and up to $220 000 for individuals; and injunctions, corrective advertising and publicity orders. The reputation of the business would be severely damaged.

Protection of customer privacy

Many businesses in Australia are required by law (*Privacy Act 1988*) to protect personal information related to their customers, such as name, contact details, signature, medical records, bank details, photos and videos, IP address and opinions that can be used to identify them. The protection covers the information for the following circumstances: theft, misuse, interference, loss, unauthorised access, modification and disclosure. When the information is no longer required, the business must destroy or de-identify it.

Businesses should refer to the Australian Privacy Principles (APP), which were established to ensure that the privacy policies they create will enable them to manage personal information in an open and transparent way. For customers to feel assured that their personal information is being managed appropriately, they should be able to freely access the privacy policy of the business with whom they are dealing. The policy could be on the website of the business, displayed in the entrance to the business premises or a copy of the policy provided to the customer when requested.

Making available an accessible summary version of the policy document focusing on what customers would like to know has proven to be particularly effective for those seeking information in the online environment. The summary can provide information about:

- what the policy applies to (scope)
- how information is collected and why
- sharing of information and disclosures
- rights and choices relating to requesting access and correcting any personal details
- how to make a complaint
- contact details.

ACTIVITY 13.4



Access the McDonalds.com > privacy-policy website and answer the questions below.

1. **Identify** what information McDonald's collects and holds about its customers.
2. For what purposes does McDonald's state they collect this information?
3. Does McDonald's provide customers with the opportunity to review the personal information they hold about them?

REVIEW ACTIVITY 13.3



Part 1: Digital quiz
Please see the Interactive Textbook to access a digital activity.

Part 2: Short-answer questions
Answer these questions on paper or in the Interactive Textbook.

1. **Identify** and **explain** three 'green marketing' opportunities a business can follow.
2. **Describe** how 'green marketing' can be used as a public relations and marketing tool.
3. **Explain** why a business should develop privacy policies and practices in their business.

Chapter 13 review

Summary

Create your own summary notes for this chapter on paper or in a digital document. A model summary is provided in the Area of Study review chapter for Unit 2 Area of Study 2, which can be used to compare with yours.

Developing clear definitions

By writing a brief explanation of each of the following terms, you will gradually build up a glossary of comprehensive terms for revision. Define these terms in your exercise book.

Public relations	Planned public relations	Crisis public relations
The 'public'	Publicity	Press/media release
Green marketing		

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.'
Evaluate and **discuss** this statement.

Checklist

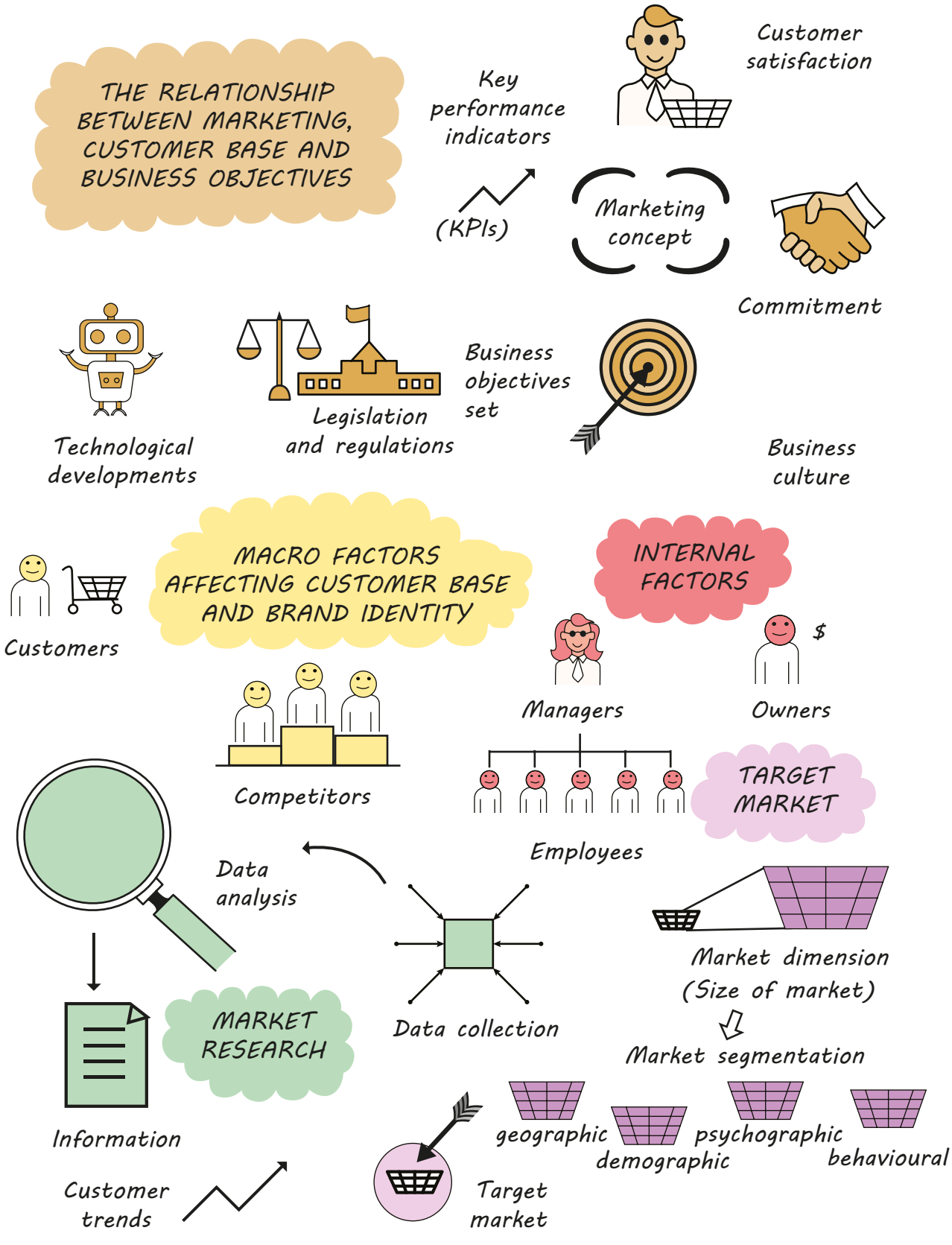
The success criteria are linked to the learning intentions from each section of this chapter, and have been written based on the key knowledge and skills of the VCE Business Management Study Design. Completing the linked questions per success criteria will thoroughly prepare you for success in this subject. Fill in, print, or photocopy this checklist and tick the boxes when you have answered the corresponding questions correctly.

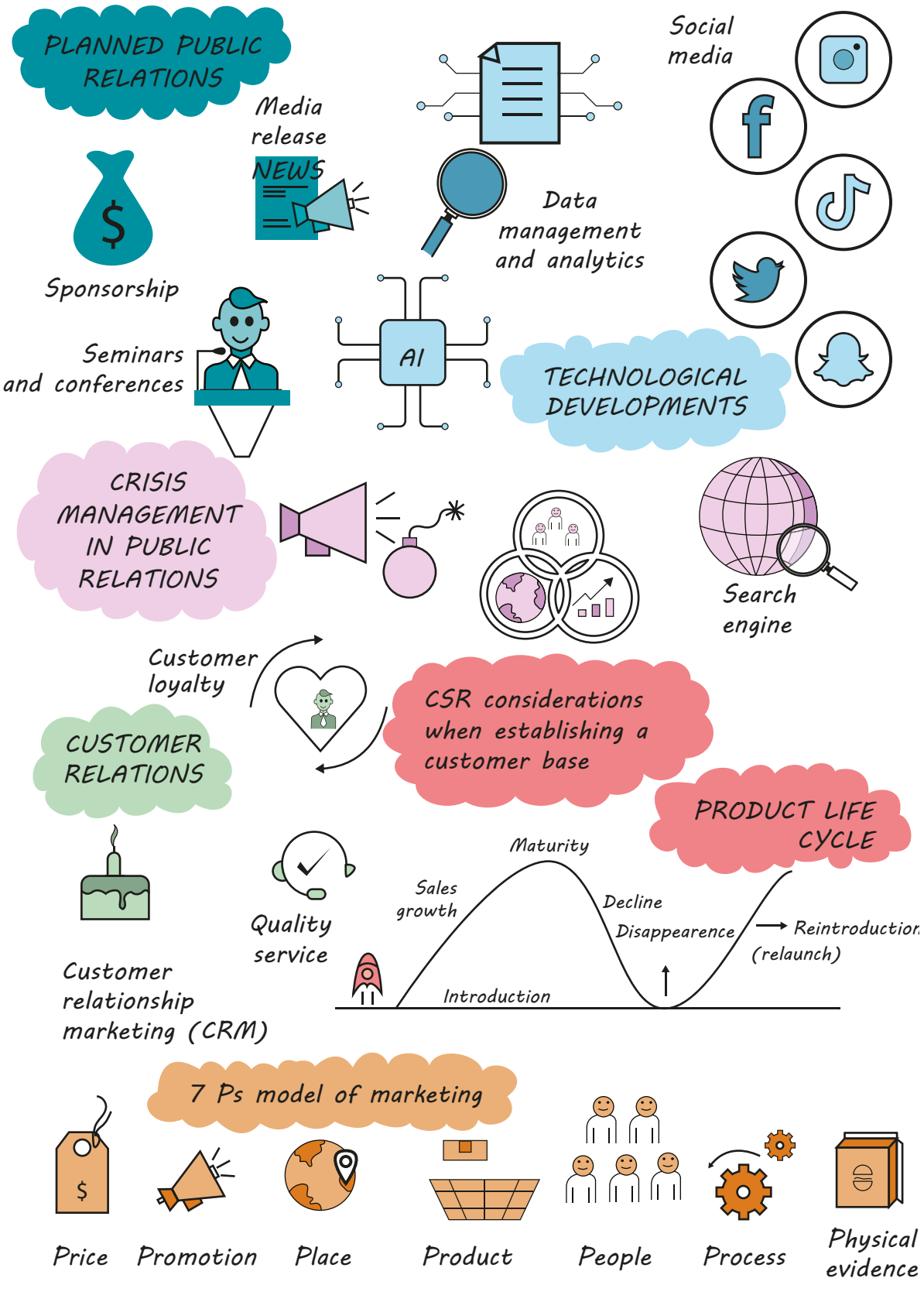
Success criteria – I am now able to:		Linked questions	Completed (Y/N)
13.1 An overview of public relations and its relationship to business objectives	**13.1.1** Provide an overview of public relations and its relationship to business objectives	Activity 13.1 Case study 13.1 Review activity 13.1: Part 1 & Part 2 Extension	Yes ☐ No ☐
13.2 Public relations strategies: planned and crisis public relations	**13.2.1** Explain public relations strategies such as planned and crisis public relations	Activity 13.2 Case study 13.2 Case study 13.3 Review activity 13.2: Part 1 & Part 2	Yes ☐ No ☐
	13.2.2 Describe the importance of maintaining a positive relationship with the customer base	Case study 13.4 Review activity 13.2: Part 1 & Part 2 (Q3, 6)	Yes ☐ No ☐
	13.2.3 Examine the implications if the PR relationship is not maintained	Case study 13.5 Review activity 13.2: Part 1 & Part 2 (Q8–10)	Yes ☐ No ☐
13.3 Corporate social responsibility management considerations regarding establishment of a customer base	**13.3.1** Identify CSR management considerations regarding establishment of a customer base	Activity 13.3 Activity 13.4 Review activity 13.3: Part 1 & Part 2	Yes ☐ No ☐

Digital activities

- Access the Interactive Textbook via Cambridge GO to complete a Scorcher timed competitive quiz for this chapter.
- From their Cambridge GO account, your teacher can also assign practice VCAA-style assessment questions with model responses.

Unit 2 Area of Study 2 review Conceptual summary




PLANNED PUBLIC RELATIONS
Media release
NEWS
Sponsorship
Seminars and conferences
Data management and analytics
Social media
AI
TECHNOLOGICAL DEVELOPMENTS
CRISIS MANAGEMENT IN PUBLIC RELATIONS
Search engine
Customer loyalty
CUSTOMER RELATIONS
CSR considerations when establishing a customer base
PRODUCT LIFE CYCLE
Maturity
Sales growth
Decline
Disappearence
Reintroduction (relaunch)
Introduction
Quality service
Customer relationship marketing (CRM)
7 Ps model of marketing
Price
Promotion
Place
Product
People
Process
Physical evidence

Key knowledge summary: Unit 2 Area of Study 2

Key knowledge	Summary
• The relationship between marketing, establishing a customer base and business objectives	• 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.
• Internal and external (macro and operating) environment factors affecting the establishment of a customer base and the creation of a brand identity	• There are a range of internal and external (macro and operating) factors that can affect the establishment of a customer base and the creation of a brand identity of a business, such as the internal culture of the business, its owners, and managers and employees. Externally, macro factors are the economic conditions, technological developments, legislation and regulators. Operating factors are the customers and competitors of the business.
• Market research practices such as data collection techniques, analysis and interpretation	• 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 databases, 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.



Key knowledge	Summary
• Target market attributes such as market dimensions, segments, consumer trends and behaviour	• 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 behaviour and make sure they take these into account when marketing their products. Trends include buying online, purchasing products direct from the producer or grower, one-stop shopping and 24/7 availability, demand for ready-to-eat gourmet meals, being treated as an individual provided personalised (not mass-produced) products, and new market of tweens. There is also a trend where consumers wish to be more informed about products, including their nutritional value, impact on environment and society, and whether the businesses producing the goods are ethical and socially responsible.
• The 7Ps model of marketing: product, price, place, promotion, people, physical evidence and process	• 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. • 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.



Key knowledge	Summary
	• There are a variety of promotional techniques, including: – advertising using media such as newspapers (print and online), television, radio, magazines, internet, social media, direct mail and outdoor advertising – 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.
• The product life cycle: introduction, growth, maturity, and decline/extension, and the relationship between each of these stages and the choice of marketing strategy	• Products experience a product life cycle (introduction, growth, maturity and decline/extension) and marketing strategies differ throughout the life cycle of the product.
• The features and value of customer relations strategies such as providing quality customer service and establishing customer loyalty programs	• 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.
• Technological developments in marketing such as social media, email marketing, search engine optimisation, artificial intelligence, data analytics and management of data	• Technological developments in marketing are increasingly gaining in importance. The developments cover the use of social media, email marketing, search engine optimisation, artificial intelligence, data analytics and the management of data.

Key knowledge	Summary
• An overview of public relations and its relationship to business objectives	• Public relations is aimed at presenting a favourable image for a business. • 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: – increased customer base – increased demand for products and services – gaining a competitive edge – enhanced 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. – social media. • Public relations is becoming more important and businesses need to manage online messages and reputations.
• 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	• Businesses need to determine how to manage a public relations crisis. • There are three ways to approach a crisis situation: prevent it, quickly address the issue and/or 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. • If a business cannot manage the PR function in a positive way the business will suffer.
• Corporate social responsibility management considerations regarding establishment of a customer base, such as green marketing and the protection of customer privacy	• Corporate social responsibility management considerations are necessary when establishing the customer base for a business. • One CSR management consideration is the correct use of green marketing, where customers are being influenced by the environmental attributes of a product. • Customer privacy needs to be protected; and businesses, while legally required to undertake this, can take additional actions to ensure that customers feel protected.

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Sample assessment questions and advice

Unit 2 Area of Study 2: Marketing a business

In this section we will look at some sample assessment-style questions. Although there is no external examination for Units 1&2, the following questions are written in a VCAA-examination style to prepare you for these types of questions.

Today we are looking back at Area of Study 2. There are a number of key skills covered in Chapter 13:

- 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.

Examples of things you need to consider in terms of public relations include:

- planned PR
- crisis PR
- positive relationships with customers.

PR strategies

Let's explore how these skills might be assessed through the following multi-part example question.

Question 1

Define the concept of public relations. **Outline** and **explain** why it is important for a business to develop public relations strategies for planned and crisis public relations. In your response, include examples of strategies a business can use. **(8 marks)**

Extended response question – let's unpack it

Task words
Define: Accurately state or explain the precise meaning of a word, phrase or term
Outline: Provide a brief description of the terms or topic
Explain: To make the meaning of something clear, detailed and understandable

Define the concept of public relations. **Outline** and **explain** why it is important for a business to develop public relations strategies for planned and crisis public relations. In your response, include examples of strategies a business can use. **(8 marks)**

Study Design requirements
Key knowledge: public relations strategies

Marks allocated

Hints:

- Firstly, you need to **define** the concept of public relations.
- You then need to **outline** and **explain** the importance of public relations strategies for both planned and crisis PR.

A possible answer to the question might be:

Sample response

Public relations (PR) can be defined as the practice of promoting goodwill among the public to present a favourable image. It is also a deliberate, planned and sustained effort to establish a relationship between a business and its public. PR is usually not product- or service-specific and is seen as a long-term approach to improve a business's reputation and goodwill.

The public relations strategies of a business should include maintaining positive relationships with customers because losing a customer is an issue for any business.

Businesses should have PR strategies to deal with both planned and crisis situations. Ideally, a business should never have to deal with a crisis that is unexpected because it should have policies and action plans in place to avoid such a situation.

There are a range of strategies a business can implement to deal with planned business situations. These strategies include communicating with the public through a range of media outlets and social media. Other strategies include using a media release, developing relationships with the wider community, brochures, pamphlets and newsletters, open days and tours, seminar and conferences, and sponsorship.

It is important for a business to have a public relations crisis management plan to deal with a situation that may have an immediate and often negative impact on a business. These crises typically have a strong human aspect to them, which means they become the focus of media scrutiny. Effective crisis management is essential to minimise the impacts of a crisis on a business, its customers and the wider public.

Any plan should include a number of processes, including the names of key contacts, outline of individuals' responsibilities, a team representing different sections of the business (such as finance and human resources) and a spokesperson who becomes the face of the business.

Marking guide:

- 1–2 marks for definition of public relations.
- 3 marks as above and an outline of why it is important to develop strategies.
- 4 marks as above and an explanation of why it is important to develop strategies.
- 5–6 marks as above and an explanation of both planned and crisis public relations.
- 7–8 marks as above and specific examples of strategies that can be used by a business.

Total 8 marks

Question 2

During the 2018 Boxing Day sales a number of retailers, including Myer and Coles, were not able to process gift cards. Customers took to social media to criticise the retailers. **Propose** and **justify** one public relations strategy either business could implement to reduce the harm to their reputation. **(3 marks)**

Extended response question – let's unpack it

Task words
Propose: To put forward (a plan or suggestion) for consideration by others
Justify: Give valid reasons or evidence to support an argument or conclusion

Limiting word
Determines the number of examples you must use

Propose and **justify** **one** public relations strategy either business could implement to reduce the harm to their reputation. **(3 marks)**

Marks allocated

Study Design requirements
Key knowledge: public relations strategies

Case study

Hints:

- For this question, you need to 'propose' and 'justify' one specific public relations strategy for retail businesses.
- Remember that you need to come up with a strategy and then justify the strategy and link it to a case study or scenario.

A possible answer to the question might be:

Sample response
All businesses such as Coles and Myer need to ensure that they have a public relations strategy in place to deal with a crisis. Coles and Myer rectified the situation as soon as they could – it was a technical issue with their provider. One strategy Coles and Myer could propose is to offer some kind of incentive or discount for all customers with a gift card. This would allow customers to get something extra or a discount to make up for the inconvenience of the cards not working during the sale. This may assist in restoring some of their reputation and customer goodwill.

Marking guide:

- 1 mark for proposal of one public relations strategy that could be used.
- 2 marks for proposal and justification (reasons why) the proposal could assist in reducing the harm to Coles and Myer's reputation.

Total 3 marks



AREA OF STUDY 3
STAFFING A BUSINESS

AREA OF STUDY DESCRIPTION

Staff, as one of the greatest assets of a business, are an important consideration during the establishment phase. The quantity and quality of staff has a direct link to business productivity and the achievement of business objectives. In this Area of Study students consider staffing requirements that will meet the needs of a business and contribute to productivity and achievement of business objectives. They research the processes undertaken by the business in relation to the recruitment, selection and induction of staff. Students consider the opportunities that the skills and capabilities of staff can offer a business, the legal obligations that must be addressed in relation to staff, and the relationship between employers and employees within a business.

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OUTCOME 3

On completion of this unit the student should be able to discuss the importance of staff to a business, discuss the staffing needs for a business, and evaluate staff-management strategies from both an employer and staff perspective.

To achieve this outcome the student will draw on key knowledge and key skills outlined in Area of Study 3. [These are listed at the start of each chapter.]

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CHAPTERS IN THIS AREA OF STUDY	
	14 Staffing a business
	15 Recruitment and selection of staff
	16 National Employment Standards, employer and employee expectations, legal obligations for staffing, employee induction and CSR considerations relating to staff

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CHAPTER 14
Staffing a business

'There are only three measurements that tell you nearly everything you need to know about your organisation's overall performance: employee engagement, customer satisfaction, and cash flow … It goes without saying that no company, small or large, can win over the long run without energised employees who believe in the mission and understand how to achieve it.'

