

JACARANDA KEY CONCEPTS IN VCE  
**BUSINESS MANAGEMENT**  
UNITS 1 & 2 | FIFTH EDITION

MATT RICHARDSON

GRAEME SMITHIES

VLAD DUMOVIC

STEPHEN CHAPMAN

**REVIEWED BY**

SIMON PHELAN

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Dedicated Apply your Skills subtopics give students practice in acquiring the key skills from the Study Design. Real-life Australian case studies allow students to contextualise their understanding.

## 1.10 APPLY YOUR SKILLS Establishing a business

### PRACTISE YOUR SKILLS

- Identify business opportunities.
- Define, describe and apply relevant business management concepts and terms.
- Acquire, record, interpret and share business information and data.
- Research and analyse case studies and contemporary examples of business management applicable to planning a business.
- Apply business management knowledge to practical and/or simulated business situations.

### AN INTERVIEW WITH THE BATHROOM BROTHERS

**Interviewer:** Why did you want to establish your own business?

**Marco:** After renovating multiple bathrooms for friends, family and our own properties, we felt passionate about the whole process of renovation. The satisfaction of seeing the old bathroom transform and look so great was really rewarding. Also having control of the hours we work and being our own boss was very appealing.

**Interviewer:** How did you identify a business opportunity?

**Marco:** We had heard a lot of horror stories about independent being unreliable, taking eternally, charging excessive amounts or being limited out for months. We found that when compared with quotes from experienced tradespeople, we were able to be very competitive from both price and quality aspects. The sheer level of demand through word of mouth made it apparent that this had the potential to progress into a full-time business.

**Marco:** Also, we knew that the housing industry was going strong. We thought that many people with older existing houses who did not want to compromise with a large renovation would see the benefit of having a new bathroom to add value to their property.

**Interviewer:** How did you identify a potential target market?

**Marco:** We identified that in the current economic climate people are often not able to afford major renovations but have enough for a kitchen or a bathroom update. We realised that the bathroom was the last room to be renovated for clients where those who were not able to afford a full house renovation but wanted to refresh and add value to their property with a new bathroom.

**Interviewer:** You once said you take only moderate rather than high risks as entrepreneurs. Please elaborate.

**Marco:** The economy can turn at any time for whatever reason and having a family means others are depending on an income. While control most types of business carries a certain level of risk, we would not be prepared to risk our family's financial security by taking on large amounts of debt to fund a new business venture. There is just too much to lose in this stage in our lives.

**Interviewer:** What would you consider to be your entrepreneurial skills?

**Marco:** Well, we are very fortunate that we are able to identify demand in the market, are creative, organised and have great interpersonal skills. These have all been crucial in the early days of our business and will no doubt be important for its future success.



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## 6.14 EXTEND YOUR KNOWLEDGE Maintaining a healthy workplace

**KEY CONCEPT** Maintaining employee health, safety and wellbeing can improve worker output and business productivity.

### PREVENTION IS BETTER THAN CURE

Evidence suggests that taking preventative health measures is worthwhile for both workers and businesses. The results of national research show that healthy workers are more productive than employees suffering from poor health. Health-promoting workplace experiences reduce the risk of absenteeism and workers' compensation claims. They also improve staff morale and motivation as well as better workplace relationships. Many businesses have been encouraged by federal government initiatives in the area of workplace health. The National Partnership Agreement on Preventive Health (NPPH) Healthy Workers initiative recognises the opportunity for workplaces to help people stay healthy, use stress safely and adopt good nutrition practices, particularly that and equitable consumption, and to enable workers to be more physically active. Funding of \$20.2 million was allocated for 2015-16. Programs to improve the health of employees can be as simple as participating in a 'walk to work' day, or subsidising gym membership. More comprehensive programs can be introduced to target specific health problems directly related to a particular business.

### Targeting health at City West Water

City West Water provides drinking and recycled water, treats waste water and sewerage services to Melbourne's inner and western suburbs, and central business district. It resembles the H2GO brand, under which all City West Water health and wellbeing activities are run. A central theme staff to spend their own time and design an individual health profile. The initiative aims to achieve a range of desired outcomes, such as: a reduction in the number of days of absence due to illness; an increase in the number of employees who participate in health and wellbeing activities; and an increase in the number of employees who are physically active. The initiative is supported by a range of activities, including: a 'walk to work' day, or subsidising gym membership. More comprehensive programs can be introduced to target specific health problems directly related to a particular business.