Jack Welch (1935–2020)

About the author:
Jack Welch was an American business executive, chemical engineer and writer. He was Chairman and CEO of General Electric (GE) between 1981 and 2001.





KICKSTARTER ACTIVITY

1 **Identify** the three measurements that Jack Welch states can tell you about an organisation's overall performance.
2 **Analyse** why employees are so important to the ongoing success of an organisation.

CHAPTER 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.

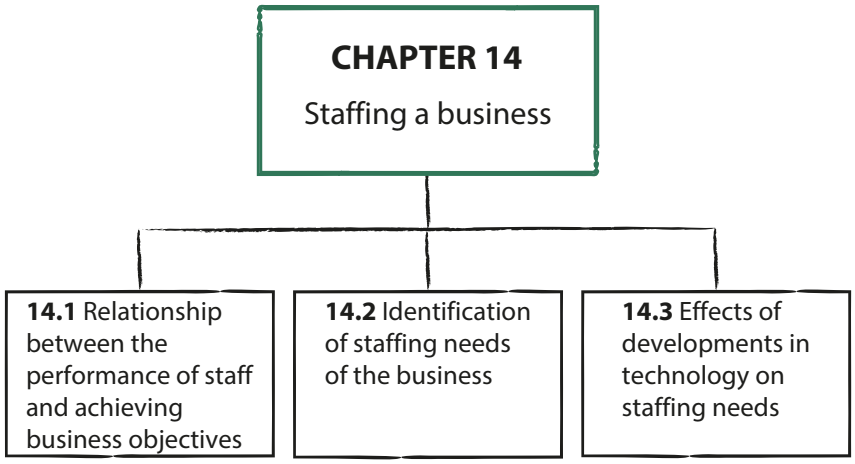
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Key knowledge and learning intentions

Key knowledge	Learning intentions – at the end of this chapter I will be able to:
The relationship between the performance of staff and achieving business objectives	**14.1 Relationship between the performance of staff and achieving business objectives** 14.1.1 Identify, define, describe and apply business management terms and concepts 14.1.2 Analyse the importance of employees to a business
Identification of the staffing needs of the business such as the knowledge, skills and ideas staff can contribute to the business	**14.2 Identification of staffing needs of the business** 14.2.1 Identify, describe and explain staffing needs of businesses 14.2.2 Describe and analyse a case study
The effects that developments in technology may have on staffing needs	**14.3 Effects of developments in technology on staffing needs** 14.3.1 Identify, describe and discuss technology, and contemporary examples and a case study 14.3.2 Explain the impact of technology

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What's ahead



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14.1 Relationship between the performance of staff and achieving business objectives

Learning intentions – at the end of this chapter section I will be able to:	**14.1.1** Identify, define, describe and apply business management terms and concepts
	14.1.2 Analyse the importance of employees to a 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

No matter their size, most businesses recognise that their success can be attributed to having properly managed their **staff**, 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 that 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.



Figure 14.1 Main considerations for staffing a business

Business objectives are the outcomes that a business sets out that 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.

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.

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

clarification of expectations, adjusting the level of difficulty of the goal and gaining recognition. When the objectives are being set, the following criteria must be addressed:

- 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 challenging, 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.

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.

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 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 be measured against these. MBO provides a way to focus the efforts of all be measured 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.



Figure 14.2 Setting goals using the SMART principle

REVIEW ACTIVITY 14.1

Part 1: Digital quiz
Please see the Interactive Textbook to access a digital activity.

Part 2: Short-answer questions
Answer these questions on paper or in the Interactive Textbook.

1. **Define** the term 'business objectives' and use it in a sentence to demonstrate your understanding of the term.
2. **Describe** the concept of setting objectives using the SMART principle.
3. **Outline** the relationship between an individual employee setting their objectives and the objectives of the business.
4. **Explain** the importance of giving feedback to employees as they work to achieve their individual objectives.
5. **Describe** why staff are considered a 'vital asset' to the success of a business.

14.2 Identification of staffing needs of the business

Learning intentions – at the end of this chapter section I will be able to:	**14.2.1** Identify, describe and explain the staffing needs of businesses
	14.2.2 Describe and analyse a case study

human resource management (HRM) the methods of managing the human element of a business (employees), encompassing a wide range of responsibilities, which are implemented to ensure a good working relationship between employees and the business and therefore increase efficiency

'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 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. These costs relate to advertising, interviews, reference checking and induction of the new employee. Added to this is the time taken to perform these tasks – it all adds up to being an expensive and time-consuming exercise.



Figure 14.3 An HRM manager at larger businesses uses formal processes when hiring the right person for a job.

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 and skills required by a person to fulfil the role they wish to fill. 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 four generations; namely baby boomers, generation X, generation Y (millennials) and generation Z (iGeneration) 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.

diversity the inclusion of people from different backgrounds, including race, ethnicity, religion, sex, gender, socioeconomic status and age

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 a long-term employee leaves, either because they have retired or resigned, their vacancy can be beneficial as it allows a new employee to introduce their own fresh ideas and insights. The contributions of long-term employees to a business are very valuable, but their leaving also provides an opportunity to bring in new perspectives.

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 and 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.

CASE STUDY
14.1

Bunnings: employees are considered to be the heart of their business



Bunnings states that 'we want all of our team members to have an opportunity to achieve their potential by providing a great place to work. Our culture is one where people come first, where care for others is the norm – and where you'll have the opportunity to make a real difference to our future success. To us, diversity means many things including different ideas and ways of thinking, demographics, culture and gender. Together we're able to deliver far more than we ever could have alone.'

Bunnings states that its team members are the heart of their business. From its stores through to its support office, they offer real benefits and genuine opportunities for career and personal growth. Bunnings also states that it is as diverse as the customers who walk through their doors. Together, it's one big family and when you start a role with them, you'll soon find there's a lot more in store for you than you first imagined.

At Bunnings, they believe a diverse team creates the best mix of perspectives which helps them innovate and make better decisions. They want their team to have diverse thinking, perspectives, backgrounds and education, which supports them in representing the local communities they serve and so their team can bring their whole self to work.

Bunnings believe that a diverse and inclusive team makes everyone feel valued, respected and connected at work. They are committed to creating a safe and supportive work environment for all team members regardless of age, ability, gender identity, sexual orientation, race, ethnicity, or background.

Source: Adapted from Bunnings website.

CASE STUDY ANALYSIS

1. **Describe** how diversity has become an important consideration for Bunnings when undertaking its workplace planning.
2. **Discuss** the advantages and disadvantages that Bunnings would face by actively seeking to employ an increased number of older workers.



REVIEW ACTIVITY 14.2

Part 1: Digital quiz
Please see the Interactive Textbook to access a digital activity.

Part 2: Short-answer questions
Answer these questions on paper or in the Interactive Textbook.

1. **Describe** the factors that a business needs to consider when determining its staffing needs.
2. The current workforce is composed of four generations of workers. **Identify** the four generations and **describe** what qualities of each of these generations can bring to a business.
3. '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.
4. **Identify** and **describe** two benefits of bringing new staff into a business.
5. Why do you believe many small business owners are reluctant to employ staff?

14.3 Effects of developments in technology on staffing needs

Learning intentions – at the end of this chapter section I will be able to:	**14.3.1** Identify, describe and discuss technology, and contemporary examples and a case study
	14.3.2 Explain the impact of technology

Many businesses have felt the effect of developments in technology on their staffing needs. The wide acceptance of automation, **robotics**, artificial intelligence, cloud computing and other forms of technology has meant that some jobs need to be created while others have been transformed.

robotics the study, design, construction and operation of technology relating to robots and automated technology

automation the use of automated technology to fulfil functions or processes rather than humans

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. Machines or **automation**, however, are not good at creative work, problem solving or the interpersonal skills needed by advisers, people holding leadership roles, or people working in teams or in sales. High emotional intelligence (EQ) quotients are also becoming more in demand in these areas of business.

In the past if a business wanted to create brochures, flyers, or other promotional material it would engage another business, usually a graphic design and printing business, to undertake this work. Technology and software advances have now been developed to allow a business to design their own material and publish it anywhere. Canva, an Australian business established in 2013, saw the potential of this business idea and established an online design and publishing tool. The flow-on effect has been that this business now employs more than 1000 people worldwide. While this business provides the technology and software, employees with a creative flair are still required to have their input into the product produced.



Figure 14.4 The changing role of customer service as customers pay using technology

Technology has also provided opportunities for jobs to be created building software to help other businesses make sense of customer feedback and store customer data. Dovetail, a Sydney-based start-up, uses cloud-based software to help businesses make sense of customers' conversations and provides a place to store customer data and collaborate on it. The customer base of Dovetail includes Porsche, Canva, Harvard University and IBM. Dovetail is growing rapidly, expecting that it will need to more than double its number of employees in 2022.

ACTIVITY 14.1

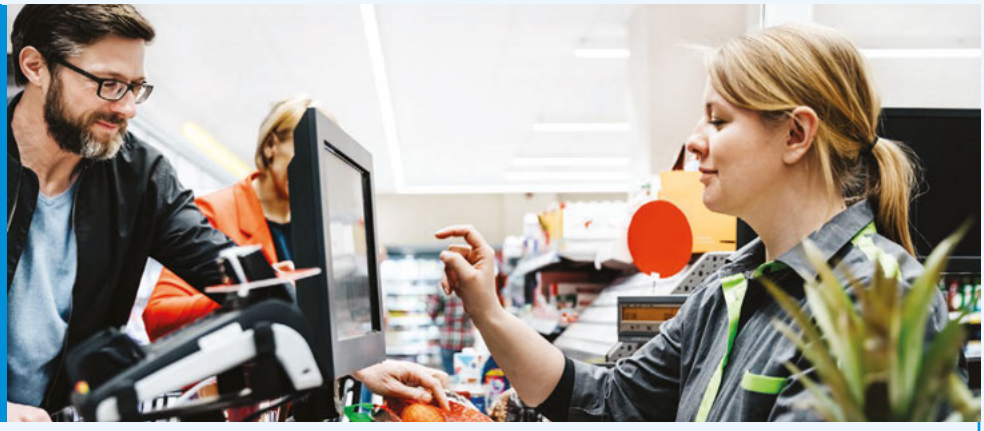
1 Access the websites of Canva and Dovetail. **Describe** the nature of their businesses.
2 **Identify** and **describe** the skills and abilities these businesses would be looking for when assessing their staffing needs.

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 it and send it through the post to that other person. 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. The role of secretary in many businesses 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 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 or work from home, which has been the preferred option during the COVID-19 pandemic. 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 Xero and MYOB. These computer packages also generate financial reports, which previously would have required an employee with more knowledge to prepare.

CASE STUDY
14.2

People at the heart of Woolies' service



Brad Banducci, CEO of Woolworths, states that 'technological advances in automation, predictive analytic, AI and digital are transforming the core retail processes driving our industry forward and helping us to do a better job of meeting our customers' changing needs. But they also change the fundamental nature of the day-to-day work many of our teams do.

'Over time our team members will do fewer manual and repetitive tasks and more work that requires judgment, creativity and interpersonal skills.' The fastest-growing role in Woolworths is that of the online personal shopper, who hand-picks orders for customers.



Figure 14.5 Automated checkouts at Woolworths

Source: Adapted from Brad Banducci, 'No team member left behind: My vision for the retail jobs of the future', The Age*, 7 February 2021.*

CASE STUDY ANALYSIS

1 **Identify** the technological advances that Brad Banducci states are impacting on the way Woolworths operates.
2 **Identify** the tasks that you believe will be replaced by these technological advances.
3 **Describe** the role of the employee who is an 'online personal shopper'.

ACTIVITY 14.2

Select five occupations/jobs in the list below. **Identify** which forms of technology have replaced or altered tasks forming part of those jobs:

- shop assistants
- newspaper reporters
- travel agents
- medical personnel (e.g. doctors and nurses)
- builders
- musicians
- automotive mechanics
- pilots
- teachers
- TV reporters
- authors
- taxi drivers
- farmers.

REVIEW ACTIVITY 14.3

Part 1: Digital quiz
Please see the Interactive Textbook to access a digital activity.

Part 2: Short-answer questions
Answer these questions on paper or in the Interactive Textbook.

1 The COVID-19 pandemic forced many workplaces to change the way they operated. **Identify** the various technologies that assisted employees to work from home.
2 Using technology in a business can result in an increase in productivity, while also reducing the cost of labour. **Explain** how this can occur.
3 In your class, conduct a quick survey to find out how many students have part-time jobs.
   a **Identify** what technology they use as part of performing that job.
   b Do they believe that using this technology makes them more productive? If so, why?
4 **Identify** which jobs have been replaced with these four examples of technology.



a Automated teller machine



b Self-check-in at airport



c Myki system



d Driverless vehicles at mining sites

5 **Discuss** whether you believe the technological developments referred to in question 4 have had a positive or negative effect on the job and the tasks of the job holder.

Chapter 14 review

Summary

Create your own summary notes for this chapter on paper or in a digital document. A model summary is provided in the Area of Study review chapter for Unit 2 Area of Study 3, which can be used to compare with yours.

Developing clear definitions

By writing a brief explanation of each of the following terms, you will gradually build up a glossary of comprehensive terms for revision. Define these terms in your exercise book.

Staff	Employee	SMART principle
Management by objectives	Human resource management	Diversity
Technology	Robotics	Automation

Extension question

'If a business does not adopt technology, it will find it very difficult to be competitive.'

Separate 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.

Checklist

The success criteria are linked to the learning intentions from each section of this chapter, and have been written based on the key knowledge and skills of the VCE Business Management Study Design. Completing the linked questions per success criteria will thoroughly prepare you for success in this subject. Fill in, print, or photocopy this checklist and tick the boxes when you have answered the corresponding questions correctly.

Success criteria – I am now able to:		Linked questions	Completed (Y/N)
14.1 Relationship between the performance of staff and achieving business objectives	**14.1.1** Identify, define, describe and apply business management terms and concepts	Review activity 14.1: Part 1 & Part 2 (Q1)	Yes ☐ No ☐
	14.1.2 Analyse the importance of employees to a business	Review activity 14.1: Part 1 & Part 2 (Q2–5)	Yes ☐ No ☐
14.2 Identification of staffing needs of the business	**14.2.1** Identify, describe and explain the staffing needs of businesses	Case study 14.1 Review activity 14.2: Part 1 & Part 2	Yes ☐ No ☐
	14.2.2 Describe and analyse a case study	Case study 14.1	Yes ☐ No ☐
14.3 Effects of developments in technology on staffing needs	**14.3.1** Identify, describe and discuss technology, and contemporary examples and a case study	Activity 14.1 Activity 14.2 Case study 14.2 Review activity 14.3: Part 1 & Part 2 Extension	Yes ☐ No ☐
	14.3.2 Explain the impact of technology	Activity 14.2 Case study 14.2 Review activity 14.3: Part 1 & Part 2 Extension	Yes ☐ No ☐

Digital activities

- Access the Interactive Textbook via Cambridge GO to complete a Scorcher timed competitive quiz for this chapter.
- From their Cambridge GO account, your teacher can also assign practice VCAA-style assessment questions with model responses.

CHAPTER 15
Recruitment and selection of staff

'The key for us, number one, has always been hiring very smart people.'

Bill Gates (1955–)



'I've learned over the years that, when you have really good people, you don't have to baby them. By expecting them to do great things, you can get them to do great things.'

Steve Jobs (1955–2011)



About the authors:

Bill Gates is an American business magnate, software developer, investor, author and philanthropist. He is a co-founder of Microsoft.

Steve Jobs was an American business magnate, industrial designer, investor and media proprietor. He was a co-founder of Apple Inc.



KICKSTARTER ACTIVITY

Bill Gates and Steve Jobs appear to have a similar philosophy relating to hiring their staff. **Explain** what you believe to be their philosophy and the impact it has on the success of their respective businesses.

CHAPTER OVERVIEW

In this chapter students will gain an understanding of the processes undertaken by a business in relation to the recruitment and selection of staff. These activities form part of the establishment phase of the employment relationship between a business and one of its employees (staff member).

For the prospective employee, the ad or notice placed in the media or employment agency 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.

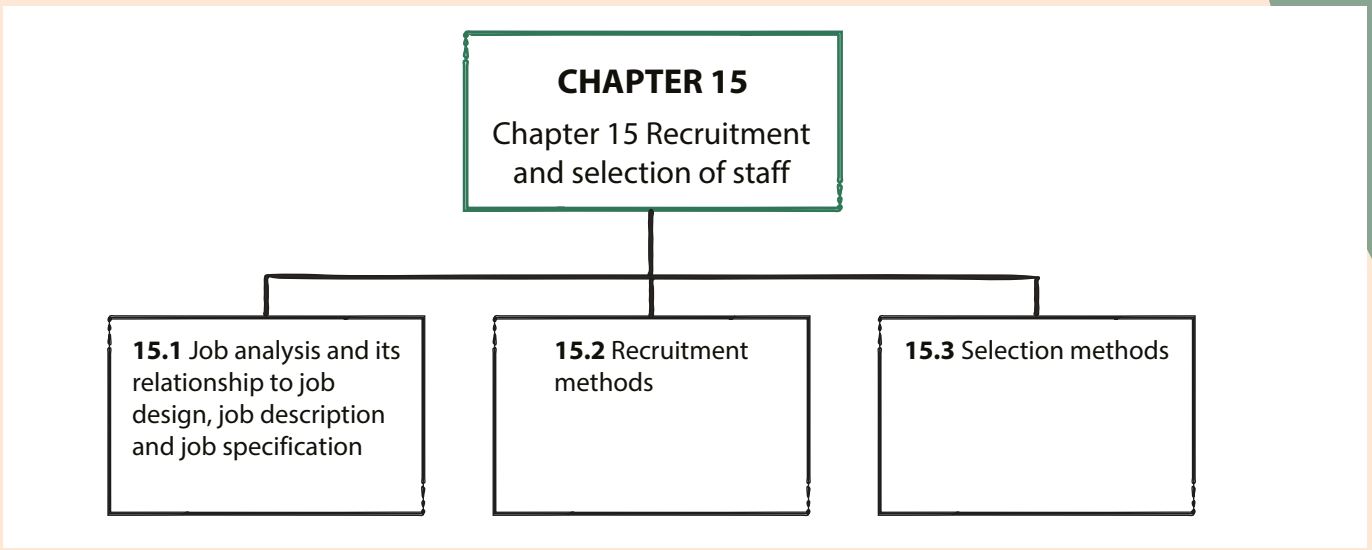
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Key knowledge and learning intentions

Key knowledge	Learning intentions – at the end of this chapter I will be able to:
Job analysis and its relationship to job design, job description and job specification	**15.1 Job analysis and its relationship to job design, job description and job specification** 15.1.1 Identify and explain job analysis, job design, job description and job specification
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	**15.2 Recruitment methods** 15.2.1 Outline and describe internal recruitment methods 15.2.2 Outline and describe advantages and disadvantages of internal and external recruitment methods 15.2.3 Investigate, outline, describe, explain and justify external recruitment methods 15.2.4 Analyse case studies and contemporary examples of business management 15.2.5 Apply business management knowledge to practical and/or simulated business situations
Selection methods such as interview, psychological testing, work testing, online selection and the advantages and disadvantages of each	**15.3 Selection methods** 15.3.1 Identify selection methods 15.3.2 Outline online selection 15.3.3 List and explain testing 15.3.4 Describe and analyse selection processes 15.3.5 Explain advantages and disadvantages of each selection method 15.3.6 Analyse case studies and contemporary examples of business management 15.3.7 Apply business management knowledge to practical and/or simulated business situations

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What's ahead



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15.1 Job analysis and its relationship to job design, job description and job specification

Learning intentions – at the end of this chapter section I will be able to:	**15.1.1** Identify and explain job analysis, job design, job description and job specification

job analysis a detailed examination of a certain job, including an analysis of the specific duties and requirements of the job and their relative importance

job a collection of tasks and duties that an employee performs

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.

Methods used to conduct job analysis

Table 15.1 Job analysis methods

	Method	Explanation
1	Interview the current job holder	Possibly the most widely used method; however, can be time-consuming.
2	Questionnaires	The current job holder describes their job by completing a detailed/structured questionnaire that uses both closed and open questions, which allow for additional input from the job holder. This method allows for information on a large number of jobs to be collected within a short period of time.
3	Observation	The current job holder is observed, or a video made of them performing their job.
4	Log books and daily work diaries of activities completed by the job holder	This method is 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 job holder's supervisor 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 the expectations of the task.

When undertaking a job analysis, it is recommended that the steps set out in Figure 15.1 are followed, as job analysis generates the source material for preparing the job description and job specification.

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 meets the objectives of the employer and the employee. For the employee this may mean the job 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**.

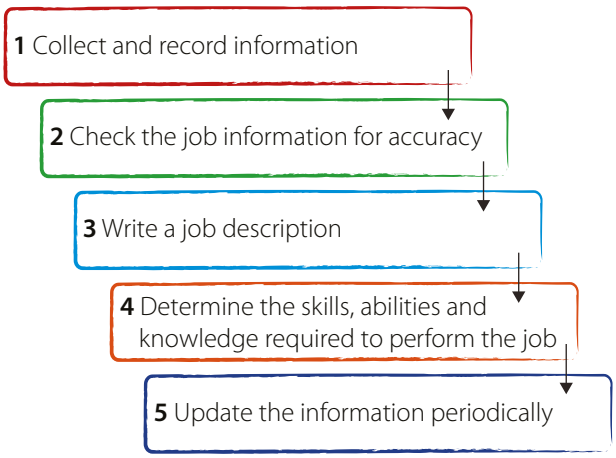


Figure 15.1 Flowchart of steps involved in conducting a job analysis.

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.

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 that can then be put forward to management.

Figure 15.2 Jobs are often designed for employees to be part of a team.



job design the grouping together of tasks for a particular job, which should incorporate variety and challenge for the job holder

job enlargement increasing the size or level of difficulty of a particular position by merging various tasks and responsibilities at a similar level

job enrichment making a job more challenging, which requires workers to use their full capabilities and gain personal growth

job rotation workers are moved between different jobs to increase the variety of work and to create a more flexible workforce

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.

Job descriptions and job specifications

job description a written overview of a particular position, including details such as the position title, duties and responsibilities, and its position in the overall organisation

job specification a detailed listing of the personal skills and characteristics required to perform a particular job

A **job description** is a written statement of tasks performed, how they are done and why they are done. Typically, it describes the job title, job summary, responsibilities, duties and activities, relationships, where the position fits into the business, accountability and special circumstances, and also states key performance indicators.

After writing the job description, a **job specification** is created that identifies the experience, qualifications, skills, abilities, knowledge and personal qualities or requirements needed for the job. These 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 or new procedures, or the creation of a new job.

CASE STUDY
15.1

Job description and job/person specification



Read the example job description and job/person specification below and answer the questions that follow.

Bootwear Pty Ltd is a family-owned business based in Melbourne, Victoria. The company has 250 employees based across Australia and New Zealand, holding positions ranging from executive management to administration, sales, warehouse and manufacturing.



Figure 15.3 Store Manager required for Richmond store

'Bootwear' is its global brand with 60 stores, with the business overseeing a global supply chain across three continents, selling its products in Australia and New Zealand.

Position: Store Manager
Location: Richmond store, Melbourne
Reports to: Manager, Retail Stores

Key responsibilities

- Ensure high levels of customer satisfaction through excellent sales service
- Maintain outstanding store condition and visual merchandising standards
- Maintain a fully stocked store
- Ascertain customers' needs and wants
- Recommend and display items that match customer needs
- Welcome and greet customers
- Manage point-of-sale processes
- Be actively involved in the receiving of new shipments of stock

- Keep up to date with product information
- Accurately describe product features and benefits
- Recruit, select and manage sales assistants
- Follow all Bootwear Pty Ltd policies and procedures

Job/person specifications

- Proven working experience in retail sales and store management
- Understanding of sales principles and customer service practices
- Track record of over-achieving sales quota
- Solid communication and interpersonal skills
- Customer service focus
- Friendly, helpful, confident and engaging personality
- Proficiency in English
- Good administration skills
- VCE or higher qualification

CASE STUDY ANALYSIS

1. **Identify** at what level in the management hierarchy of Bootwear this position sits. **Justify** your decision.
2. Where is this position located and would the job holder be expected to travel to other stores of Bootwear to undertake their role?
3. **Explain** why it would be important for the job holder to have specific knowledge, skills and experience to undertake this position. Link your comments to the major responsibilities outlined in the job description.
4. Having created this job description and job/person specification, Bootwear Pty Ltd would now like to recruit for this position. Construct a job advertisement for Store Manager, Richmond.

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.

REVIEW ACTIVITY 15.1



Part 1: Digital quiz
Please see the Interactive Textbook to access a digital activity.

Part 2: Short-answer questions
Answer these questions on paper or in the Interactive Textbook.

1. **Identify** and **explain** the five common methods used to undertake a job analysis.
2. **Explain** the importance of good job design to a business wanting to achieve its objectives.
3. **Explain** how job enrichment and job rotation can help a business to become more productive.
4. **Explain** the difference between a job description and a job specification.
5. **Identify** how the information contained in the job description and job specification can be used as background material and for what.

15.2 Recruitment methods

Learning intentions – at the end of this chapter section I will be able to:	
	15.2.1 Outline and describe internal recruitment methods
	15.2.2 Outline and describe advantages and disadvantages of internal and external recruitment methods
	15.2.3 Investigate, outline, describe, explain and justify external recruitment methods
	15.2.4 Analyse case studies and contemporary examples of business management
	15.2.5 Apply business management knowledge to practical and/or simulated business situations

recruitment the process of locating and hiring the most suitable applicants for a position

Recruitment involves identifying, locating and attracting a pool of qualified applicants, and, in its wider sense, it includes selecting the right person for the job. (Sometimes though 'recruitment' is used for the process of getting applicants in, and 'selection' is used for the process of deciding the successful candidate.). 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 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).



Figure 15.4 Staff recruitment and selection considerations

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 right 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.

For example, Macpac, an Australian and New Zealander chain of retail stores selling camping, hiking and kayaking equipment and outdoor clothing and footwear, 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 and finance companies 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 anti-discrimination in advertising jobs and interviewing applicants
- a positive approach to recruitment of people with disabilities, minority groups, women, older workers and First Nations Australians
- recruitment methods – whether there is a preference to search first for applicants internally and then use external methods.

Recruitment methods

Businesses, human resources managers and other staffing professionals can use a variety of recruitment methods (internal or external) to assess and select personnel who would be qualified to fill and perform a job vacancy within a business.

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.

equal employment opportunity (EEO) the practice of making sure that all applicants have an equal and fair chance to secure a position regardless of their age, race, sex, ethnicity, or physical or mental disability

internal recruitment the process of assessing and selecting from existing staff at a business who would be qualified and appropriate to perform a vacant role

external recruitment the process of assessing and selecting candidates, other than existing staff at a business who would be qualified and appropriate to perform a vacant role

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 by someone

application the processes involved in applying for an advertised position, usually completed through a letter or form

Internal applicants are then usually requested to submit a formal letter of **application**. The submission of a resumé (curriculum vitae) is not always requested because the business is already familiar with the accomplishments of the employee.

Table 15.2 outlines some of the advantages and disadvantages of recruiting internally.

Table 15.2 Advantages and disadvantages of internal recruitment

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 for employees of the business	Rivalry, infighting and negative impact on morale for unsuccessful applicants
Business knows the applicant; applicant knows the business and its objectives, corporate culture, policies and procedures	Any poor work habits will remain and encourages bureaucracy
Cheaper, as no external recruitment agencies need to be paid	If the successful internal applicant's position needs to be filled, it may create the need to select from an external candidate

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 15.3 illustrates the various advantages and disadvantages associated with recruiting externally.

Table 15.3 Advantages and disadvantages of external recruitment

Advantages	Disadvantages
Larger pool of applicants to choose from	Attracting/selecting new employee is time-consuming and more difficult
New insights, skills and abilities brought into the business	Induction process takes longer
Costs can be lower, as business does not have to fill two positions	Limits possible career advancement of existing employees.
New approach to work, issues and problems	Greater element of risk, as new employee is an 'unknown' person
When qualified staff are in good supply, it may be possible to pay an external recruit less	Costly form of recruitment
	Current employees may feel resentful if they were overlooked
	When qualified staff are in short supply, the employer may have to pay more than previously

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 or 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 and duties) and any relevant personal attributes, 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 its mission, 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 resumé online. This allows for immediate acknowledgement of receipt of the application.

ACTIVITY 15.1



Go to the careers pages of these business websites:

- Smiggle (part of the Just Group)
- ALDI
- Canva.

1. **Investigate** the 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? **Explain** what you like or dislike about these pages and whether the information provided is 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 databases 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.

ACTIVITY 15.2

Go to the website of each of the well-known online recruitment agencies below:

- LinkedIn
- SEEK
- Adecco
- Programmed/Persolkelly.

1 **Identify** the types of jobs being advertised on the four websites – are they covering jobs in a range of industries or are they specialising in one industry?

2 Select two of the websites and **summarise** the details of one job vacancy on each site.

3 **Describe** how the website Programmed/Persolkelly differs from the other websites in the jobs it lists.



Figure 15.5 The use of social media as a recruitment method has become more common.



Figure 15.6 For business purposes, popular social media sites include LinkedIn, Facebook and Twitter.

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* – the majority of companies use this site for social media recruiting via LinkedIn Talent Solutions, having members from more than 170 different industries in over 200 countries. 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, checking out their personal life, views and interests while also finding out about their career history, skills and qualifications. An employer can ask for an employee referral for a particular position vacancy. 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.
- *Facebook* – having 400 million users, it ranks as the second most popular social networking site and is a cost-effective way to hire employees. Businesses can join employment groups such as Digital marketing group to post job vacancies and wait for candidates to comment and enquire about the position the business is interested in filling. The primary role of Facebook is for talking and communicating with family and friends. For this reason, some candidates do not want to divulge their professional activities and information, nor want their current employer to find out they are searching for another job if they need to apply via Facebook.
- *Twitter* – Businesses post job openings on their own account. This social media channel ranks third in popularity for social media recruiting. The limit of 280 characters in a post restricts the business effectively displaying all the important job details in the post.

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

A **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.

Social media has many benefits, such as being able to gain an immediate response, being lower in cost and being able to reach a larger target market in its search for fresh talent. It can pose problems, however, for economically disadvantaged candidates who do not have access to social media channels.

There are also a number of other methods that can be used when attracting applicants for a job, such as:

- referrals of candidates from one of the current employees at the business
- walk-in applications (unsolicited) where the prospective candidate approaches the business on the off-chance there may be a job vacancy
- government recruitment agencies, where unemployed people needing assistance are directed to employers generally looking for administrative or manual positions
- career fairs held by universities or TAFEs assisting graduates to gain positions.

CASE STUDY
15.2

Seasonal workers job advertisement



This case study is available in the Interactive Textbook.

REVIEW ACTIVITY 15.2

Part 1: Digital quiz
Please see the Interactive Textbook to access a digital activity.

Part 2: Short-answer questions
Answer these questions on paper or in the Interactive Textbook.

1. **Outline** the benefits for the business from using internal recruitment as a way to fill a job vacancy.
2. **Outline** the benefits for the current employees if a business uses internal recruitment as a way to fill a job vacancy.
3. **Identify** and **describe** the benefits to a business of using external recruitment methods as its way of finding suitable qualified applicants for vacant positions within the business.
4. **Outline** the benefits to an employee within a business if, through the internal recruitment process, the position they are applying for results in career advancement in the form of a promotion.
5. Following an unsuccessful internal search within the business for a suitable candidate, it is decided to now advertise externally for candidates to fill the position. **Identify** and **describe** the impact of recruiting an external candidate to join the business.

15.3 Selection methods

Learning intentions – at the end of this chapter section I will be able to:	
	15.3.1 Identify selection methods
	15.3.2 Outline online selection
	15.3.3 List and explain testing
	15.3.4 Describe and analyse selection processes
	15.3.5 Explain advantages and disadvantages of each selection method
	15.3.6 Analyse case studies and contemporary examples of business management
	15.3.7 Apply business management knowledge to practical and/or simulated business situations

selection a process undertaken by a business to decide whether to make a job offer to a candidate

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.

Receipt of application

It is not only polite but good business practice to acknowledge any application made by a job candidate via a telephone call or a simple letter, email or text of acknowledgement. It should be noted that this practice is not as common as it used to be due to increased reliance by businesses on online applications.

application form a document that covers basic information about a potential employee, such as qualifications, experience and job-related data

Some businesses require an **application form** to be completed. It acts as a screening tool, seeking 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, or age (unless a minimum requirement is necessary for the position, such as bar work) should not be included.

Initial screening

This step eliminates applicants who do not possess the skills and expertise required for the position. By reading through the cover letters, resumés 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 resumé, career progression, education and qualifications.

For larger businesses 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 15.7 The selection process

CASE STUDY
15.3

Bright futures at Maccas



Our jobs work for you, and that's our people promise.

Maccas® is looking for motivated, passionate people who prioritize health and safety as much as we do, so apply now to join the Macca's family.

At Maccas, we attract people who love to create and serve seriously great food, possess an infectious attitude, provide world-class customer service, and most importantly, like to have fun while they're working! Whether it is building skills for life or giving you flexibility to fit in with your lifestyle, we create jobs that work for you.

Our people are our greatest asset and since we opened our first restaurant, we've had the privilege of providing a job full of opportunities to more than 1.3 million Australians at our 990 restaurants. We believe in equipping those who work with us, with technical and soft skills that give them the foundations to forge a career within McDonald's and beyond.

We create opportunities for all employees to work flexibly in a way that is meaningful and fulfilling for them, whilst recognising and valuing our people in an enjoyable, energising environment.

Source: McDonald's Australia website, 'Join our crew'.

CASE STUDY ANALYSIS

Use your favourite search engine to find the McDonald's careers website to assist you to answer the following questions.

1. Choose one of the positions posted in the Job Search section of the website for Restaurant staff. **Identify** the position chosen.
2. **Outline** the information McDonald's requires to be provided in an applicant's online application.
3. In addition to the online application, do they require applicants to submit a resumé? If so, why?

4 **Identify** if McDonald's asks applicants to nominate the social media they use. Which ones do they ask about?

5 **Explain** why the hiring manager wants to know the applicant's interest in working at the store where the position is being offered.

Interviews

interview a meeting that is held between an employer, or a representative of an employer, and an applicant in order to determine whether or not an applicant should be shortlisted or hired

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 video communication such as Zoom or FaceTime to conduct initial interviews (virtual interviews) with the aim of screening candidates and narrowing down the pool of applicants to 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.

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.



Figure 15.8 Larger businesses usually have a formal recruitment policy, which requires then to conduct a panel interview.

The most common interview style is structured, where a series of questions are asked based on the job description and specification. The same questions would be asked of all applicants for the job making comparisons fairer. 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 (such as a conference room) and free of interruptions. Seating arrangements need to be made to ensure no confronting or intimidating situations are created. The interview panel must be formed and 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 titles and frequent job changes. In addition, the panel meets to formulate a series of questions to put to each candidate during the interview.

2 Opening the interview

The candidate should be greeted with a handshake (when it is safe to do so) 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.



Figure 15.9 Smaller companies may have a more informal interview process.

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 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) 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 (if safe) 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.)

capability
competence to perform a task

Table 15.4 Advantages and disadvantages of using interviews as a selection method

Advantages	Disadvantages
Allows the parties (interviewer and applicant) the opportunity to start developing their relationship	To be effective it generally requires more than one interview to make the selection
Permits the interviewer to gain a lot of information about the applicant	Time-consuming as time needs to be found for: • preparing for the interview by the interviewer or panel of interviewers • conducting interviews • interpreting the responses • making recommendations on which candidates should progress to the next round of interviews
Provides an opportunity for the applicant to find out information about the business and what the job involves	Potential for interviewer bias
Provides the interviewer with the opportunity to pose problem or behavioural scenarios to the applicant and then to make a judgement of their problem-solving skills	Costly due to personnel costs associated with interview and panel members
Allows the applicant to make clear any misunderstanding or mistake they may have made during the interview	Inefficient if the interviewer and panel members are not trained or experienced in how to conduct an interview
	May not select the best person for the job if the latter does not require strong verbal and interpersonal skills for a job that does not require such

Online selection

Some businesses now use a combination of selection methods to assist them to find the best candidate for the job. For example, when recruiting, 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 criterion 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 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 advertised 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 basis 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 resumé. If the employer wants someone with creative skills, an online application and selection format may exclude them from including samples of their work.



Figure 15.10 Some businesses now use a combination of recruitment methods to assist them to find the best candidate for the job.

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:

- an **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.
- personality or temperament traits, which look at the behaviour of a person in the workplace. One popular test is the Myers-Briggs Type Indicator (MBTI), which classifies people as being an extrovert or introvert; sensing or intuitive; thinking or feeling; and judgemental or perceptive. Although it is a common test, it is worth noting that the MBTI has recently lost favour as a job recruitment tool. While it might still be useful for predicting a person's behaviour in a group situation, it has been deemed to be less useful for determining a person's suitability to a particular role.
- motivation – looks at a person's drive and initiative.

aptitude test
a test of special abilities (e.g. clerical, language, artistic) that are required for a specific job

Table 15.5 Advantages and disadvantages of psychological testing

Advantages	Disadvantages
Acts to prevent a business hiring an applicant not really suited to the tasks of the job	Too great a reliance on applicants telling the truth when answering questions
Tests are standardised so every candidate gets the same questions and is given the same opportunities	Not always a good way of assessing an applicant's personality
Provides candidates with weaker interview skills or who are shy a chance to prove themselves in another way	If an unqualified person is administering the test, the finding may not be correct or able to 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 that 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.



Figure 15.11 Applicant being given a work test of preparing a document based on information supplied.

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 demonstrates the work capability of the candidate as the test should be based on tasks likely to form part of the job.
- The tasks should be directly related to the job, and 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, it may not be possible to perform a realistic test, and a shorter test may not be a good indicator of an applicant's ability for the job if the test 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. Besides an online search, 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 resumés. 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 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.

ACTIVITY 15.3



Complete the following questions.

1. **Identify** the costs that could result from a business undertaking a poor recruitment and selection process.
2. **Identify** which areas of cost would be changed if a business were to recruit internally.

REVIEW ACTIVITY 15.3



Part 1: Digital quiz
Please see the Interactive Textbook to access a digital activity.

Part 2: Short-answer questions
Answer these questions on paper or in the Interactive Textbook.

1. **Describe** the selection process a business needs to undertake to ensure it is choosing the right applicant for a vacancy within its business.
2. **Discuss** the advantages and disadvantages of a panel interview as one of the selection tools used by a business.
3. A variety of tests can be undertaken by applicants. List them and **explain** why they are used.
4. **Analyse** which method of selection would be cheaper for a business – an interview or a combination of online selection and interview.
5. **Explain** why it is important for a business to check an applicant's references and qualifications prior to offering the position to a candidate.

Chapter 15 review

Summary

Create your own summary notes for this chapter on paper or in a digital document. A model summary is provided in the Area of Study review chapter for Unit 2 Area of Study 3, which can be used to compare with yours.

Developing clear definitions

By writing a brief explanation of each of the following terms, you will gradually build up a glossary of comprehensive terms for revision. Define these terms in your exercise book.

Job	Job analysis	Job design
Job enlargement	Job enrichment	Job rotation
Job description	Job specification	Recruitment
Team	Quality circle	Equal employment opportunity (EEO)
Internal recruitment	External recruitment	Promotion
Career advancement	Selection	Interview
Psychological testing	Work testing	Online selection
Aptitude test		

Extension questions

Whitehorse Real Estate and Property Development Company was created in late 2022 from the merger of two local businesses, Select Real Estate and Hann Property Developments. The aim of the new business is to provide opportunities for overseas clients from China, Hong Kong and Malaysia to purchase properties in Australia either for residential or development purposes. The owners of the business believe that to best suit the needs of their business they should employ a diverse workforce based on age and ethnic background. Fluency in English would put them in a better position when negotiating with property owners in Australia to sell their properties, whereas fluency in Asian languages would assist when negotiating with overseas buyers and property investors.

Whitehorse Real Estate and Property Development Company has taken out a lease on business premises in Box Hill, referred to as Melbourne's second CBD, and now needs to recruit and select real estate agents and office staff.

1 Advise the owners of Whitehorse Real Estate and Property Development Company 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 a real estate agent in this business.
3 Advise the owners of Whitehorse Real Estate and Property Development Company where it would be appropriate to advertise or to go to attract applicants for the real estate agent and office staff 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.

Checklist

The success criteria are linked to the learning intentions from each section of this chapter, and have been written based on the key knowledge and skills of the VCE Business Management Study Design. Completing the linked quetions per success criteria will thoroughly prepare you for success in this subject. Fill in, print or photocopy this checklist and tick the boxes when you have answered the corresponding questions correctly.