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Extend your Knowledge subtopics challenge and extend student understanding using real-life case studies of today's business people. Review questions follow each case study.

Each chapter review contains a summary and review questions, as well as school-assessed coursework tasks

### APPLY your skills

- Use the Coca-Cola website in the Resource tab to find out about New Coke, which Coca-Cola introduced in 1985. Answer the following questions.
  - What was the aim?
  - In response to what pressure did Coca-Cola introduce New Coke?
  - Outline why Coca-Cola thought New Coke would be successful.
  - What did customers think about the new product when they heard about New Coke?
  - Explain how Coca-Cola reacted to consumer pressure.
- Customers are the most important external influence on a business. What do you think? Discuss this statement, keeping in mind that there are other external factors, including competitors, suppliers, technology, legal, political and economic.



Website: Coca-Cola

## 2.15 Review

### 2.15.1 Summary

Factors influencing the external (macro and operating) environment and internal environment that affect business planning

- The external environment is made up of the macro environment and the operating environment.
- The macro environment consists of factors outside the business, over which the business has no control, such as legal, political, social, economic, technological, global and corporate social responsibility factors.
- The operating environment consists of factors inside the business, over which the business has little control, including customers, competitors, suppliers and special interest groups.
- The internal environment consists of factors inside the business such as employees and managers, location and legal business structures.
- The internal environment to some extent is influenced by the external environment. Both will have an effect on the decisions made when planning a business.

### Macro factors affecting business planning

- Key legal and government regulations
- There are many laws and regulations that, during the planning stage, business owners need to ensure their business will comply with. Some important ones include business name registration, company registration, local government regulations (including zoning and health regulations), employment regulations (including anti-discrimination regulations and work health and safety regulations), trade practices and consumer protection laws, and environmental protection regulations.
- Social attitudes and behaviour
- When planning a business, changing social values, beliefs and trends will need to be considered.
- Social values and beliefs are the shared principles and morals of a group of people or society, including the need to protect the environment and the expectation that businesses will contribute positively to society.
- A trend is the general direction in which people's attitudes or behaviour in society is developing or changing, including demographics and family-friendly workplaces.

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- Identify whether the characteristics in the table below are consistent with business managers or entrepreneurs by placing a tick in the appropriate column.

| Characteristics                                 | Business manager | Entrepreneur |
|-------------------------------------------------|------------------|--------------|
| Planning and setting through long-term projects |                  |              |
| Taking risks                                    |                  |              |
| Organisational skills                           |                  |              |
| Creating a vision                               |                  |              |
| Communicating initiative                        |                  |              |

- If you were going to start your own restaurant, what market research or initial feasibility studies would you conduct?
- Using an example of a real business, outline how businesses contribute to the economic and social wellbeing of Australia.

### EXAM practice

- Distinguish between 'research and development' and 'technological development' and provide examples of each. (3 marks)
- Outline the personal motivation behind the founding of a business/organisation that you are familiar with and explain how the business helps the owner to achieve their personal goals. (3 marks)
- Jane manages a sporting goods retail outlet. She wishes to increase the sales revenue of the store, which totalled \$1.4 million in the past financial year and feels that setting goals for her for full-time staff members might help. Suggest a sales-related goal that Jane could set for each member of her team and explain how it satisfies the criteria of a S.M.A.R.T. goal. (3 marks)
- Explain how businesses contribute to the economic and social wellbeing of a nation. (4 marks)
- Explain two methods by which a culture of business innovation and entrepreneurship may be fostered in a nation. (4 marks)

### Resources

- Digital doc: Making word glossary sheet (doc-20403)
- Digital doc: Crossword (doc-20410)

### studyON

The importance of business in Australia (10 topic test)

Developing the business idea (10 topic test)

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# ABOUT THE AUTHORS

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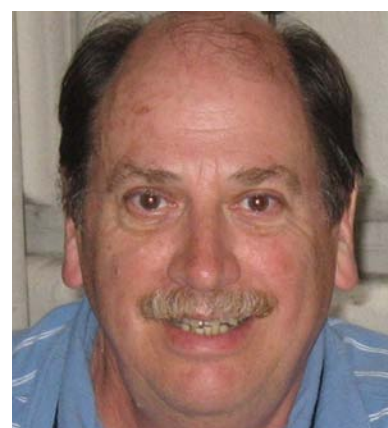
## Matt Richardson