Success criteria – I am now able to:		Linked questions	Completed (Y/N)
15.1 Job analysis and its relationship to job design, job description and job specification	**15.1.1** Identify and explain job analysis and its relationship to job design, job description and job specification	Case study 15.1 Review activity 15.1: Part 1 & Part 2 Extension: Q1–2	Yes ☐ No ☐
15.2 Recruitment methods	**15.2.1** Outline and describe internal recruitment methods	Review activity 15.2: Part 1 & Part 2 (Q1–2, 4)	Yes ☐ No ☐
	15.2.2 Outline and describe advantages and disadvantages of internal and external recruitment methods	Review activity 15.2: Part 1 & Part 2	Yes ☐ No ☐
	15.2.3 Investigate, outline, describe, explain and justify external recruitment methods	Activity 15.1 Activity 15.2 Review activity 15.2: Part 1 & Part 2 (Q3, 5)	Yes ☐ No ☐
	15.2.4 Analyse case studies and contemporary examples of business management	Case study 15.2	Yes ☐ No ☐
	15.2.5 Apply business management knowledge to practical and/or simulated business situations	Review activity 15.2: Part 1 & Part 2 (Q4–5) Extension	Yes ☐ No ☐
15.3 Selection methods	**15.3.1** Identify selection methods **15.3.2** Outline online selection **15.3.3** List and explain testing **15.3.4** Describe and analyse selection processes **15.3.5** Explain advantages and disadvantages of each selection method	Case study 15.3 Review activity 15.3: Part 1 & Part 2 Extension: Q4	Yes ☐ No ☐
	15.3.6 Analyse case studies and contemporary examples of business management	Case study 15.3 Extension: Q4	Yes ☐ No ☐
	15.3.7 Apply business management knowledge to practical and/or simulated business situations	Review activity 15.3: Part 1 & Part 2 Extension	Yes ☐ No ☐

Digital activities

- Access the Interactive Textbook via Cambridge GO to complete a Scorcher timed competitive quiz for this chapter.
- From their Cambridge GO account, your teacher can also assign practice VCAA-style assessment questions with model responses.

CHAPTER 16

National Employment Standards, employer and employee expectations, legal obligations for staffing, employee induction and CSR considerations relating to staff

'When management and labour (employer and employee) both understand they are all on the same side, then each will prosper more.'

Zig Ziglar (1926–2012)

About the author:
Zig Ziglar was an American author, salesman and motivational speaker.





KICKSTARTER ACTIVITY

Describe what you believe Zig Ziglar's message is from the above statement.

CHAPTER OVERVIEW

The National Employment Standards (NES) outline the 11 minimum entitlements that must be provided to all Australian employees. 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. 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 and their remuneration, while others are looking 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. 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 that employers must observe relating to occupational health and safety regulations, and equal employment opportunities they must provide. Businesses should also ensure they consider their corporate social responsibility obligations when establishing the staffing for the business and recruiting employees from overseas.

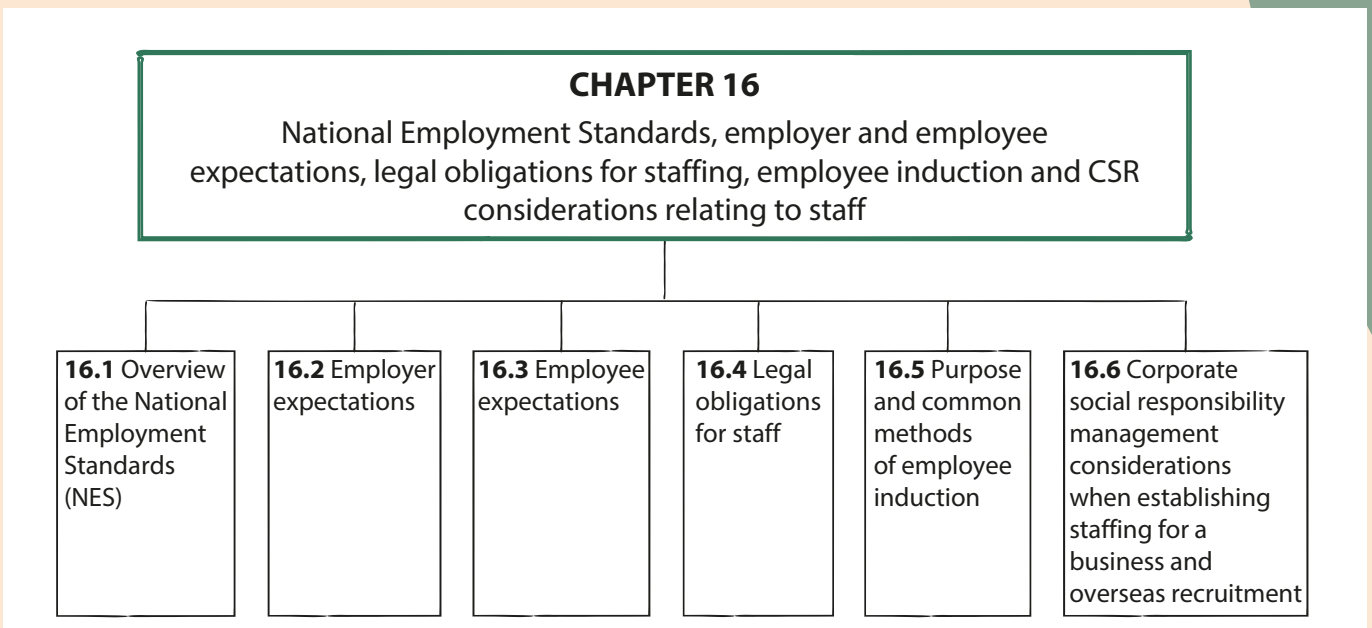
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Key knowledge and learning intentions

Key knowledge	Learning intentions – at the end of this chapter I will be able to:
Overview of the National Employment Standards (NES)	**16.1 Overview of the National Employment Standards (NES)** 16.1.1 Identify, define and describe the NES 16.1.2 Apply knowledge to practical/simulated situations
Employer expectations such as contracts of employment, loyalty and terms of notice	**16.2 Employer expectations** 16.2.1 Outline, identify and describe employer expectations 16.2.2 Explain and discuss employer expectations
Employee expectations such as conditions of employment, remuneration, job security and work–life balance	**16.3 Employee expectations** 16.3.1 Identify, define and describe employee expectations 16.3.2 Discuss remuneration options 16.3.3 Apply and explain knowledge related to case studies
Overview of legal obligations for staffing such as occupational health and safety (OH&S) regulations and equal employment opportunity (EEO) legislation	**16.4 Legal obligations for staff** 16.4.1 Identify and describe legal obligations for staffing 16.4.2 Apply business management knowledge to practical and/or simulated business situations
The purpose and common methods of employee induction	**16.5 Purpose and common methods of employee induction** 16.5.1 Identify and describe methods of employee induction 16.5.2 Propose and apply business management concepts and terms
Corporate social responsibility management considerations regarding establishing of staffing for a business and overseas recruitment	**16.6 Corporate social responsibility management considerations when establishing staffing for a business and overseas recruitment** 16.6.1 Interpret business information and ideas related to CSR and contemporary examples 16.6.2 Discuss the concept of CSR 16.6.3 Identify, describe and explain diversity in the workplace

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What's ahead



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16.1 Overview of the National Employment Standards (NES)

Learning intentions – at the end of this chapter section I will be able to:	**16.1.1** Identify, define and describe the NES
	16.1.2 Apply knowledge to practical/simulated situations

National Employment Standards (NES) 11 minimum employment entitlements that have to be provided to all employees in Australia; however, only certain entitlements apply to casual employees

The **National Employment Standards (NES)** are the 11 minimum employment entitlements that must be provided to all Australian employees; however, only certain entitlements apply to casual 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 11 minimum entitlements are set out in Table 16.1. Employers must give every new employee a copy of the Fair Work Information Statement (FWIS) when they start their new job. Employers must give every new casual employee a copy of the Casual Employment Information Statement (CEIS) at the same time. 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. Amendments have been made to the initial legislation and regulations to reflect changes in workplace practices. The NES apply to employees under the federal system, regardless of the industry to which they belong, their occupation, or their income levels.

Table 16.1 The National Employment Standards

Minimum standard	Explanation
Maximum weekly hours of work	Full-time employee: 38 hours. May be required to work a reasonable number of additional hours.
Requests for flexible working arrangements	Employees who have worked with the same employer for at least 12 months can request flexible working arrangements because they: • are the parent or have responsibility for the care of a child who is of school age or younger • are a carer (within the meaning of the *Carer Recognition Act 2010*) • have a disability • are 55 or older • are experiencing violence from a member of their family • provide care or support to a member of their immediate family or household, requiring care or support due to experiencing violence from their family.
Offers and requests to convert from casual to permanent employment	Casual employees who have worked for their employer for 12 months need to be offered the option to convert to full-time or part-time (permanent) employment by their employer. An eligible casual employee can also make a request to convert to permanent employment after their 12-month anniversary. Certain eligibility requirements need to be met for this conversion to occur.

(continued)

(continued)

Parental leave and related entitlements	Parental leave entitlements include: maternity leave, paternity and partner leave, adoption leave, special maternity leave and a safe job and no safe job leave. Employee parents have the right to return to their old job. Employees can take parental leave if they have worked for their employer for at least 12 months. Parents 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 may be entitled to an additional paid week of annual leave.
Personal/carer's leave, compassionate leave and unpaid family and domestic violence leave	Employees will be entitled to 10 days of paid personal and carer's leave each year (part-timers pro rata). Employees are 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. Employees are also entitled to five days of unpaid family and domestic violence leave each year. Employees are entitled to the full five days from the day they start work. They don't have to build it up over time. The five days renews each 12 months but doesn't accumulate from year to year if it isn't used.
Community service leave	Employees, including casual employees, can take leave for activities such as voluntary emergency management activities or jury duty. Except for jury duty, community service leave is unpaid. There is no limit on the amount of community service leave an employee can take.
Long service leave	Entitlements are set out for each state. In Victoria, portable long service scheme (Long Service Benefits Portability Regulations, October 2020) allows workers in community services, contract cleaning and security to accrue long service leave entitlements and transfer them from job to job.
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).
Notice of termination and redundancy pay	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 or Casual Employment Information Statement	An employer must give each new employee the Statement before the employee starts their employment. The Statement contains prescribed information about the employee's rights and entitlements at work under the NES and the respective roles of the Fair Work Commission (FWC) and the Fair Work Ombudsman.

long service leave a period of paid leave granted to an employee who has served a specified period of continuous employment

Source: Adapted from the Fair Work Act 2009 (Cth), from Fair Work website.

CASE STUDY
16.1

Victoria's wages watchdog takes legal action for breaches of long service leave entitlements



Victoria's *Long Service Leave Act 2018* states all employees, who have worked continuously with one employer for at least seven years, are entitled to long service leave entitlements. This law applies to work that is full-time, part-time, casual, seasonal and fixed term.

The Victorian government's employment watchdog, the Wage Inspectorate, in July 2021 fined Coles $50 000 following an investigation that found that 4000 Victorian employees were collectively underpaid $700 000 in long service leave entitlements. Coles was also ordered to pay $15 000 in costs for its systemic failure to ensure employees received their full entitlements.

In October 2021 the watchdog filed criminal charges against National Australia Bank in the Magistrates' Court alleging the bank systematically broke the law by failing to pay former staff members on casual contracts their long service leave entitlements valued at $30 000.

Source: Adapted from 'Coles fined for underpaying LSL entitlements', Australian Payroll Association website, 18 July 2021; 'Long service leave', Victorian government website.

CASE STUDY ANALYSIS

1. **Define** the term 'long service leave'.
2. Under the National Employment Standards, **identify** who is responsible for setting out the entitlements for employees relating to their long service leave.
3. Under Victoria's *Long Service Leave Act 2018*, **identify** which employees are entitled to receive long service leave and what conditions of employment must be met.

ACTIVITY 16.1

Read the following scenarios and determine whether the employee would be entitled to their request under the NES.

1 Amanda is 65 years old and wants to finish work early on Thursdays so she can volunteer at her local nursing home helping feed residents their evening meal. Advise her as to whether she would be successful in her request from her employer for flexible working arrangements.
2 Roger wants to start work at 10 am instead of the usual start of 9 am so he can take his daughter to pre-school. Advise him as to whether his request for flexible working arrangements would be successful.
3 Bernard works casually as a produce assistant at a large local greengrocer (30 employees). He has worked a regular pattern of work (8 am to 12 noon each day Monday to Friday) for the past 12 months and is now considering requesting that his employer change has employment status from casual to part-time permanent. Advise Bernard as to whether his request to his employer would be accepted.

REVIEW ACTIVITY 16.1

Part 1: Digital quiz
Please see the Interactive Textbook to access a digital activity.

Part 2: Short answer questions
Answer these questions on paper or in the Interactive Textbook.

1 **Identify** which classifications of employees are provided with entitlements under the National Employment Standards.
2 **Describe** the conditions that must occur before an employee is entitled to make a request for flexible working arrangements from their employer.
3 Casual employees may now be entitled to request from their employer to change to permanent employee status. **Outline** the conditions that need to exist for this change to be considered.
4 **Identify** which employees are entitled to parental leave and which circumstances this leave covers.

Figure 16.1 The National Employment Standards apply to all employees under the federal system.



16.2 Employer expectations

Learning intentions – at the end of this chapter section I will be able to:	**16.2.1** Outline, identify and describe employer expectations
	16.2.2 Explain and discuss 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. A positive attitude is a requirement as this will impact upon the relationships the employee develops with their coworkers, supervisors and managers. This will also affect the way the employee feels about the tasks related to their job. Being punctual, dependable and cooperative are also key 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.

contract of employment a written agreement made between an employee and an employer that outlines the legal requirements and responsibilities of both

permanent full-time where the employee signs a continuing contract of employment

permanent part-time the employee signs a continuing contract, with the same employment conditions, but will work fewer hours than a full-time employee

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

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. 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.

The employment contract may engage the employee in the ways outlined in Table 16.2.

Table 16.2 Types of employment

Basis of engagement of employee	Description
Permanent full-time basis	The employee signs a continuing contract of employment. The number of hours worked (e.g. full time is 38 hours per nominal week as stated in the 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 10% (1 July 2021). In addition, for each year of employment at a business, the employee accrues long service leave entitlements.
Permanent part-time basis	The employee signs 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.
Fixed-term contract	Employees can be engaged in either a full-time or part-time capacity for project work or to replace employees who have gone on long service or parental leave. Annual and sick leave is generally accrued 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.

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Casual basis	An employee is often appointed by oral contract (not written) for short-term, non-regular, 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 20% and 25%, depending upon their applicable award. Casual employees who are employed regularly may be entitled to benefits such as superannuation and long service leave under federal and state legislation. Casual workers employed in a regular pattern of work for 12 months can now request to become permanent employees of that business.

casual where an employee is often appointed by oral contract (not written) for short-term, non-regular, or seasonal work

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 goods and services tax (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.

The contract of employment can be either written or verbal but cannot provide 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 regardless of whether they have signed an employment contract.

The contract of employment will also stipulate the arrangements for determining the pay and working conditions under which staff are employed. There are two choices available to employers:

- **Modern awards** are legally binding documents determined and verified by the Fair Work Commission (FWC), setting out the pay and employment conditions for a whole industry or occupation. Building on the NES, modern awards cover areas including minimum wages, hours of work, rosters, breaks, allowances, penalty rates and overtime rates, leave, superannuation, employee representation and dispute resolution procedures. They are also used as the benchmark for assessing enterprise agreements before approval.
- **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. The enterprise agreement should state a nominal expiry date for the agreement, which is no more than four years from the date of its approval by the FWC. It should also include a dispute settlement procedure authorising either the FWC or an independent body to settle disputes relating to matters covered by the modern award or the NES.

  The FWC can assist with the process of making such agreements, 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 terms of the proposed enterprise agreement against the relevant modern award to make sure employees will be better off overall.

modern award an agreement that sets out minimum terms and conditions of employment relating to an 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

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 a lesser sense nowadays that a business is going to look after its employees, 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 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 expect 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.



Figure 16.2 Employees are valued if they are willing to work together and demonstrate loyalty to their employer.

Currently, Australian workplaces are made up of employees from four generational classifications: baby boomers (born between 1944 and 1964), generation X (born between 1965 and 1979), generation Y (born between 1980 and 1994; often referred to as 'millennials') and generation Z (born between 1995 and 2015). This provides an additional challenge to employers as the expectations of each of these groups are diverse. While baby boomers may be 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. Surveys of this group indicate that Australian millennials believe culture and a positive work environment are the most important considerations when choosing a new employer. It has also been found that generation Z is proving to be less loyal to employers than millennials, with the majority indicating that they would expect to stay with the current employer for less than two years.

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 to be given will be set out in the legal document under which they are employed; namely the award, enterprise agreement, or employment contract. 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 or 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.

REVIEW ACTIVITY 16.2



Part 1: Digital quiz
Please see the Interactive Textbook to access a digital activity.

Part 2: Short-answer questions
Answer these questions on paper or in the Interactive Textbook.

1. **Outline** what information is contained in a contract of employment.
2. Congratulations, you have just started your first job. **Identify** the expectations that your employer (the business) would have of you. **Describe** why they may differ from your expectations.
3. 'Loyalty by an employee to a business is a thing of the past.' **Discuss** whether you believe this statement is true or not.
4. **Identify** when an employee's period of notice to their employer starts and ends.
5. **Explain** the effect that having four generations of employees in the workforce is placing on employers.

16.3 Employee expectations

Learning intentions – at the end of this chapter section I will be able to:	
	16.3.1 Identify, define and describe employee expectations
	16.3.2 Discuss remuneration options
	16.3.3 Apply and explain knowledge related to case studies

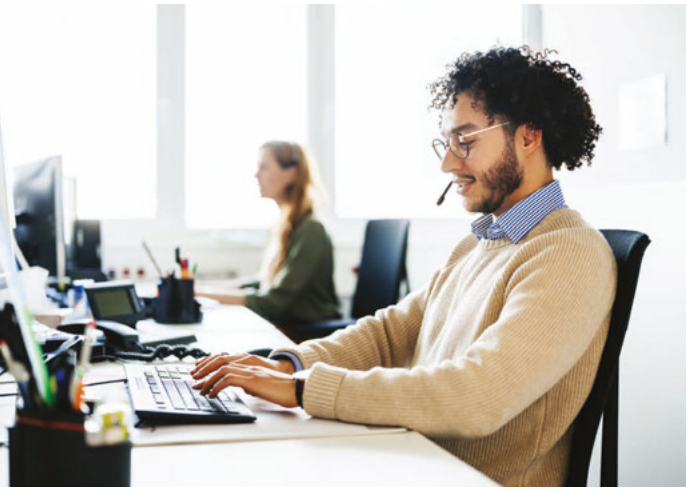


Figure 16.3 Every individual employee will have different expectations of their employer and their job.

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 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 the specific remuneration or benefits that an employee will receive from an employer in exchange for 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

Conditions of employment

Employees can expect that the conditions under which they will be employed are contained in either the industry award or enterprise agreement negotiated for their workplace. Both the award and enterprise agreement will need to be checked and verified by the Fair Work Commission. The NES acts as a safety mechanism and ensures that the minimum standards have been put in place. An employer cannot negotiate an employee's **conditions of employment** to a standard lower than those set in the NES. The employment contract entered into by the employee with their employer will outline the nature of their employment relationship – permanent (full-time or part-time) or casual.

Remuneration

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 can take the forms outlined in Table 16.3.

Table 16.3 Forms of remuneration

Forms of remuneration	Description
Wages	Calculated on an hourly basis and structured around a working week (e.g. the 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 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 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.

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

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, comprised of both cash and fringe benefits

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 or enterprise agreement. The Fair Work Ombudsman provides protection for workers who feel that this expectation has not been met.

CASE STUDY
16.2

Fair Work Ombudsman accuses Coles of underpaying staff



This case study is available in the Interactive Textbook.

Job security

Employees like to feel assured that they have gainful employment for as long as they desire. 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.

The COVID-19 pandemic that hit Australia in 2020 caused major job security issues for employees, as businesses had to either close or suspend their operations due to restrictions placed on their businesses during this period of great uncertainty. The ultimate fallout from the pandemic for employee job security is still unknown.

CASE STUDY
16.3

Job insecurity and the casual workforce



The Australia Talks National Survey, conducted in March 2021, asked tens of thousands of Australians about job security in Australia and how secure they felt in their own job. Eighty-eight per cent of respondent's answered 'that job security was a problem for Australia', with 27 per cent being concerned they might lose their job within the next 12 months.

Anxiety associated with job insecurity is affecting different age groups in different ways. People aged over 50 are less confident of finding another job than people under 50.

One large group of employees who do not have job security is the casual workforce. It is estimated that 2.3 million workers in Australia are classified as 'casuals'. These workers are supposed to receive a 'casual loading' usually 20 to 25 per cent paid on top of their hourly wage rate for the job as a form of compensation for not getting paid leave entitlements such as holiday and sick leave. They also have no job security and can lose their job at the end of a shift.

Source: Adapted from Gareth Hutchens, 'Job security is a problem according to most Australians, and casual work is a big reason why', ABC news website, 2 June 2021.

CASE STUDY ANALYSIS

Read the case study and watch the video to answer the following questions:

1. **Define** the term 'job security'.
2. **Explain** why employees over 50 years of age are less confident of finding another job.
3. **Explain** whether you believe it is fair that a casual employee receives a 'casual pay loading' in lieu of not getting paid leave entitlements.
4. Referring to the video, **describe** the experience of casual worker Jordi.



Video 16.1
Job insecurity

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 FWC 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

When a business introduces flexible work practices, it is important that the employees are consulted and any proposed changes discussed, particularly with 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; creating positive effects on employee wellbeing; improving staff morale; and increasing the productivity of employees, as they are more focused when at work. To accommodate the continuing demand for flexibility it has become increasingly important for businesses to ensure they have a digitally connected mobile workforce. The advent of cloud-based computer systems is enabling this. This borderless connectivity needs to be managed carefully, however, as it can actually negatively impact employees' work–life balance.

REVIEW ACTIVITY 16.3

Part 1: Digital quiz
Please see the Interactive Textbook to access a digital activity.

Part 2: Short-answer questions
Answer these questions on paper or in the Interactive Textbook.

1. **Identify** the documentation an employee should refer to when checking their conditions of employment.
2. Congratulations – you have just been offered your first permanent full-time job. **Describe** what your expectations would be from that job and the business for whom you will work.
3. **Discuss** the similarities and differences between the following three methods of remuneration: wages, salary and salary package.
4. 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 could adopt to achieve it.

16.4 Legal obligations for staff

Learning intentions – at the end of this chapter section I will be able to:	**16.4.1** Identify and describe legal obligations for staffing
	16.4.2 Apply business management knowledge to practical and/or simulated business situations

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 them to the Australian Taxation Office (ATO). An employer is also legally obliged to make appropriate payments, such as the 10 per cent superannuation guarantee (rate as at 1 July 2021) under the Superannuation 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 are acting in a way that damages the trust and confidence necessary for an employment relationship.



Figure 16.4 A workplace injury could result in a compensation claim by an employee against their employer.

Occupational health and safety (OH&S) regulations

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 responsibility of the Victorian government authority, WorkSafe Victoria, or the Victorian WorkCover Authority to regulate and enforce this legislation.

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 states 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.

ACTIVITY 16.2



1 Study the following scenarios and determine whether the business is at fault in terms of OH&S regulations. **Justify** your answer with reasons.
   - **a** Dong Pham worked at a steel manufacturing plant. He injured his back lifting heavy steel beams off a conveyor belt. Over a period of 18 months, he had complained to his employer about his sore back. His complaints were ignored and he was directed to keep working. Dong had been given no training in lifting the beams, a task clearly beyond the ability of one man.
   - **b** George lifts by himself a large and very heavy couch from a small removal truck and hurts his back. The truck has an electric operating tail gate that can be used to lower heavy goods. All workers at the furniture removal business have been trained in how to use this device.
   - **c** Akeela works as a data entry operator in an office. In the past, she has suffered lower back and neck problems. Her computer keyboard and screen are located on her desk and she sits on a non-adjustable chair.

Equal employment opportunity (EEO) legislation

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**, sexual harassment, **harassment** and **bullying**, and victimisation. 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.

To assist and educate a business to develop their policies, and put in place best practice procedures on how to prevent discrimination and harassment in the workplace, the Australian Human Rights Commission and the Fair Work Ombudsman provide written directions via facts sheets. The *Fair Work Act 2009* was updated in September 2019 with new provisions to address sexual harassment at work. The changes are aimed at making sure that workers are protected and empowered to address sexual harassment at 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 race, colour, sex, sexual orientation, age, physical or mental disability, marital status, family or carer's responsibilities, pregnancy, religion, political opinion, national extraction, or social origin.

discrimination unfair treatment of an individual based on a range of factors such as race, age, sex, ethnicity, or religion

harassment behaviour designed to make a person feel uncomfortable, offended, humiliated, or intimidated

bullying someone in the workplace who repeatedly behaves unreasonably towards another person or group of people and causes a risk to health and safety in the workplace

It is also against the law to sexually harass, victimise, or vilify someone based on their race or religion. The Act encompasses the entire process of employment, from recruitment, deciding on workplace terms and conditions, negotiations about flexible work, the process of returning to work, making adjustments to employment terms and dismissal.

It is easy to detect direct discrimination, such as treating someone unfavourably due to their personal characteristics. 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 workday 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 them 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 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.



REVIEW ACTIVITY 16.4

Part 1: Digital quiz
Please see the Interactive Textbook to access a digital activity.

Part 2: Short-answer questions
Answer these questions on paper or in the Interactive Textbook.

1. **Outline** why it is important for a business to adhere to legislative requirements relating to the management of staff.
2. **Identify** what an employer is obliged to pay their employees.
3. **Identify** what an employer is required to ensure they provide for their employees.
4. In Australia, national and state laws cover equal employment opportunity and anti-discrimination in the workplace. **Identify** situations where this legislation provides protection for workers.
5. **Describe** the benefits that a business can gain as a result of enacting these policies and procedures.

16.5 Purpose and common methods of employee induction

Learning intentions – at the end of this chapter section I will be able to:	**16.5.1** Identify and describe methods of employee induction
	16.5.2 Propose and apply business management concepts and terms

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 and create a feeling of being supported
- communicate the workplace culture – 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
- educate employees about the policies of the business relating to safety, bullying, sexual harassment and other critical policies
- assist employees to become productive in a shorter time frame.



Figure 16.5 Employee training is another part of the induction process.

Creating an induction pack (employee handbook), which can be given to the employee on the day they commence at the business, or made available via the intranet of the business, would be a good start to their induction process. The employee may then refer to this induction pack when they have queries in the early days of their new job.

The pack would consist of:

- an organisation chart outlining the current positions and employees' names
- a copy of the human resources manual for the business (relevant to medium or larger businesses)
- a copy of the job description of the employee
- contact list of employees – email addresses and telephone numbers
- instructions on how to access and use the intranet of the business
- a safety induction including evacuation procedures
- security access details.

Using a simple induction checklist (see Table 16.4) can ensure that all necessary documentation and arrangements are in place for the new employee.



Figure 16.6 Introducing new staff members to co-workers forms an important part of the induction process.

Table 16.4 Simple induction checklist

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	
Explanation of job procedures, duties and responsibilities completed	
Initial training requirements organised	
Information sourced on the business's expectations as to attendance, personal conduct and appearance	
Orientation tour of facilities arranged	
Staff handbook and other induction material ready to be given to new employee	
All administrative/pay documentation compiled and ready for employee to complete	
Access to intranet organised, and protocols and procedures of internet use explained	
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	

A good induction program is important. 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.



REVIEW ACTIVITY 16.5

Part 1: Digital quiz
Please see the Interactive Textbook to access a digital activity.

Part 2: Short-answer questions
Answer these questions on paper or in the Interactive Textbook.

1. **Describe** the purpose of induction.
2. **Describe** three benefits from a business undertaking a good induction program.
3. **Identify** the components of an induction pack suggested to be provided to a new employee.
4. Once an employee has undertaken their induction program, **propose** a procedure that a business can then undertake to support the new employee.

16.6 Corporate social responsibility management considerations when establishing staffing for a business and overseas recruitment

Learning intentions – at the end of this chapter section I will be able to:	**16.6.1** Interpret business information and ideas related to CSR and contemporary examples
	16.6.2 Discuss the concept of CSR
	16.6.3 Identify, describe and explain diversity in the workplace

There are a range of corporate social responsibility (CSR) management considerations that could arise when a business is establishing its workforce (i.e. staff) from either local or overseas. If a business is unable to locate suitable local employees with the necessary qualifications, skills and experience to meet the demands of the job to be filled, then employing people from overseas can sometimes be the best option. Overseas staff may also bring fresh ideas and new approaches to the business, as well as foreign languages and international business experiences, which could assist the business in expanding their operations globally.

Creating a positive, supportive and diverse work environment, where employees feel valued while contributing to the overall success of the business, should be among 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 an excellent place to work

Strategies that businesses may implement to ensure they are judged as being socially responsible include the following.

1 Creating a diverse 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 against the law to place an employee or potential employee at a disadvantage due to factors such as their ethnicity, race, gender, sexual preference, age, or physical or mental disability. For a business, having a diverse workforce means it can benefit from the different talents, experiences and perspectives of its employees.

Providing diversity training to all employees in the workplace (both local and overseas) will assist employees to gain a better understanding of and respect for the different cultures in that workplace.



Figure 16.7 Hiring a diverse workforce enriches the workplace.

There are a variety of ways that a business can create diversity in its workforce. Governments (all levels) and businesses consider it as 'good business' to create Global Diversity and Inclusion Strategies, which generally focus on 'people, customers and communities'.

Australian workplaces often employ at least three generations of employees (baby boomers, generation X and generation Y/millennials). 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 can assist the business to improve their processes and provide mentoring and training to less experienced employees. 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.

disability an ongoing physical or mental condition experienced by a person, which reduces their ability to complete certain activities

People who have a **disability** make up approximately 10 per cent of the total Australian workforce. When looking for employees, businesses should keep in mind that people with a disability can bring a range of skills to the workplace. People with a disability work in all industries and in varied roles, having many qualifications, talents and experience that they can bring to a business. Many businesses have developed programs and initiatives to support the employment of people with a disability. Woolworths is an example of such a business.

It is not only socially responsible to employ people with disabilities, but it also boosts workplace morale and enhances teamwork. In addition, employees with disabilities tend to have fewer days off, take less sick leave and stay longer at the workplace than other workers.

ACTIVITY 16.3

Visit the Australian Government's Job Access website and scroll down to the 'Stories' page.

1. Select and read 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 by having this job.



Figure 16.8 All businesses should create and provide for equal opportunities and support for Aboriginal and Torres Strait Islander peoples.

A business could gain different perspectives, experience and knowledge by having 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 being under 25 years of age. Employing these young workers would give a business the opportunity to develop 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 Employer of Choice. From their perspective, a key factor in reaching financial independence for Aboriginal and Torres Strait Islander job seekers is improved employment opportunities.

In time, this will assist in addressing the long-term disadvantage that some Aboriginal and Torres Strait Islander peoples experience. The employer is a crucial player in supporting this effort, as they have the ability to employ local people in local jobs, and support training and education outcomes by employing Aboriginal and Torres Strait Islander peoples through accredited apprenticeships and traineeships. Visit the 'Indigenous Apprenticeships Program' page on the Services Australia website for more information.

ACTIVITY 16.4

1 **Explore** the Indigenous Business Australia website. **Explain** why this agency would be set up to support Indigenous businesses.

2 Other businesses also support different groups. Visit the Coles Indigenous Employment website and the Woolworths Diversity website. **Summarise** the approach being taken by both these companies to employing workers from Aboriginal and Torres Strait Islander communities.

2 Establishing policies to support employees

Policies to support employees demonstrate the commitment of a business to its staff. Provision of these policies assist when attracting staff to the business and ultimately retaining them as long-term employees. Such policies and programs create a workplace that is:

- **flexible and family friendly** – offering flexible working arrangements to employees recognising the personal and family commitment of its employees makes the workplace 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 older children, or older workers who are providing care to elderly or unwell parents or an unwell partner/spouse. The business may offer flexible working hours, remote-working opportunities, telecommuting, time off and wellbeing programs. In addition, creating a policy on parental leave that exceeds the minimum legislated requirements, and also includes programs related to maintaining connection with the employee while on parental leave, is an example of good business practice and CSR.



Figure 16.9 Offering flexible working arrangements will attract more potential employees to your company.

- supportive of employees by funding an **Employee Assistance Program**. This employer-funded counselling is provided to employees and often close family members. Confidential assistance is available for employees experiencing personal, family and work-related problems that could negatively impact on their work performance and/or health. The scope of these programs often relates to issues concerning alcohol, drugs, gambling, domestic and family violence.
- able to undertake a comprehensive **induction process** that should explain how things work at the business and provide clear information about what is expected of both employees and the employer. Providing a buddy or mentor would act as an additional support for the new employee.



Figure 16.10 To attract the best possible staff, employers need to make their workplaces inclusive, welcoming, safe and supportive.

3 Establishing policies that link employees to their community

Encouraging community volunteering and engagement recognises that businesses do not operate in isolation and that they form part of a wider community. The culture of the business should therefore include giving back to its community. 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 embraced by the business. Younger workers often actively look to be employed by businesses that are involved in volunteering and community projects.

To help newly arrived overseas workers to settle into their new communities, the business could create specific programs to assist them with accommodation and welcome events, and provide information about local services and attractions in their local community.

ACTIVITY 16.5

Being recognised as an Employer of Choice gives a business a desirable workplace reputation. Set out below are a few characteristics attributed to being an Employer of Choice that should be considered by a business wishing to establish effective staffing practices:

- providing remuneration to employees that is equal to or above market rates
- providing job security to employees
- encouraging employees to feel empowered to make decisions and take responsibility for their jobs
- ensuring that employees are respected by their managers and coworkers
- providing opportunities for employees to grow both their skill base and their careers
- making sure the business is committed to and involved with its employees, customers and the community
- providing work–life balance through flexible working arrangements.

Discuss whether you believe it would be sufficient for a business that incorporates the above seven characteristics into its staffing approach to be regarded as a good corporate citizen, and therefore to have effectively managed its corporate social responsibility considerations.

REVIEW ACTIVITY 16.6

Part 1: Digital quiz
Please see the Interactive Textbook to access a digital activity.

Part 2: Short-answer questions
Answer these questions on paper or in the Interactive Textbook.

1. **Describe** the benefits that employing people from diverse backgrounds can bring to a workplace.
2. **Identify** and **explain** the advantages that a business would gain by providing diversity training to all employees.
3. **Identify** and **explain** the advantages that overseas workers can provide to a business.
4. **Explain** how programs where staff members volunteer in the community or provide pro bona work to assist community groups lead to greater employee engagement with the business for which they work.

Chapter 16 review

Summary

Create your own summary notes for this chapter on paper or in a digital document. A model summary is provided in the Area of Study review chapter for Unit 2 Area of Study 3, which can be used to compare with yours.

Developing clear definitions

By writing a brief explanation of each of the following terms, you will gradually build up a glossary of comprehensive terms for revision. Define these terms in your exercise book.

National Employment Standards (NES)	Fair Work Information Statement (FWIS)	Fair Work Commission
Fair Work Ombudsman	Parental leave	Long service leave
Contract of employment	Permanent full-time	Permanent part-time
Casual	Modern award	Enterprise agreement
Better Off Overall Test (BOOT)	Remuneration	Wages
Salary	Salary package	Benefits
Job security	Work–life balance	Flexible work practices
Discrimination	Harassment	Bullying
Induction	Disability	Employer of Choice

Extension question

Mining companies on notice to tackle workplace issues

Australia's second-largest miner Rio Tinto has been found to suffer from systematic bullying, sexism and racism in a report by former Sex Discrimination Commissioner, Elizabeth Broderick.

Rio Tinto's Chief Executive Jakob Stausholm stated that 'I feel shame and enormous regret to have learned the extent to which bullying, sexual harassment and racism are happening at Rio Tinto'.

The report claimed that:

- At the fly-in fly-out mining sites, 40 per cent of women reported experiencing sexual harassment. To avoid these incidences they were choosing to eat alone in their rooms rather than go to the communal dining rooms, and avoided exercising in the gyms and being out after dark.

- At the city offices of its WA iron ore business, 14 per cent of respondents reported sexual harassment occurring in the office-based strategy, sustainability and development teams.
- 40 per cent of Rio Tinto's Aboriginal and Torres Strait Islander employees reported they had experienced racism in the past five years. Almost 50 per cent reported having been bullied, resulting in loss of confidence, declining performance, anxiety and depression.

Following this report Rio Tinto has sanctioned 142 supervisors and dismissed 38 supervisors for disrespectful behaviour.

All major resource companies are tackling similar workplace behaviour issues; for instance:
- Fortescue – in mid-2021 Chief Executive Elizabeth Gaines stated it launched a review to gather workers' experiences and suggestions in line with its zero-tolerance approach to harassment, bullying and intimidation.
- Chevron Australia – Human Resources Manager Chris Watts stated it was engaging an external consultant to advise on how best to tackle unacceptable behaviour.
- BHP stated that having an inclusive and diverse workplace has been the policy of the company for a number of years.
- Woodside stated that it had strengthened its harassment policies to include clear definitions of unacceptable behaviours.

Source: Adapted from Peter Milne & Nick Toscano, 'Rio Tinto "shamed" by alarming sexual harassment, bullying and racism', The Age*, 1 February 2022; 'Rio Tinto releases external review of workplace culture', Rio Tinto, 1 February 2022.*

Identify and **describe** actions and activities that you would recommend these mining companies adopt to assist them to change the culture that has led to these workplace behaviour issues.

Checklist

The success criteria are linked to the learning intentions from each section of this chapter, and have been written based on the key knowledge and skills of the VCE Business Management Study Design. Completing the linked questions per success criteria will thoroughly prepare you for success in this subject. Fill in, print, or photocopy this checklist and tick the boxes when you have answered the corresponding questions correctly.

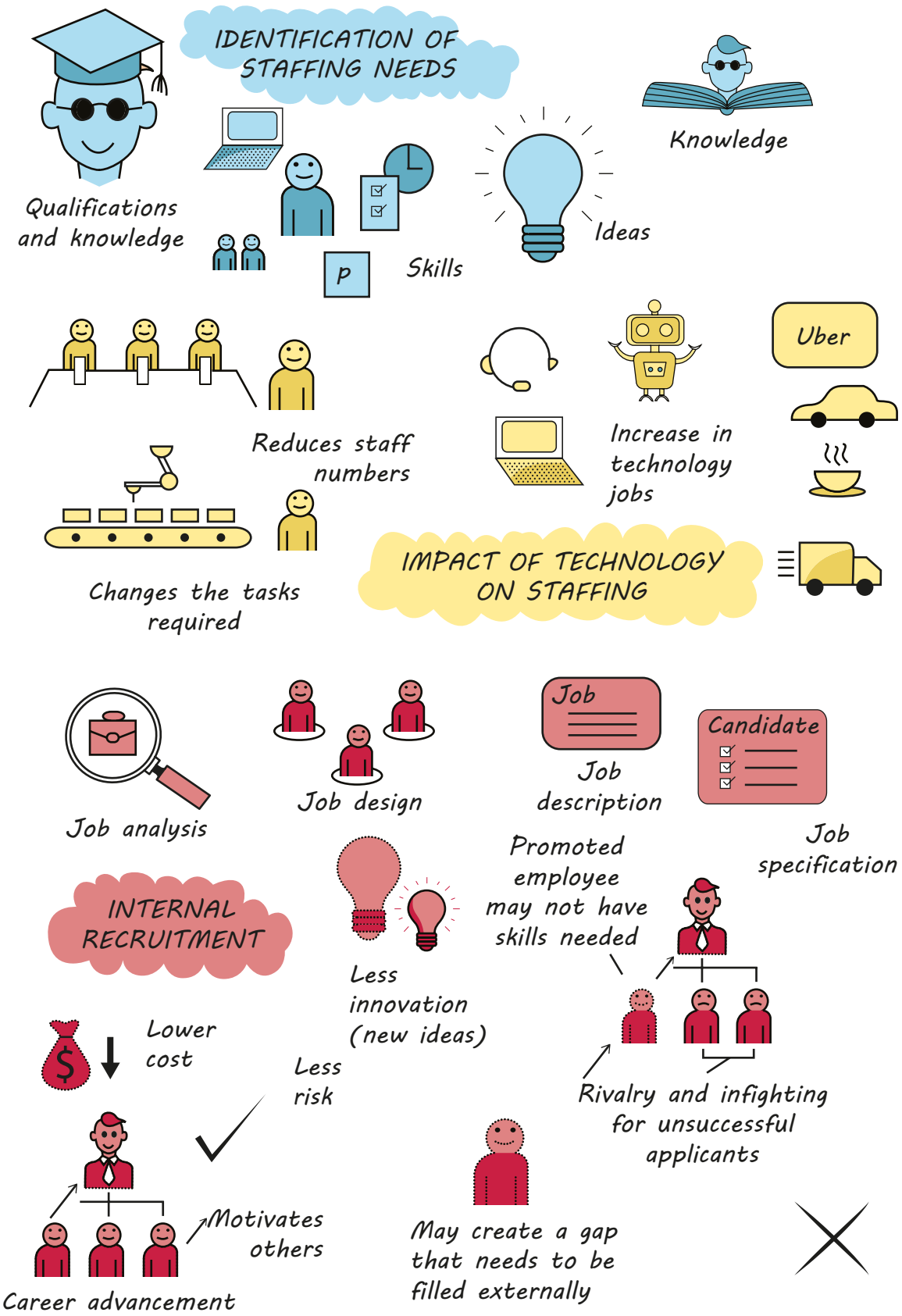
Success criteria – I am now able to:		Linked questions	Completed (Y/N)
16.1 Overview of the National Employment Standards (NES)	**16.1.1** Identify, define and describe the NES	Activity 16.1 Case study 16.1: Q2 Review activity 16.1: Part 1 & Part 2	Yes ☐ No ☐
	16.1.2 Apply knowledge to practical/ simulated situations	Activity 16.1	Yes ☐ No ☐
16.2 Employer expectations	**16.2.1** Outline, identify and describe employer expectations	Review activity 16.2: Part 1 & Part 2	Yes ☐ No ☐