**Matt Richardson** is a senior Commerce teacher at Ballarat High School with over 20 years' experience teaching Business Management. Matt has held positions of responsibility with the Victorian Curriculum and Assessment Authority (VCAA) as a review panel member on the Business Management study design and as an examination vetter on the Business Management exam panel. Matt is the co-author of several Jacaranda textbooks in the areas of Business Management, Legal Studies, Economics and Business, and Civics and Citizenship. He has presented professional development sessions for Victorian Commerce Teachers Association (VCTA) for Business Management teachers and has contributed articles to the VCTA journal *Compak*. Matt facilitates student revision and exam preparation lectures and is a prolific writer of assessment materials for Business Management.



## Graeme Smithies

**Graeme Smithies** has over 45 years' experience in secondary education in Victoria. During that time he has taught Legal Studies, Business Management, Economics, English, History and a variety of other Humanities and Commerce subjects. He spent over 19 years in assistant principal and principal positions in government secondary schools. He has created a range of educational resources for VCE Commerce subjects, as well as the Years 7–10 National Curriculum learning areas of Civics and Citizenship, Economics and Business, and History.



## Vlad Dumovic

**Vladimir Dumovic** is a Business and Economics teacher at Dandenong High School. He has authored a range of secondary school textbooks in the Business, Economics, Civics and Citizenship subject areas. Vladimir brings to his teaching and writing a passion for learning as well as industry experience from his previous job as an accountant.





## Stephen Chapman

**Stephen Chapman** is an active teacher, author, external examination marker and consultant, with over 30 years' experience in high schools as a classroom teacher and coordinator. He has authored/co-authored 28 textbooks in the areas of Commerce, VELS Economics, Business Management and Economics. He has won awards for teaching excellence and pedagogical writings as well as a Commonwealth Parliamentary Teaching Fellowship. As a consultant, he works with schools in developing teaching programs and educational resources. Stephen has a specific interest in the development and implementation of multiple learning styles to engage students in actively learning.



## Reviewed by Simon Phelan

**Simon Phelan** has worked at a number of government and independent schools over the past 30 years. He is currently the Year 11 Coordinator and a senior Accounting/Business Management/Legal Studies teacher at Gladstone Park Secondary. He has taught VCE Business Management/Accounting/Economics/Legal Studies for 30 years and has been involved in a number of Study Design Review Panels, including the most recent panel that developed the Study Design for 2017–22. Simon is an experienced VCAA examination assessor. He has presented professional development sessions for teachers at Comview, the annual VCTA conference, and has contributed articles to the VCTA journal *Compak*. He has co-authored other textbooks, including *Key Concepts in VCE Legal Studies*.



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## Text

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# UNIT 1

## PLANNING A BUSINESS

### Could you be a successful entrepreneur?

Do you have what it takes to be a successful entrepreneur? An entrepreneur is someone who undertakes a new business venture and assumes the risk of its success or failure. One important characteristic many entrepreneurs share is the ability to be highly motivated. Amanda Wong (pictured) is an example of an entrepreneur with plenty of motivation.

At age 15, Amanda Wong was already turning a profit. In her spare time she designed brochures and posters for local rock bands and concert events. Today, aged 29, Amanda is the driving force behind Eclipse Publishing & Design, a graphic design business specialising in advertising, brochures, digital photography, logos and publication design. Amanda started the business in 2014, and at the time had no idea it would eventually employ



15 people and have nine overseas clients. ‘The business is successful because we offer a diverse range of unique designs not available from many other graphic design businesses,’ she says.

In the beginning, cash flow was tight and Amanda had little experience in operating a business. However, she was highly motivated and keen to learn. ‘Creating an idea in my head and then seeing it actually appear out there in the world, that’s huge to me,’ Amanda says. ‘I get enormous satisfaction from creating products that delight my clients.’

‘If you want to go into business, then you have to realise there will be good days and bad days,’ she says. ‘I understood there would be risks but good entrepreneurs should take only calculated risks, which is what I did.’ In addition to Amanda’s self-confidence is her ability to identify business opportunities when they arise. ‘If I become aware of an opportunity that will be profitable and help grow the business, it is my responsibility to act. That’s the life of an entrepreneur,’ she says.

‘I knew that commencing a business would require hard work and long hours, but I was totally committed to the idea. I was determined to succeed. Ultimately, it comes down to self-belief. If you want it to work, you’ve got to believe it will,’ she says.

Amanda’s venture into the business world has been financially and personally rewarding. She says, ‘Successful entrepreneurs are motivated and passionate about what they do and where they want to go’.

| AREA OF STUDY                 | OUTCOME                                                                                                                                                                            | CHAPTER                                      |
|-------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------|
| <b>1 The business idea</b>    | Describe how and why business ideas are created and developed, and explain the methods by which a culture of business innovation and entrepreneurship may be fostered in a nation. | 1 The business idea                          |
| <b>2 External environment</b> | Describe the external environment of a business and explain how the macro and operating factors within it may affect business planning.                                            | 2 Planning a business — external environment |
| <b>3 Internal environment</b> | Describe the internal business environment and analyse how factors from within it may affect business planning.                                                                    | 3 Planning a business — internal environment |



# CHAPTER 1

## The business idea

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### 1.1 Overview

#### 1.1.1 Why it is important

A business idea can come from anywhere, just ask Gary Leech. After toying with the idea of producing hand-cooked potato chips and experimenting with different potatoes, slice thicknesses and oil temperatures, Leech produced the first bag of Kettle Chips in 1982. From its humble beginnings sprang an enormously successful brand. When Gary Leech and his partners sold the business to Arnott's Biscuits, Kettle Chips had an annual turnover of \$18 million. Time has passed and Snack Brands Australia (formerly Snack Foods Limited) now owns Kettle Chips, but the point remains. Leech is an entrepreneur who was prepared to take a risk. This chapter will explore where business ideas come from and what needs to be considered before a business is established.



#### FAMOUS ENTREPRENEUR: RICHARD BRANSON

Richard Branson is the founder of the Virgin group, which comprises hundreds of companies including an airline, a train company and a mobile phone network. He started his first business at the age of 16 — a magazine called *Student*. In 1972, when aged 22, he launched the record label Virgin Records with Nik Powell.

You may have seen Branson in the media because he is famous for his publicity stunts whenever Virgin launches a new business or project. One of Branson's current big ideas is commercial space travel. If you have heard Richard Branson speaking, you will know that he is passionate and enthusiastic. He listens to staff and customers, carrying a notebook with him wherever he goes so that he can write down what he sees and hears. He then follows up on the ideas. He shares Virgin's future plans with his staff, and his vision inspires people to perform at their best. Branson has endeavoured to create an atmosphere that is fun and open to suggestions, gripes and innovation. He encourages staff input and prefers them to work in teams to produce the best ideas.