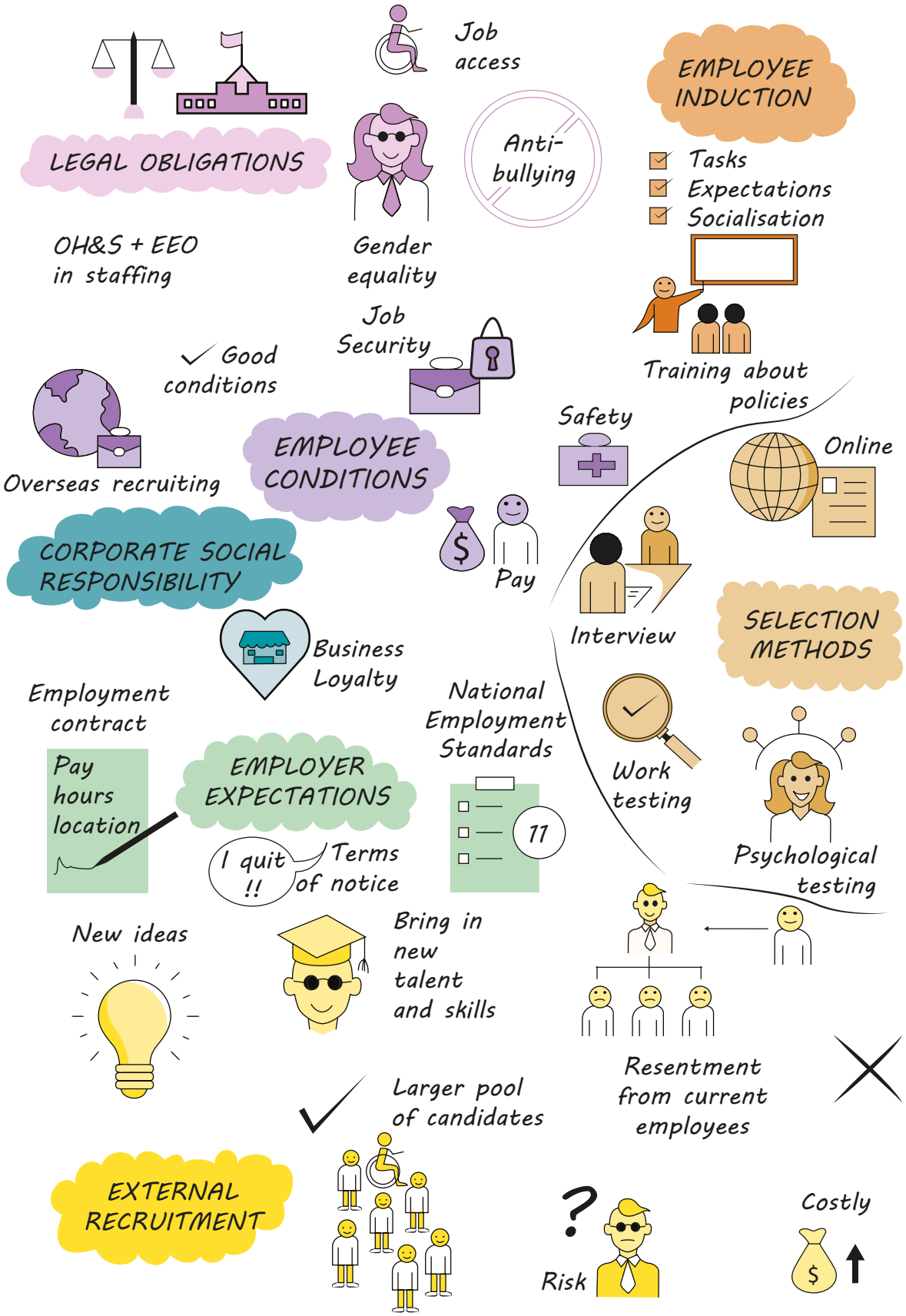
Success criteria – I am now able to:		Linked questions	Completed (Y/N)
	16.2.2 Explain and discuss employer expectations	Review activity 16.2: Part 1 & Part 2	Yes ☐ No ☐
16.3 Employee expectations	**16.3.1** Identify, define and describe employee expectations	Review activity 16.3: Part 1 & Part 2	Yes ☐ No ☐
	16.3.2 Apply and explain knowledge related to case studies	Case study 16.2 Case study 16.3	Yes ☐ No ☐
	16.3.3 Discuss remuneration options	Review activity 16.3: Part 1 & Part 2 (Q3)	Yes ☐ No ☐
16.4 Legal obligations for staff	**16.4.1** Outline, identify and describe legal obligations for staffing	Activity 16.2 Review activity 16.4: Part 1 & Part 2	Yes ☐ No ☐
	16.4.2 Apply business management knowledge to practical and/or simulated business situations	Activity 16.2	Yes ☐ No ☐
16.5 Purpose and common methods of employee induction	**16.5.1** Identify and describe methods of employee induction	Review activity 16.5: Part 1 & Part 2	Yes ☐ No ☐
	16.5.2 Propose and apply business management concepts and terms	Review activity 16.5: Part 1 & Part 2	Yes ☐ No ☐
16.6 Corporate social responsibility management considerations when establishing staffing for a business and overseas recruitment	**16.6.1** Interpret business information and ideas related to CSR and contemporary examples	Activity 16.3 Activity 16.4 Review activity 16.6: Part 1 & Part 2 Extension	Yes ☐ No ☐
	16.6.2 Discuss the concept of CSR	Activity 16.3 Activity 16.4 Review activity 16.6: Part 1 & Part 2	Yes ☐ No ☐
	16.6.3 Identify, describe and explain diversity in the workplace	Activity 16.3 Activity 16.4 Review activity 16.6: Part 1 & Part 2	Yes ☐ No ☐

Digital activities

- Access the Interactive Textbook via Cambridge GO to complete a Scorcher timed competitive quiz for this chapter.
- From their Cambridge GO account, your teacher can also assign practice VCAA-style assessment questions with model responses.

Unit 2 Area of Study 3 review Conceptual summary





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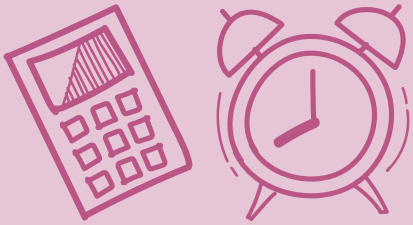
Key knowledge summary: Unit 2 Area of Study 3

Key knowledge	Summary
• The relationship between the performance of staff and achieving business objectives	• 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 stakeholders 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.
• Identification of the staffing needs of the business such as the knowledge, skills and ideas staff can contribute to the 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 four generations with different expectations currently in the workplace – diversity in the workplace. • Employees can contribute fresh ideas and insights to improve the business.
• The effects that developments in technology may have on staffing needs	• Technology has directly impacted on the staffing needs of businesses. • Automation, robotics, artificial intelligence, cloud computing and other forms of technology are having wide-ranging effects 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.
• Job analysis and its relationship to job design, job description and job specification	• 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.



Key knowledge	Summary
• 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.	• 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 methods such as interview, psychological testing, work testing, online selection, and the advantages and disadvantages of each	• 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, online selection, different forms of testing and undertaking background checks.
• Overview of the National Employment Standards	• The National Employment Standards (NES) set out 11 minimum standards that must be reflected in all agreements that relate to pay and working conditions for employees.
• Employer expectations such as contracts of employment, loyalty and terms of notice	• Employers expect their employees to enter into contracts of employment, to be loyal to their business and to provide appropriate terms of notice in the event that they resign or retire from the business.
• Employee expectations such as conditions of employment, remuneration, job security and work–life balance	• Employees also have expectations that relate to their employment. They want their conditions of employment to provide for fair remuneration for their labour. • Remunerations can take the form of wages, salary, a salary package and benefits. • Employees like to feel assured that they have job security; however, this expectation is often now not being met. • Employees' expectation of having work–life balance is placing increasing demands on employers. • This expectation 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.

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Key knowledge	Summary
• Overview of legal obligations for staffing such as occupational health and safety (OH&S) regulations and equal employment opportunity (EEO) legislation	• Legal obligations require employers to provide a safe and healthy workplace (OH&S) for staff. • Equal employment opportunity legislation regulates workplaces to ensure that businesses are working towards creating equal employment opportunities and eradicating discrimination, harassment and bullying in workplaces.
• The purpose and common methods of employee induction	• 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.
• Corporate social responsibility management considerations regarding establishment of staffing for a business and overseas recruitment	• Managing a business's commitment to corporate social responsibility when establishing staffing (both local and overseas) can be achieved through a range of policies and strategies, such as: – creating a diverse workforce – establishing policies to support employees – establishing policies that link employees to their communities. • Policies that create a flexible and family-friendly workplace and establish Employee Assistance Programs treat staff with respect and provide the help need to overcome or balance their work and personal life. • Community engagement and volunteering 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.

Source: VCE Business Management Design extracts © *VCAA; reproduced by permission*

Sample assessment questions and advice

Unit 2 Area of Study 3: Staffing a business

In this section we will look at some sample assessment-style questions. Although there is no external examination for Units 1&2, the following questions are written in a VCAA-examination style to prepare you for these types of questions.

Today we are looking at Area of Study 3.

There are a range of key skills covered in Chapter 16:

- define, describe and apply relevant business management concepts and terms
- research and analyse case studies and contemporary examples of business management applicable to establishing staff in a business
- apply business management knowledge.

Another part of this Area of Study is corporate social responsibility considerations when staffing a business.

These considerations can include:

- diversity in the workforce
- policies to support employees
- policies to support links to the community.



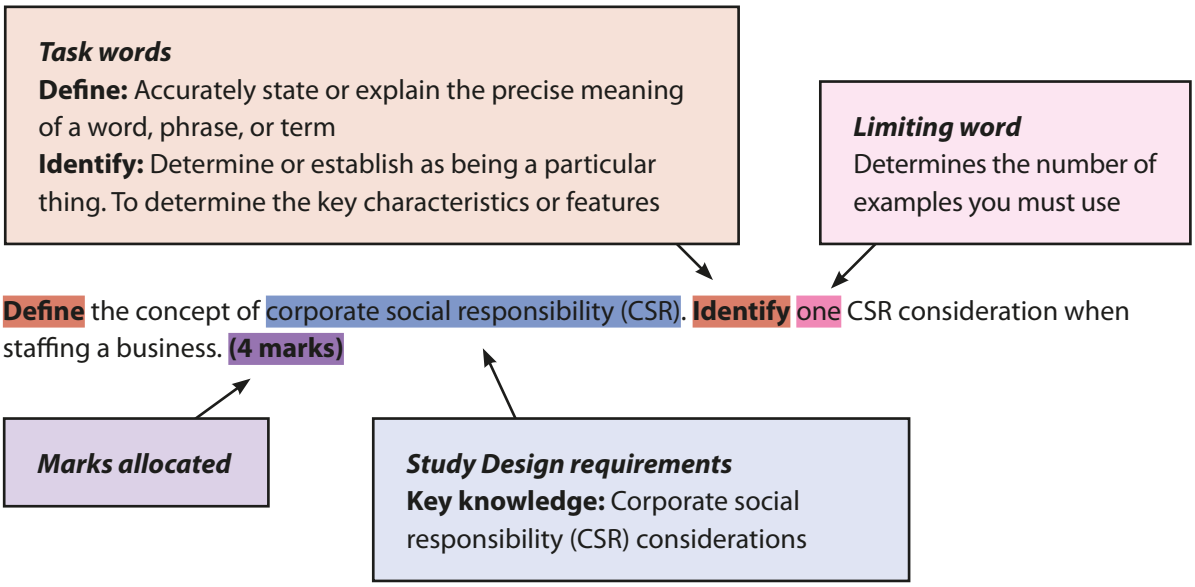
Let's explore how these skills might be assessed through the following example question.

Question 1

Define the concept of corporate social responsibility (CSR). **Identify** one CSR consideration when staffing a business. **(4 marks)**

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Extended response question – let's unpack it



Hints:

- Firstly, you need to 'define' the concept of Corporate Social Responsibility (CSR).
- You need to 'identify' one CSR consideration that relates to staffing a business.
- Remember that CSR impacts on all areas of a business and is an important consideration across many aspects of the business. This chapter and its key skills and knowledge relate to staffing a business and employees.

A possible answer to the question might be:

Sample response

Corporate social responsibility (CSR) can be defined as a business's sense of responsibility towards the community and the environment. A business can express their CSR through a range of activities such as waste and pollution reduction, contributing to community programs and ensuring employees feel that they are contributing to the local community.

There are a number of CSR considerations that a business needs to take into account when managing employees and staffing their business. One consideration is ensuring that the workforce is diverse. Creating a diverse workforce is a proactive approach. A business should ensure that the workplace is discrimination-free and that all employees are treated equally. Diversity of the workforce may include employing mature-age workers who bring many years of knowledge and experience with them. Employing people who have a disability can also bring a range of skills, experiences and qualifications to a business. In addition, a business can employ people from different cultural backgrounds such as Indigenous peoples and people born overseas.

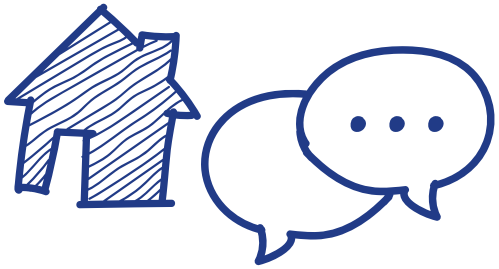
Marking guide:

Note: other considerations can be policies relating to employees and policies developed to make links to the community.

- 2 marks for defining the concept of CSR.
- 2 marks for identifying one CSR consideration related to staffing a business.

Total 4 marks

Glossary



accountability the extent to which a business takes responsibility for its actions and is willing to reveal its actions and processes in a clear, transparent manner

advertising informing potential buyers about a product

application the processes involved in applying for an advertised position, usually completed through a letter or form

application form a document that covers basic information about a potential employee, such as qualifications, experience and job-related data

aptitude test a test of special abilities (e.g. clerical, language, artistic) that are required for a specific job

artificial intelligence (AI) combines computer science using an expert system with access to robust databases to assist with problem solving

Australian Business Number (ABN) an 11-digit identifier of a company

Australian Company Number (ACN) a nine-digit number to be used on a company's common seal and all public documents involving the company

automation the use of automated technology to fulfil functions or processes rather than humans

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

Better Life Index (BLI) a measure established by the OECD that measures the quality of life of countries in a range of economic, social and health areas

bootstrapping a method of financing a new business with personal savings or invested funds from family or friends; can be supported by working to keep costs down and using revenue to grow rather than borrowing

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 a business with a physical presence such as a shopfront or an office, and involves face-to-face interaction with customers

brokerage the activity of buying and selling foreign money, shares in companies, etc.

bullying someone in the workplace who repeatedly behaves unreasonably towards another person or group of people and causes a risk to health and safety in the workplace

business angel an individual who provides a small business start-up with capital, generally in return for ownership equity or convertible debt

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

business concept an idea for a business including the actual product, the target market plus the proposed competitive advantage

Business Enterprise Centres a national network of centres that serve as a first point of contact for business owners seeking business information, advice and guidance

business goals represent the aspirations of the business and describe what a business aims to accomplish

business hub physical space such as an office where businesses and individuals can meet for work

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 location the geographical site of a business

business model the plan implemented by a business to generate revenue and make a profit

business objectives the stated, measurable targets to determine how a business will achieve its goals

business plan the formalised planning a business undertakes on a periodic basis

business routines processes that are regularly practised in a business

business strategy the plan or process that a business implements to achieve its long-term goals and objectives

by-laws local government laws/regulations relating to activities within a municipality

capability 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 often appointed by oral contract (not written) for short-term, non-regular, 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 has previously traded using a bricks-and-mortar business model and that has adopted online services and sales in addition to their traditional model

code of conduct guidelines to regulate standards of behaviour and conduct either within an organisation or 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

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

complementary business a business that offers products that are related to or could enhance those of another business

complementary pricing where the price is set low on one item and high on another item that would normally go together

conditions of employment the specific remuneration or benefits that an employee will receive from an employer in exchange for work

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

consumer behaviour the study of the behaviours and strategies of customers when choosing, using and disposing of products or services

consumer confidence how consumers or customers are feeling about the future. If they are confident, they are more likely to spend.

consumer profile a statistical picture of the typical consumer of a product based on demographic data; for example, income, age, gender and occupation

contract legally binding agreement that incorporates the following elements: offer, acceptance and the intention to enter into legal relations

contract of employment a written agreement made between an employee and an employer that outlines the legal requirements and responsibilities of both

copyright exists to protect the original expression of ideas (not the ideas themselves). Copyright in Australia is free and automatic and there is no official registry or application process.

corporate citizenship acceptance by a corporate entity of its responsibility to stakeholders for actions and decisions

corporate social responsibility (CSR) a management concept whereby the business conducts itself in an ethical manner, takes responsibility for the economic, social and environmental consequences of its activities, and is accountable to a wide range of stakeholders, including employees, customers and suppliers

council grants funds provided by local councils to businesses and individuals to encourage new businesses to establish and provide employment in the local government area

coworking space a shared space that is designed for diverse groups of professionals, sole traders and small businesses to work independently in a communal setting

crawler an internet bot that systemically browses the World Wide Web operated by search engines for the purpose of indexing

crisis public relations when a crisis or major issue has arisen that the business has to respond to and manage their brand

crowdfunding donations from the public to raise funds for a one-off project; typically used by artists and entrepreneurs

customer someone who buys goods or services

customer base the people or entities that regularly purchase products or services from a business

customer database the collection of information gathered from each customer

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 that uses marketing strategies and activities to develop relationships with clients, gain customer loyalty and bring value to the brand

data analytics a process where raw unstructured data is examined to make predictions, find trends, answer questions and draw conclusions

decision-making the process of making a choice between two or more alternatives

demographic the population in a particular age group, type, or target market to which a business will try to attract and target their product or service

descriptive research research that incorporates consumers' attitudes, intentions and behaviour

direct distribution sales channel where a manufacturer sells the product directly to the customer

disability an ongoing physical or mental condition experienced by a person, which reduces their ability to complete certain activities

discrimination unfair treatment of an individual based on a range of factors such as race, age, sex, ethnicity, or religion

diversity the inclusion of people from different backgrounds, including race, ethnicity, religion, sex, gender, socioeconomic status and age

domain name a unique name identifying the website in a web address

e-commerce business a business that has never owned a physical shopfront, and has always operated only online

employee a person working for another person or a business for wages or a salary

Employer of Choice a business that is regarded as an excellent place to work

employment levels the rate or number of people who are in the workforce and working either part time or full time. When employment levels are high, the economy is usually growing.

enterprise agreement a written collective agreement made between an employer and the employees at a workplace, setting out the terms and conditions of employment

entrepreneur an individual who creates a new business, bears most of the risks and enjoys the rewards. An entrepreneur is usually an innovator and a source of new ideas, products and services.

entrepreneurship the ability to 'think outside the box' and come up with new and different ways of seeing things. This ability and skill set often see new products developed.

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) the practice of making sure that all applicants have an equal and fair chance to secure a position regardless of their age, race, sex, ethnicity, or physical or mental disability

evidence information that identifies type of transaction, its date, parties and financial value (if any)

exchange rates the value of a currency against another one. The Australian dollar is usually compared to the US dollar. The exchange rate can influence the overseas sales of a business.

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 one who sells home-country products overseas

exports goods and services that are traded to another country from Australia

external environment consists of two environments, the operating and the macro environment

external recruitment the process of assessing and selecting candidates, other than existing staff at a business who would be qualified and appropriate to perform a vacant role

fair trade a system of trade in which buyers from developed countries purchase products from producers in developing countries for a fair and ethical price

Fair Work Commission (FWC) Australia's national workplace relations tribunal. Its role is to assist employees and employers to maintain fair and productive workplaces.