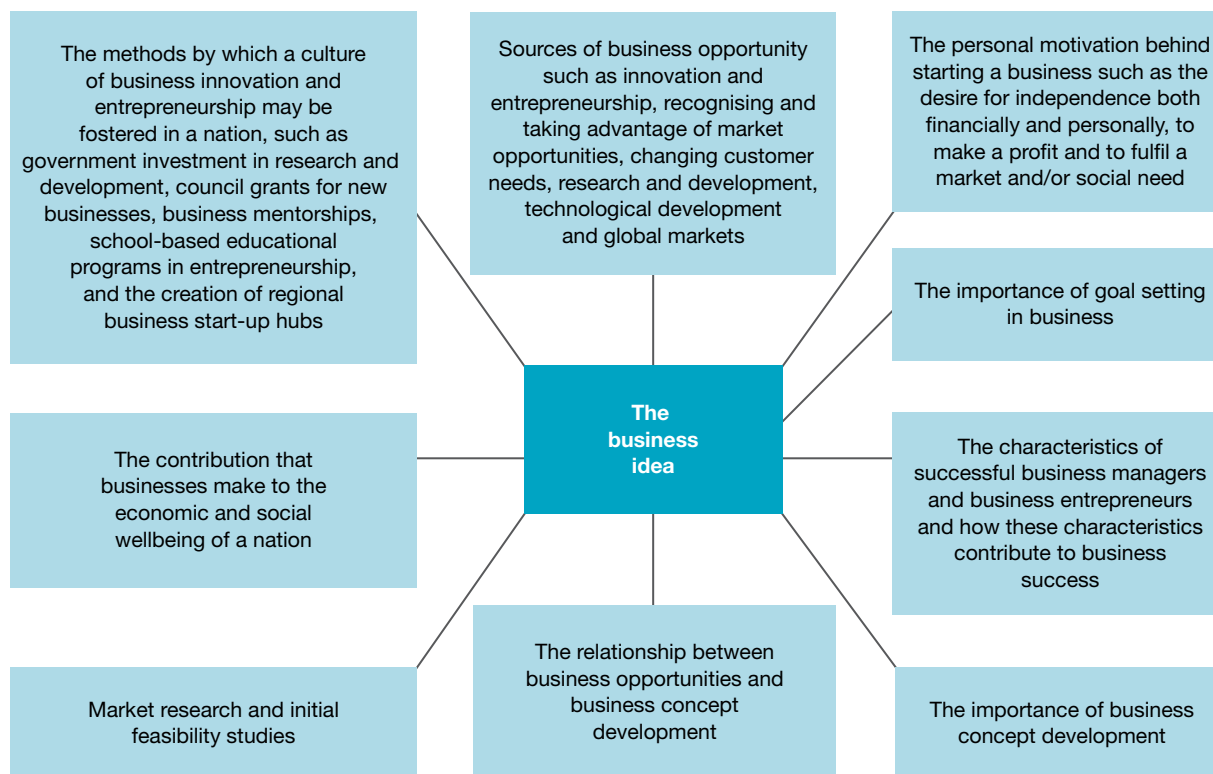
Branson is not afraid to take a risk and, despite his reputation as a highly successful entrepreneur, he has had failures. Have you ever heard of Virgin Cola? It was launched in 1994 when Branson was looking for a product to rival Pepsi and Coca-Cola. By 2012, the company producing the drink had fallen into administration and production ceased. Branson considers the massive failure a learning experience.



## 1.1.2 What you will learn

### Key knowledge

Use each of the points from the VCE Business Management Study Design below as a heading in your summary notes.



### Key skills

These are the skills you need to demonstrate. Can you demonstrate these skills?

- Identify business opportunities
- Define, describe and apply relevant business management concepts and terms
- Acquire, record, interpret and share business information and ideas
- Research and analyse case studies and contemporary examples of business management applicable to planning a business
- Apply business management knowledge to practical and/or simulated business situations

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### Resources



Digital doc: Key terms glossary (doc-29408)



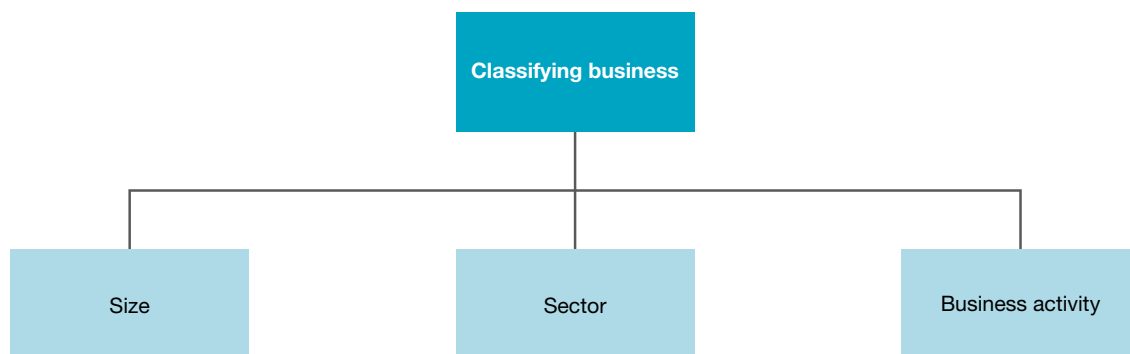
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## 1.2 BACKGROUND KNOWLEDGE Introduction to business

### BACKGROUND INFORMATION

- Businesses can be categorised by size, sector and the industry in which they operate.

A **business** is any activity that is conducted by an individual or individuals to produce and sell goods and services that will satisfy the needs of society, with the main objective of making a **profit**. As well as making profit for owners, businesses make important contributions to the economic and social wellbeing of our nation. As you study this subject you should realise that businesses can be classified in a variety of ways. Just like soft drinks, businesses come in different sizes. They also come in different flavours; that is, they can be classified by the part of the economy that they operate in and also according to the particular good or service that they produce.



Businesses can be categorised by size, as well as the sector and industry that they operate in. Myer, Australia's largest department store group by revenue and store count, is a privately owned retailer, employing over 14 000 people.





## 1.2.1 Business size

While there is no single universally accepted definition of a small, medium or large business, a number of measurements can be used to determine the size of a business, including:

- the number of employees (those who are hired to do work for the business) — a large number of employees, for example, will suggest that a business is large. Many small businesses in Australia have no employees, as the owner or owners operate the business on their own. The Australian Bureau of Statistics (ABS) refers to these businesses as ‘non-employing’. In the past, the ABS defined a small business as a business that employs fewer than 20 people. Many people continue to use this definition. However, the Fair Work Commission defines a small business as one that has fewer than 15 employees. Historically, the ABS has defined a medium business as one that employs 20 or more people, but fewer than 200 people; a large business has been considered to be one that employs 200 or more people.
- the number of owners (of the business) — for example, if a business is a sole trader (a type of business that has one owner), it is likely to be small. Medium and large businesses tend to be companies with many owners (or **shareholders**).
- the legal structure — for example, is the business set up as a sole trader, partnership or company?
- the amount of **revenue** earned — for example, a large business will earn revenue of several million dollars annually. The Australian Taxation Office (ATO) defines a small business as one that has less than \$10 million in annual turnover (the money received from sales). Large businesses are defined as those with turnover levels above \$250 million.
- the amount of **assets** owned — for example, the Australian Bureau of Statistics (ABS) has historically defined a large business as one that has assets worth more than \$200 million.
- **market share** (the proportion of total sales in a given market or industry that is controlled or held by a business) — a small market share, for example, may suggest that a business is small.

We’ve looked at a number of measurements for distinguishing the size of a business, but there are many other factors that can help us to make a final judgement about the size of a business, such as:

- who makes most management decisions, such as who to hire, what to produce, how to advertise a product? — if it is the owner, then the business is most likely small. By comparison, managers working on behalf of the owners typically make the decisions in medium-sized and large businesses.
- who provides most of the capital (finance)? — the owner of a small business is likely to provide most of the capital. Medium-sized and large businesses are able to raise large amounts of capital, perhaps by taking on more debt, such as through a bank loan, or by issuing more shares.
- is the business independently owned and operated? — small businesses tend to be owned and operated by the same person, with the owner able to make independent decisions. For example, the owner of a local hamburger shop will be able to decide independently what food he or she will serve, while a large business like Coca-Cola will have entire teams of individuals developing products in line with the company’s strategic goals.
- how many locations does the business have? — a business that is locally based is likely to be small. Note that this does not mean that the business will only trade locally, as many small businesses are able to export products to overseas markets. Small businesses will be based in the one location whereas a large multinational corporation (or company) may have offices around the world.

The table on the next page summarises the features of, and distinctions between, the different sized businesses.

### DID YOU KNOW?

In June 2017 there were more than 2 million small businesses in Australia, which represented 97 per cent of all businesses. Most small businesses employ fewer than five people, including the owner, and are often referred to as micro businesses. Almost 1.4 million of these businesses are non-employing (i.e. they have no employees).



Common classification of businesses based on size

| Characteristics                                                              | Small                                                                                     | Medium-sized                                                                                                                                      | Large                                                                                                                                                                                  |
|------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Business type</b>                                                         | Corner store<br>Local mechanic<br>Hairdressing salon                                      | Services club<br>Motel/hotel<br>Engineering factory                                                                                               | Woolworths<br>Qantas<br>National Australia Bank                                                                                                                                        |
| <b>Number of employees according to the ABS business register definition</b> | Fewer than 20 employees                                                                   | 20–199 employees                                                                                                                                  | 200 or more employees                                                                                                                                                                  |
| <b>Type of ownership</b>                                                     | Independently owned and operated by usually one or two people                             | Owned and operated by a few people and/or private shareholders                                                                                    | Owned usually by thousands of public shareholders                                                                                                                                      |
| <b>Most common legal structure</b>                                           | Sole trader<br>Partnership                                                                | Partnership<br>Private company                                                                                                                    | Public company<br>Private company (numerous)                                                                                                                                           |
| <b>Decision making</b>                                                       | Owner responsible for majority of decisions; simple and quick implementation of decisions | Owner basically responsible for majority of decisions; more complicated decision making with slower implementation, due to influence of directors | Complex decision making, due to division of responsibilities among directors, senior and middle management; possibly slow implementation of decisions, due to the layers of management |
| <b>Sources of finance</b>                                                    | Owner (usually from own savings or a loan); difficulty in accessing loans                 | Owners'/partners' own savings or a loan and/or private shareholders; easier accessibility to larger loans                                         | Many sources, including cash reserves, retained profit, sale of shares, and loans from domestic and overseas institutions                                                              |
| <b>Market share</b>                                                          | Small, usually local area; not dominant in the industry                                   | Medium-sized, due to dominance within a geographic region; some market dominance                                                                  | Large, especially for multinational corporations that dominate the markets of many countries                                                                                           |