Fair Work Ombudsman (FWO) an independent statutory agency of the Australian Government 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

finance the management of money, or the money belonging to a person, group, or organisation

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

focus group between six and 12 participants gathered together in an informal setting to give their opinion on a product or service

food miles a system of measurement that calculates the distance a food product travels from production to consumption

foot traffic the number of people walking past a business

franchise where a business owner (franchisor) grants another (franchisee) the right to use their trademark or trade name, business systems and processes

franchise agreement a legal document that outlines the rights and responsibilities of the franchisor and franchisee

franchisee an individual who opens what might be viewed as a branch of a company, purchasing the right to use trademarks, associated brands and access to proprietary information and strategy

franchisor the company or individual owning/controlling the rights to grant franchises to potential franchisees

general partnership where 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

goal setting the process of identifying desired aims and the steps to achieve them

going rate setting a price for a product or service using the 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 business reputation and trading contacts

green marketing the marketing of products that are presumed to be environmentally preferable to others

Gross Domestic Product (GDP) the total value of production of goods and services in the economy in a given period of time. Increase in GDP is used to measure economic growth.

harassment behaviour designed to make a person feel uncomfortable, offended, humiliated, or intimidated

household saving ratio is calculated by dividing household savings by household disposable income. A higher household savings ratio indicates households are spending less and saving more. Lower spending typically reduces demand for credit, negatively affecting industry operators.

human resource management (HRM) the methods of managing the human element of a business (employees), encompassing a wide range of responsibilities, which are implemented to ensure a good working relationship between employees and the business and therefore increase efficiency

importer one who purchases overseas products for resale in their home country

imports goods and services that are brought in from another country to Australia to use

incorporation the process in which a business or corporate entity is legally declared separate from its owners

indirect distribution channel where 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

industry association representative body for a particular industry

informative advertising advertising that gives consumers factual information about a product rather than creating a product image

infrastructure roads, transport, electricity, gas, internet and other essential services provided by various levels of government

initial public offering (IPO) floating on the stock market involving publicly offering shares in the business to raise capital

innovation a new or improved product/s or method/s of doing things and is often the impetus for a new business venture

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 can be difficult to value, such as patents, trademarks, copyrights, franchises, trade names and goodwill

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

interest rates the cost involved in borrowing money. Interest can also be earned when money is invested in the bank or other financial institution.

internal environment comprises all of the elements within a business

internal recruitment the process of assessing and selecting from existing staff at a business who would be qualified and appropriate to perform a vacant role

international trade record of the exchange of goods and services between Australia and other countries. It can be measured through the balance of payments.

interview a meeting that is held between an employer, or a representative of an employer, and an applicant in order to determine whether or not an applicant should be shortlisted or hired

intranet the internal or private network of a business based on internet technology

job a collection of tasks and duties that an employee performs

job analysis a detailed examination of a certain job, including an analysis of the specific duties and requirements of the job and their relative importance

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 overview of a particular position, including details such as the position title, duties and responsibilities, and its position in the overall organisation

job design the grouping together of tasks for a particular job, which should incorporate variety and challenge for the job holder

job enlargement increasing the size or level of difficulty of a particular position by merging various tasks and responsibilities at a similar level

job enrichment making a job more challenging, which requires workers to use their full capabilities and gain personal growth

job rotation where workers are moved between different jobs to increase the variety of work and to create a more flexible workforce

job specification a 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 a primary factor of production that involves the human physical and mental effort required to create products or services

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 a document or permit that gives official permission to do, use, or own something

limited liability where 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

long service leave a period of paid leave granted to an employee who has served a specified period of continuous employment

loss leader where the price on a product is set low in order to attract customers to buy other products in the range that have a higher profit margin

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 environment consists of factors directly affecting businesses that are outside their control

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.

mark-up pricing determined by adding gross profit to the direct cost per unit; usually expressed as a percentage

market a group of customers with like needs and desires who may purchase products or services from sellers through the exchange of money or other things of value

market niche where a business can find a gap or space in an industry or market. It usually means that there is something unique about their product or service so customers will buy from the business.

market penetration a pricing strategy that aims to set low prices initially to gain high market share quickly

market positioning where a product is placed within a market with regards to its image, price and age of the target market

market research a systematic approach that 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; it defines and subdivides a large generic market into distinct subsections of potential customers who have similar specific needs and wants

market-oriented approach a business strategy that focuses on the needs and wants of consumers and develops products to meet them

marketing the process that provides the link between producers or providers of goods and services and the consumers of these

marketing concept where 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

mass marketing a marketing strategy that seeks to attract the attention of all market segments through the use of mass distribution and mass media

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

mentor person who offers their knowledge, wisdom and advice to someone with less experience

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

modern award an agreement that sets out minimum terms and conditions of employment relating to an industry or occupation

multi-channel where a retailer sells products both online and in 'bricks-and-mortar' stores

National Employment Standards (NES) 11 minimum employment entitlements that have to be provided to all employees in Australia; however, only certain entitlements apply to casual employees

natural resources raw, natural materials such as timber, mineral deposits, or fresh water that have economic value

network an interconnected system of people or businesses

niche market is a subset of a larger market with its own particular needs or preferences

occupational health and safety (OH&S) laws concerned with the safety and welfare of people engaged in work or employment

offshoring when work is done in another country; for example, aircraft maintenance conducted in Hong Kong or app development carried out in India

online business a business that conducts activities via the internet

online sales when a business does not sell goods to a customer face to face; customers purchase their goods online, usually through a website

operating environment the environment immediately external to a business

operational planning the detailed, short-term planning undertaken by a business

overdraft an extension of credit that permits an account holder to withdraw more money than they have in their account

overseas competitors businesses not based in Australia that compete with the Australian business

overseas markets markets or customers in another country that buy a business's products and services

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 that outlines the duties and responsibilities of the parties to a partnership

patent 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.

penetration pricing a strategy 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 relationship with those customers.

permanent full-time where the employee signs a continuing contract of employment

permanent part-time the employee signs a continuing contract, with the same employment conditions, but will work fewer hours than a full-time employee

personal selling where a 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

planned public relations strategies which are established ahead of time, setting out a series of steps to be undertaken and the methods that will be used

planning a formalised decision-making process that is future oriented

policy a deliberate system of guidelines and statement of intent

population the entire group under study as defined by the research objectives

premium periodic payment made to an insurance company

press/media release a statement used by a business to inform the media of a new product release, or a major announcement or change. Public relations officers will release a statement to encourage the media to write about the business or its product favourably.

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 where 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 that a business collects directly from first-hand experience and sources

private company a company where the shareholding is limited with shares being sold privately

procedures the steps used to implement a policy

procurement policy the specific regulations that a business uses to guide the process of procuring goods and services that are necessary for business

product a good or service in its final state after having gone through all stages of the production process

product development the design and development of new or existing products

product differentiation where 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, and 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

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

promotion (2) the use of advertising, branding, sales promotion and public relations to inform and persuade consumers; one of the 7Ps of the marketing mix

psychological pricing a strategy whereby the price is set in accordance with the value consumers place on the product

public the 'public' is the group/s the business wants to attract and get their message to. The public may include employees, customers of the business and suppliers.

public (listed) company a larger company with unlimited shareholders; shares are freely traded on the stock exchange

public liability insurance the protection of businesses against damages or injuries to another person or property

public relations the practice of promoting goodwill among the public to present a favourable image and is primarily concerned with the image of the business portrayed to the public

publicity a 'free' form of mass communication with the aim of attracting favourable attention to a business. Methods include media releases, open days, sponsorship and brochures.

qualitative research research based on in-depth, open-ended responses that focus on emotional or motivational aspects of consumer behaviour

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 a form of survey where questions are asked of respondents

record keeping maintaining accurate records of all matters related to business activities

recruitment the process of locating and hiring the most suitable applicants for a position

Registered Business Name (RBN) a trading name under which a person (sole trader) or partnership conducts its business or trade

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 new and improved ways to conduct business and develop goods and services to support the standard of living of Australians

risk assessment an assessment of the level of risk for which insurance cover is sought, conducted by an insurance company

robotics the study, design, construction and operation of technology relating to robots and automated technology

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, 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

search engine a program that searches for and identifies items in a database that corresponds to key words or characters specified by the user, specifically for finding particular sites on the World Wide Web (www)

search engine optimisation (SEO) the process of maximising the number of visitors to a particular website by ensuring that the site appears high on the list of results returned by a search engine

secondary data information that has been gathered previously by external sources

selection a process undertaken by a business to decide whether to make a job offer to a candidate

separate entity involves the separate recording of transactions of a business from its owners

shareholder owner of a company

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 throughout Victoria

SMART objectives or goals that are specific, measurable, attainable or achievable, relevant or realistic, and timely or timebound

social capital refers to the resources available to people and entities because of their networks. The assets we possess due to the social relations we develop and maintain, and the shared values which arise from those networks, make up social capital

social enterprise private-sector business that distributes profit to benefit the community rather than individual shareholders

social media forms of electronic communication through which users create online communities to share information, ideas, personal messages and other content

sole trader an individual who exclusively owns and runs a business and retains all profits, but who is responsible for all losses and legal aspects of the business

source documents documents that provide evidence of transactions

special interest group a group or organisation seeking or receiving special advantages or privileges

specialist support services professional advisors; for example, lawyers, financial advisors and operational advisors

staff a group of persons, as employees, charged with carrying out the work of a business

stakeholders people who have a vested interest in a business

start-up commencement of business operations

start-up hubs set up to allow people to use a workspace and network with others when starting up their own business

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 or process in which resources, information, organisations and people collaborate to move a product or service from suppliers to manufacturers and then on to consumers

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

taxes are levied by federal and state governments on individuals and businesses. They provide a source of revenue for a government.

team a group of employees with different tasks and skills working together on a common project, service, or goal

technological development the innovations and improvements in technology that can assist a business in carrying out work

total quality management (TQM) a concept whereby all staff in a business have responsibility for its process and output

trademarks are important as they protect a business from others using their reputation or products. A trademark is a protection that can be granted for any aspect of marketing. Registered trademarks are protected legally, and misuse of trademarks can be pursued under law.

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 where the new owners operate a business alongside the former owners before final handover

union a group of workers and employees who have banded 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 that their personal assets could be seized to pay debts

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

venture capital money that is given to start-ups and small businesses with perceived growth potential by investors

viability whether the business is capable of developing and growing

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

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 businesses contribute to the economic and social wellbeing of a nation. While GDP can be used to measure economic growth, there are also other measures that can be used.

word-of-mouth an oral or written recommendation by someone

work–life balance the relationship between a person's work and the commitments in the rest of their life

WorkCover a 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

workforce planning a continual process of assessing and forecasting the number of employees required for a business to meet demand

workplace relations the relationship between employer and employee with regards to contractual, emotional, physical and practical concerns

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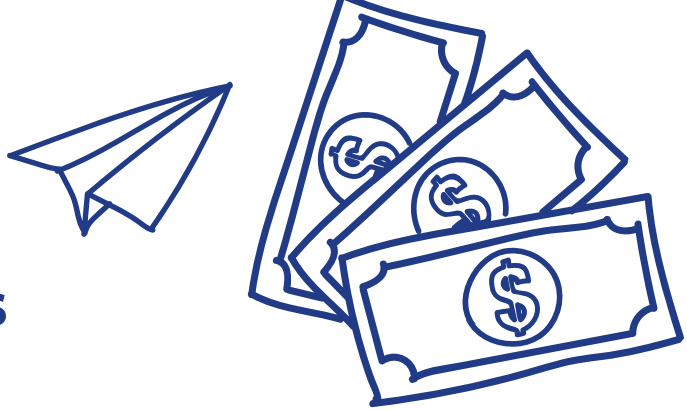
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CASE STUDY
2.2



Ramsay Australia

Ramsay Australia is Australia's largest hospital operator with 72 private hospitals and day surgeries, employing more than 31 000 staff.

Ramsay has focused on maintaining the highest standards of quality and safety, being an employer of choice and operating its business according to The Ramsay Way philosophy: 'People caring for People.'

Our Purpose: 'People caring for people'

Our Vision: 'To be a leading health care provider of the future'

Our Mission: 'To change what is possible for your health'



Figure 2.6a Ramsay Health Care is a global company operating in 10 countries with over 460 locations, and it treated over eight million patients in 2021.

Ramsay Health Care Values
The Ramsay Way

People are at the heart of our success. As 'people caring for people' there are three key approaches:

We value strong relationships

Healthy relationships lead to positive outcomes. We look out for the people we work with, and we respect and recognise them. Strong healthy relationships are the foundation of our stakeholder loyalty.

We aim to constantly improve

We do things the right way. We enjoy our work and take pride in our achievements. We are not afraid to challenge the status quo to find better ways.

We seek to grow sustainably

Maintaining sustainable levels of profitability are only part of our success. We prioritise long-term success over short-term financial gains because we care about our people, our community and our planet.

Source: Ramsay Health Care 2021 Investor briefing.

CASE STUDY ANALYSIS

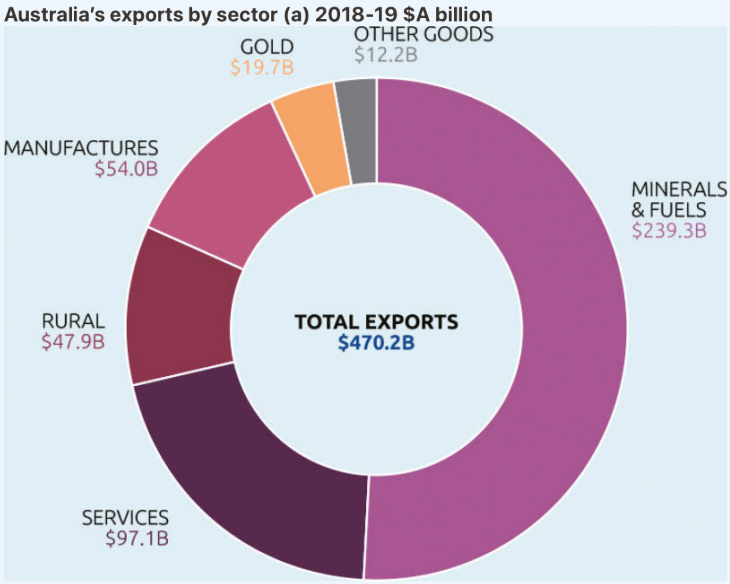
1. **Outline** Ramsay's vision statement and **explain** why this statement is significant.
2. **Suggest** three actions that will support Ramsay's vision statement.
3. **Describe** the purpose of the Ramsay Way values.

CASE STUDY
3.2

Australia's international trade



Total exports for Australia



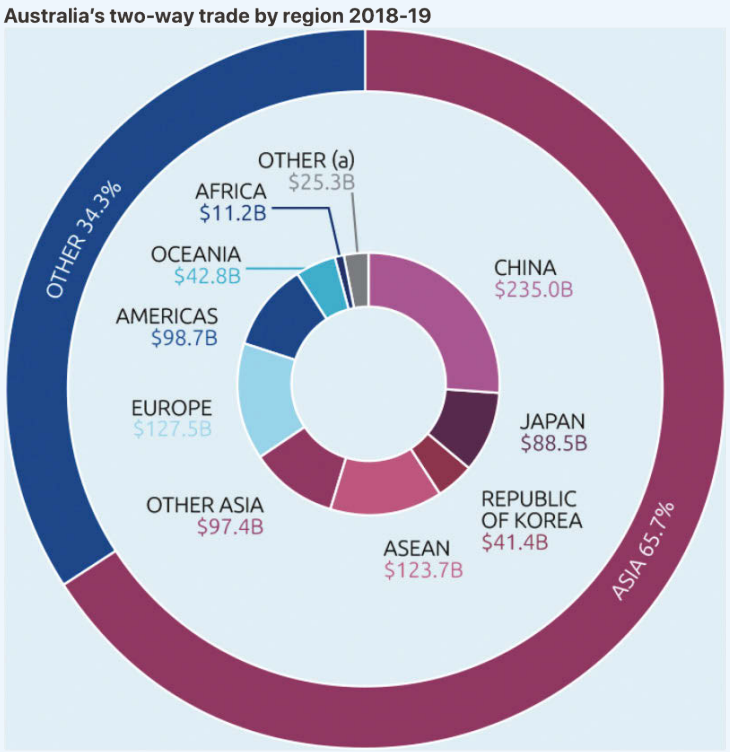


Figure 3.2a Two-way trade and trading partners

CASE STUDY ANALYSIS



Video 3.1
Free trade agreements

Read the case study and watch the video.

1. **Examine** the diagrams outlining trading countries and Australia's main exports. **Explain** what effect these have had on the living standards of Australians.
2. **Discuss** why it is important for countries to develop trade, markets and agreements with other countries.
3. **Explain** the impact that trade can have on the wellbeing of the economy.
4. Referring to the video, **explain** what Australia's Free Trade Agreements (FTA's) are.

CASE STUDY
4.4

Aussie toilet paper subscription start-up Who Gives a Crap donates $5.85 million to charity



Despite the funny name, Who Gives a Crap is a serious Australian-based social enterprise, manufacturing environmentally friendly toilet paper from recycled paper or bamboo.

The Melbourne-based company was established to help solve an issue that 2.3 billion people around the world face – no access to a toilet. Closely related is the poor sanitation and water supply that leads to disease where 700 children under the age of five die each day.

Launched in 2014 through a crowd funding campaign, Who Gives a Crap has donated half of its profits towards building toilets with organisations such as Water Aid Australia and Sanergy.

Since the panic buying of toilet paper that left Australian supermarket shelves bare in 2020, Who Gives a Crap sales have increased by 1000%. The spike in sales related to COVID-19 panic buying meant that the social enterprise was able to donate $5.85 million, a 750% increase from the previous year.

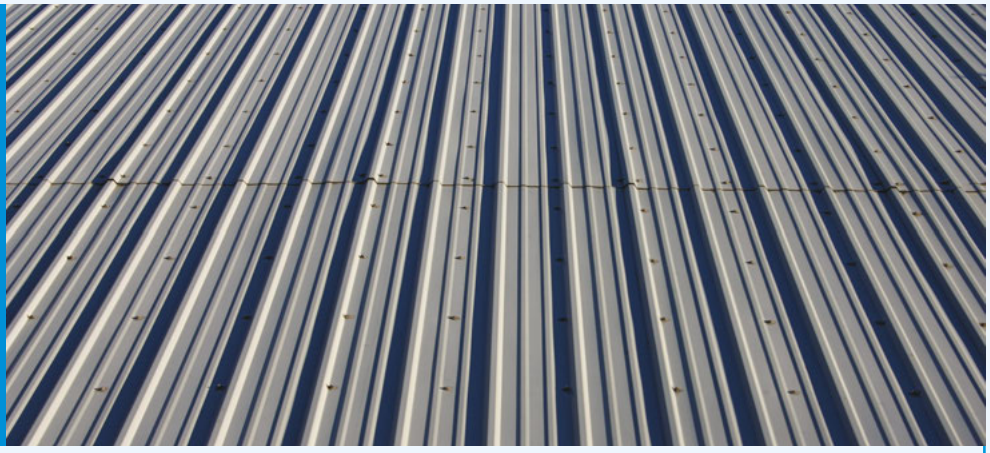
Source: Adapted from Stephanie Palmer-Derrien, 'Aussie toilet paper subscription startup Who Gives a Crap donates $5.85 million to charity, following bumper panic-buying profits', www.smartcompany.com.au, 10 July 2020.

CASE STUDY ANALYSIS

1. **Summarise** the evidence in this article that Who Gives a Crap is a social enterprise.
2. **Suggest** why this social enterprise has been so successful.
3. The panic buying of toilet paper in 2020 provided the opportunity for Who Gives a Crap to meet consumer demand and increase sales. **Discuss** the notion that social enterprises need to make a profit to be successful.

CASE STUDY
5.1

Thomas Foods to create 2000 jobs at new plant in South Australia



According to Thomas Foods CEO Darren Thomas, the new abattoir at Murray Bridge in SA will create around 2000 jobs. 'We plan to build the best, most advanced multi species processing facility in Australia, if not the world,' said Thomas. 'We want our facility to be world class in adapting the latest advancements in technology, efficiency, environmental sustainability, animal welfare and workplace safety.'

The huge packaging building will have the capacity to store 40,000 cartons of frozen and chilled meat products within the storage and retrieval system, and will feature the latest in automation and robotics technology. Stage One of the development features:

- beef processing and animal handling facilities
- a beef boning room with automated packaging technology
- stockyards
- administration facilities
- a wastewater treatment plant
- fully automated carton chilling, freezing and storage systems.

Construction has been a 24-month process with the build expected to be finished in late 2022. Recruitment of the first management positions has already begun, with recent advertising for a Quality Assurance Manager and a Group Environmental & Sustainability Manager.

Sources: Extracted from information on Thomas Foods website; articles in Adelaide Independent News*: Andrew Spence, 'Thomas Foods Murray Bridge plant takes shape', 24 September 2021; Melissa Keogh, 'Thomas Foods rises from the ashes with multi-million dollar abattoir, 2000 jobs for Murray Bridge', 2 September 2019.*

CASE STUDY ANALYSIS

1. **Identify** the natural, human and capital resources required for the Thomas Foods Abattoir.
2. **Describe** two factors that affected the choice of resources for the plant.
3. **Explain** why workforce planning is important in preparing for the opening of this facility.

CASE STUDY
7.2

‘No refund’ signs and consumer rights: Mazda



The Federal Court has found that Mazda Australia Pty Ltd engaged in misleading and deceptive conduct and made false or misleading representations to nine consumers about their consumer guarantee rights.

The consumers had each requested a refund or a replacement vehicle from Mazda, after experiencing serious and recurring faults with their new Mazda vehicles within a year or two of purchase.

Mazda ignored or rejected the consumers’ requests, telling them the only available remedy was another repair, even though the consumers’ vehicles had already undergone multiple unsuccessful repair attempts, including complete engine replacements. One vehicle had three engine replacements.

After repeated attempted repairs Mazda offered to refund only a portion of the vehicle’s purchase price, or offered a replacement vehicle only if the consumer made a significant payment.

The Court found that Mazda made 49 separate false or misleading representations relating to the nine consumers.

Specifically, the Court found that Mazda misled these consumers about their consumer guarantee rights even though a consumer’s rights under the Australian Consumer Law also include a refund or replacement when there is a major failure.

The Court also found that Mazda misled the consumers about their consumer guarantee rights by representing that they were not entitled to a refund or replacement vehicle at no cost, when in fact consumers do not have to make any financial contribution to receive the remedies that they are entitled to under the Australian Consumer Law.

‘Mazda engaged in long, drawn-out discussions with the consumers, often multiple times a day over months, in which it misled the consumers about their rights,’ ACCC Chair Mr Sims said.

‘The message to the new car industry is clear: consumer rights are not negotiable and must not be misrepresented to consumers,’ Mr Sims said.

‘If a vehicle cannot be repaired within a reasonable time, or at all, consumers have a right under the Australian Consumer Law to a refund or replacement.’

Source: Abridged from ‘Mazda misled consumers about their rights over refund or replacement for faulty cars’, ACCC website, 30 November 2021.

CASE STUDY ANALYSIS

1. **Explain** why Mazda was found to have engaged in misleading and deceptive conduct by the Federal Court.
2. **Explain** why it is important for a business to ensure it meets its legal obligations towards consumers.

CASE STUDY
7.6

Technology and business planning: experts' predictions about innovations by 2030



Social media: Experts see a reckoning coming for social platform companies and leaders that will lead to large-scale changes. Some expect serious efforts to break up such firms, and some predict the rise of new platforms designed to make their users' best interests paramount.

Privacy issues: Actions will be taken to better protect people's privacy online. It is suggested that these concerns may be addressed through stricter regulations around advertising, a focus on privacy and how to manage this online, and more laws around digital technology.

Misinformation: Due to growing concerns about the accuracy of information encountered online, efforts will be made to identify and address misinformation and manipulation of information.

Political and government reform: Democratic activity and government policymaking will open to more citizen engagement, and public activism will grow.

Social connectivity: A number of innovations will help connect people and bring them together for a common purpose.

Healthier living: Innovations will address physical and mental health; major change is coming for the health care sector.

Artificial intelligence: AI will continue to improve and be applied to improve human lives online and offline.

Education reform: Education systems will evolve in response to many multilayered societal changes.

Labour and jobs: Business practices, individuals' work lives and the larger economy will substantially change by 2030. This may include shorter working weeks, more specialised roles and AI-enhanced adaptive learning.

Environmental issues: Climate change and other environmental issues will inspire innovation out of necessity. It is likely that digital technologies will assist with this and improve collaboration between people and countries.

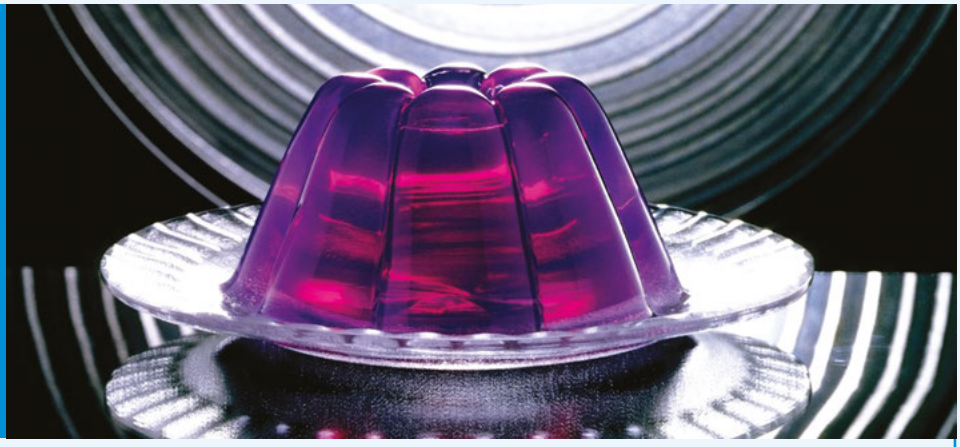
Source: Abridged from Emily A. Vogels, Lee Rainie & Janna Anderson, 'The innovations these experts predict by 2030', Pew Research Center, 30 June 2020.

CASE STUDY ANALYSIS

1. How can three of the issues or innovations outlined in the article impact on business planning?
2. **Explain** why it is important for a business to try to predict and plan for technological developments.

CASE STUDY
7.7

Australia's expansion into new markets: McCormick



McCormick & Company Inc. opened a new environmentally friendly, multi-purpose head office in Australia.

Based in Melbourne, McCormick's new complex houses the company's new Australian head office. The complex also includes a Technical Innovation Centre, a Logistics Centre and new corporate offices.

The facility is McCormick Australia's innovation and collaboration hub for staff and customers. The new office is symbolic of the business's transformation and includes a strategic focus on growth within the Asia Pacific region.

The Technical Innovation Centre focuses on creating new:

- products for brands such as Aeroplane Jelly and Keen's Curry
- seasonings for snack food manufacturers
- sauces and coatings for restaurants.

Melbourne provides a dedicated Australian and Asia-Pacific customer base, and a transport network that is among the best in the world.

Source: Abridged from 'McCormick builds new HQ and food innovation centre in Australia', Austrade.gov.au website, 6 December 2021.

CASE STUDY ANALYSIS

1. **Explain** why it is important for a business to understand the market it wishes to move in to.
2. How has McCormick planned for an expansion?
3. **Discuss** why Australian businesses try to expand into other markets. What are the benefits to the business and the Australian economy?

CASE STUDY
8.1

Subway product range responds to changing consumer preferences



Franchise sandwich giant Subway has been battling changing consumer habits and a tough retail environment. Over the past 10 years, the tastes and palates of Australians have changed. People are now looking for healthier food for their lunch or dinner. This resulted in consumers bypassing Subway as a meal or snack option. This once successful franchise business is suffering, with many local Subway franchisees claiming they are struggling to survive, with a significant number of owners trying to sell their stores.

In response to the downturn in the business and with the aim of improving performance in a highly competitive market, Subway decided to overhaul its current business model by changing its product offerings and rolling out a new store design. In response to changed trading conditions due to the COVID-19 pandemic, it has introduced a pilot 24/7 pick-up service.

CASE STUDY ANALYSIS

1. **Describe** the level of importance you place on being able to purchase a healthy sandwich as either a snack or meal.
2. **Identify** and **describe** whether you believe that the change in consumer preferences is now being met with the changes made by Subway.

CASE STUDY
9.3

Are you getting the most from your external advice and service providers?



External advice and service providers play a crucial role for many businesses.

But whether you are using yours for financial planning, marketing, or something else, how do you know you're getting the maximum benefits of outsourcing?

The following approach to working with external support will help you get the most from the relationship.

1 Identify the current state of your organisation
Start by identifying the internal and external systems and resources needed to operate your organisation in its present state.

2 Prepare for the unexpected
You must prepare to respond to external shocks that could cause serious issues for your organisation. Anything that could disrupt your business processes counts, and it's good to have a plan in place should the worst occur.

3 Find the balance
You will then need to decide on what internal and external resources strike the best balance between current performance and the future sustainability of your organisation. Resources that are necessary to the current and future operations of your business systems should be maintained as internal resources or insourced as needed. Other functions and resources are best outsourced by the organisation to a provider who can deliver the result required.

4 Make preparations
Before you begin any external provider relationship, you'll need to make the proper preparations. An external advisor will want to understand the current reality of your business before engaging with it.

5 Set goals
Define clearly what success will look like and who is responsible for any tasks.

6 Create business processes
Implement the process, plan, or solution that is intended to produce the desired result. While seemingly obvious, this is the step most often neglected.

7 Assess the results and make adjustments
Evaluate the success by comparing the outcomes to the initial objectives and adjust when needed.

Further key points and critical considerations
You are in charge of the outsourcing engagement, so you're primarily responsible for the quality of the brief required. What systems and processes do you have to achieve this to a high standard of quality? For example, do you have high-quality data sources about the operation of your organisation?

External resources will be most successful in delivering appropriate support to your organisation when your goals have been clearly defined and the outsourcer has been provided with all the necessary information to support its rapid and cost-effective engagement.

Source: Adapted from Michael Perkins, 'Are you getting the most from your external advice and service providers?', Businessaustralia.com website, available at https://cambridge.edu.au/redirect/9761.

CASE STUDY ANALYSIS

Explain how a business can best prepare for the expert advice that they are seeking.

CASE STUDY
11.2

Kogan: the most recognisable face of online retailing in Australia



Kogan was established by Ruslan Kogan in 2006 and operates as a portfolio of retail and services business that includes Kogan Retail, Kogan Marketplace, Kogan Mobile, Kogan Internet, Kogan Insurance, Kogan Energy, Kogan Travel, Kogan Money and Kogan Cars.

From its headquarters in Melbourne, the business focuses on making in-demand products and services more affordable and accessible to customers. The Kogan brand has a reputation for 'price leadership through digital efficiency'. The business has established three key pillars as the basis for its operations; namely:

- An unwavering commitment to provide Aussies with better value products and services.
- An obsession with creating the best possible shopping experience, from easy purchasing to efficient delivery and reliable after-sales support.
- Our online-only business model allows us to bypass the expenses of bricks-and-mortar stores, so we can pass the savings onto our customers.

Source: Adapted from Kogan website, 'About us'.

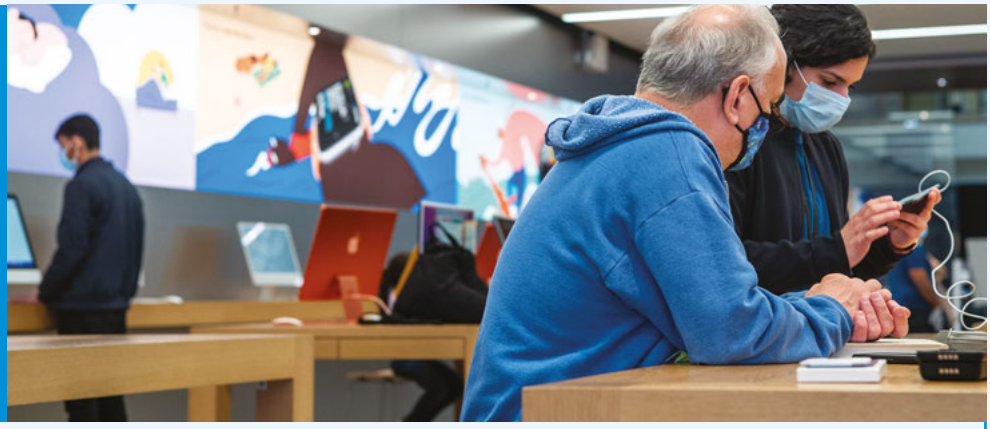
CASE STUDY ANALYSIS

Access the Kogan website to answer the following questions:

1. **Identify** the types of products and services that are sold by the various Kogan online stores.
2. **Outline** the strategies used by Kogan to find out about customers, so the business can expand its customer base.
3. **Identify** the strategies used by Kogan to convert customers into repeat customers.
4. **Analyse** whether Kogan has used its strong brand identity to leverage new products and services.

CASE STUDY
12.2

Apple's five steps of service



Apple trains their employees to follow five steps of service (APPLE). Starting from the moment a potential customer walks into the store, Apple employees are expected to go above and beyond. The five steps are designed not only to help enhance the customer experience, but also to create an amazing environment for everyone. The 'APPLE' acronym stands for:

A – Approach all customers with a personalised and sincere welcome demonstrating that you are a friendly, passionate and committed employee.

P – Probe (in a polite manner) to gain an understanding of the customer's needs.

P – Present a solution for the customer to take home today.

L – Listen closely for any concerns and resolve any issues the customer may have.

E – End with a positive goodbye and an invitation to return.

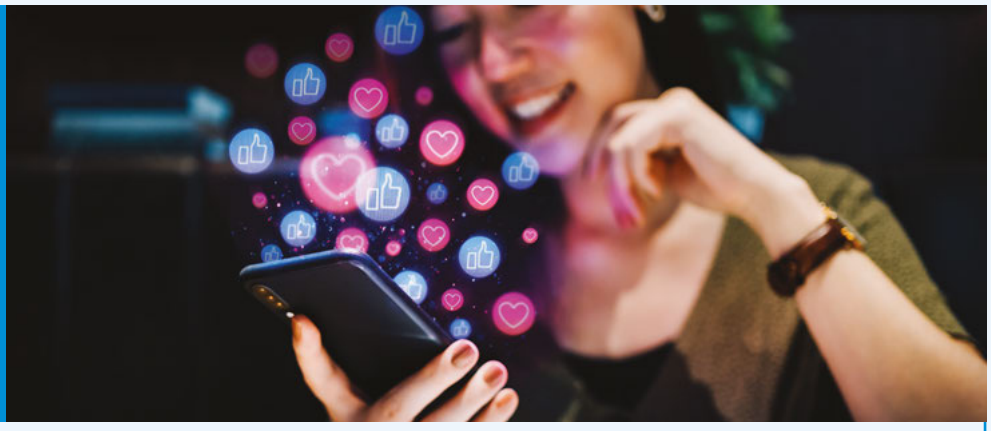
Source: Adapted from Tamara, 'Becoming donor centric: Apple's Five Steps of Service', finelinesolutions.com academy blogs.

CASE STUDY ANALYSIS

Discuss whether you as a customer would feel comfortable with your customer experience being so directed.

CASE STUDY
12.4

LEGO: using social media as one of its key marketing strategies



Since its founding in 1932 by Ole Kirk Kristiansen, LEGO, a private family-owned company based in Denmark, has continued to make famous its interlocking plastic bricks. Over time, LEGO has diversified into movies, video games, television shows, popular social media channels and even major amusement parks. Much of its success is due to its marketing strategy, which embraces digitalisation and emphasises knowing its customer base. In the 21st century LEGO continues to be a thriving and highly innovative company adapting its marketing strategy to new digital communications.

LEGO's approach to marketing has six key factors, one of which relates to its social media/content marketing strategy. LEGO uses Facebook, Instagram and YouTube to engage with customers. Its Facebook page has more than 13 million followers and is regularly updated with photos and videos of new LEGO releases and innovative creations. The Instagram page offers followers similar content and posts receive numerous likes and comments, showing excellent user engagement. YouTube rates LEGO as its most popular brand channel (June 2020) with 10 million views. Their channel offers promotional, educational and how-to videos that promote the company's brand.



Figure 12.25a LEGO: an innovative and adaptable company adopting social media strategies

Source: Adapted from Joyce Qian, 'LEGO: The Marketing Strategy Behind the Toy Industry Titan', ContactPigeon.com blog.

CASE STUDY ANALYSIS

1. **Identify** the social media platforms used by Lego as part of its digital marketing strategies.
2. For each of the social media platforms identified in Question 1, **describe** how LEGO uses these platforms.
3. Visit the website of LEGO. **Identify** who the company believes are its target market.

CASE STUDY
13.2

Examples of planned PR campaigns



Businesses have had to quickly adapt to the pandemic and the new rules and ways of living and working demanded by it. The main goal was simple for all businesses – to keep the business running.

To do so, brands had to reach out to their customers; decide whether to offer them discounts; encourage their customers to stay with them; send out motivating messages; or simply to thank their customers for their patience while their services are on hold. Some good examples of businesses supporting customers and gaining positive reputations at the same time include the following:

Uber – Thank You For Not Riding

At the beginning of worldwide lockdowns, Uber decided to join many companies urging people to stay home. In their *Thank You For Not Riding* campaign, Uber thanked its customers for not using its services unnecessarily at the moment with a simple message: 'Stay home for everyone who can't.'

Along with the campaign, Uber committed to providing 10 million free rides and food deliveries to healthcare workers, senior citizens, and all those in need in those challenging times.

Ikea – Stay Home

Ikea was also among many companies motivating people to stay home. It did this by reminding people of how cosy their home can be to ease the thought of having to spend several weeks 'locked' in it.

Zara – Shot-from-home

Zara, the Spanish high-street retailer, proved that you can do a lot at home, even fashion photoshoots. Zara sent its product samples to the home addresses of its models. The models did a self-shoot of the new collection, which resulted in many interesting selfies/self-photo shoots.

***Brave* – Spoiling Netflix shows**

What best way to urge people to stay home than putting spoilers of their favourite Netflix shows all over the streets?

That question popped up in the heads of Seine Kongruangkit and Matithorn Prachuabmoh Chaimoungkalo, known as *Brave*. The two authors decided to do a fake campaign in which they filled billboards with spoilers of Netflix's most popular shows. At first, people thought it was Netflix's campaign, but the streaming service quickly distanced itself from it. Brave's spoiler campaign not only encouraged people to stay home, but it also reminded them to watch Netflix.

Billie – Video calls

Billie, a female-first beauty brand, decided to tackle (especially women's) shame for the way we look on webcams during online meetings. The brand started a great PR campaign that celebrated natural beauty and encouraged people to stop apologising for looking like themselves when at home.

Source: Adapted from Irma Jakić, '10 Best PR Campaigns of 2020', Mediatoolkit website, 16 December 2020.

CASE STUDY ANALYSIS

1. **Explain** why it is important for a business to have a planned public relations strategy in place.
2. **Choose** two of the campaigns outlined in the article. Why did the businesses decide to run these campaigns?
3. What were the benefits of the campaigns for the business and the public?

CASE STUDY
15.2

Seasonal workers job advertisement



Highest alpine village in Australia is seeking seasonal workers.

Change up your daily routine and join our down-to-earth team at the highest alpine village in Australia. If you're passionate about the snow and are looking to work for a season, or are interested in a longer-term career, you can find our latest opportunities from around the mountain below.

Mt Hotham Skiing Company (MHSC) is the largest operator at Hotham Alpine Resort and seeks exciting, innovative and dynamic individuals each year to join our team working at the top of the Victorian Alps. Owned by Merlin Entertainments Group, the company is responsible for the ski field operations including snow grooming, snowmaking, lifts, snow sports, school, tickets, guest services, retail, equipment hire, day spas, property, maintenance, reservations, events, marketing, Hotham Airport and more.

While previous snow experience is desirable, it is not essential for many positions. Join our team, make friends and enjoy all that the great Alpine snowfields have to offer!

Explore the huge range of awesome roles available at Hotham:

- Administration/Reception
- Day Care and Indoor attendants
- Experienced Boot Fitters
- Events
- Hotel Receptionists
- Housekeeper and Commercial Cleaners
- Human Resources Assistants
- Lift Attendants
- Marketing and Media
- Porter/Snow Clearer
- Cook/Chef
- Rental Hire Attendant
- Retail Sales Staff
- Snow Groomers (must be experienced)
- Snowmaking
- Snowsports Instructor Positions – with or without experience
- Ticket Seller/Ticket Checker.

Source: Mount Hotham website, 'Employment'.

CASE STUDY ANALYSIS

1. From the list of 'awesome roles' above, select 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.

CASE STUDY
16.2

Fair Work Ombudsman accuses Coles of underpaying staff



The Fair Work Ombudsman (FWO) has taken legal action in the Federal Court against Coles alleging it has underpaid thousands of their employees in its liquor and supermarket business. The amount of underpayment is more than $115 million and has accrued over three years.

The FWO in its legal action is seeking backpay and penalties for the underpayment of 7812 employees between January 2017 and March 2020. The alleged underpayments appear to be due to Coles paying award-covered employees' annual salaries that were insufficient to cover their minimum entitlements due to the significant amounts of overtime worked by those employees during that period. It is also alleged that Coles had breached record-keeping laws including records related to overtime hours worked by employees, in particular those relating to weekends, public holiday penalty rates and allowances. The record-keeping breaches occurred in every state and territory.

FWO Sandra Parker said the action being taken against Coles should serve as a warning to all employers that they can face serious consequences if they do not prioritise workplace law compliance. In addition to seeking payment of backpay for the employees, the FWO is also seeking penalties of up to $64 000 for each breach that has occurred.

Source: Adapted from Neelam Dajee, 'Watchdog sues Coles over staff underpayments', The Market Herald website, 3 December 2021; Pat McGrath, Dan Harrison & Alison McLlymont, 'Coles accused of overworking and underpaying supermarket managers as FWO launches action', ABC news website, 10 December 2021.

CASE STUDY ANALYSIS

1. **Describe** the role of the Fair Work Ombudsman.
2. **Describe** the basis of the legal action being taken by the Fair Work Ombudsman against Coles.
3. Undertake research to find any current claims for underpayment of wages that are being dealt with by the Fair Work Ombudsman. Select one of the claims and **outline** the problem, and then **describe** what action has been taken to rectify the employee's claim.