Australia Post is a large business because it employs more than 34 000 employees and earned revenue of \$6.8 billion in 2016–17. Australia Post is also a government business enterprise (GBE), as the Commonwealth Government is its sole shareholder. It receives no taxpayer funding but has paid more than \$2 billion to the Australian government over the past decade. As a GBE it operates in the public sector, but it also operates in the transport, postal and warehousing industries.



### 1.2.2 Public or private sector

According to the ABS, just over 2.2 million businesses were operating in the private sector in June 2017. The private sector is the part of Australia's economy that is operated by private individuals and companies usually for the purpose of making profit. Businesses such as sole traders, partnerships and companies make up the private sector. The public sector is the part of Australia's economy that is operated by government. Businesses operating in the public sector are the least common type of business, according to the ABS. It estimated that in 2016–17, there were only 393 public sector businesses actively trading goods and services. Businesses operating in the public sector are referred to as government business enterprises (GBEs); these are businesses that are owned and operated by the government.

The top five public listed companies in Australia in relation to total revenue in 2017 were Wesfarmers (including Bunnings, Target and Kmart), Woolworths, Commonwealth Bank of Australia, BHP and Westpac Banking Corporation.



### 1.2.3 Business activity

Businesses can also be classified under the **industry** sector in which they operate. These sectors are known as primary, secondary and tertiary, and are determined by the good or service that businesses produce. Businesses such as OZ Minerals Ltd are involved in primary industry (farming, mining, forestry). These are industries concerned with extracting resources directly from nature. Manufacturers such as Kellogg (Aust.) Pty Ltd operate in the secondary industry (where raw materials are turned into finished or semi-finished products). The secondary industry takes raw materials from the primary sector and adds value to them, by processing or manufacturing materials, or through assembly and construction. The third category is the tertiary industry, which involves the provision of services. For example, businesses in the tertiary industry will operate in wholesaling, retailing and transport. Optus is a large company that works in the tertiary industry. The tertiary sector can be further divided into the quaternary sector, which involves the provision of information in areas such as the media, computing, finance, property and education, and the quinary sector, which involves paid and voluntary domestic services.

Australian businesses can also be categorised by the individual industries that they operate in. When it gathers data, the ABS will typically group businesses that provide a particular good or service into 19 industries. These are made up of, for example, mining, manufacturing, retail, construction, education and health. The following table shows these industries and the number of businesses operating within each industry in Australia.

Number of businesses by industry in Australia, 2016–17

| Industry division                          | Number of businesses operating June 2017 | Industry division                               | Number of businesses operating June 2017 |
|--------------------------------------------|------------------------------------------|-------------------------------------------------|------------------------------------------|
| Agriculture, forestry and fishing          | 176 140                                  | Financial and insurance services                | 202 110                                  |
| Mining                                     | 7853                                     | Rental, hiring and real estate services         | 246 664                                  |
| Manufacturing                              | 83 789                                   | Professional, scientific and technical services | 270 654                                  |
| Electricity, gas, water and waste services | 6591                                     | Administrative and support services             | 85 760                                   |
| Construction                               | 371 599                                  | Public administration and safety                | 7427                                     |
| Wholesale trade                            | 78 989                                   | Education and training                          | 29 724                                   |
| Retail trade                               | 130 387                                  | Healthcare and social assistance                | 128 543                                  |
| Accommodation and food services            | 92 757                                   | Arts and recreation services                    | 27 248                                   |
| Transport, postal and warehousing          | 149 544                                  | Other services                                  | 94 220                                   |
| Information media and telecommunications   | 21 017                                   | Currently unknown <sup>(a)</sup>                | 27 283                                   |
| <b>All industries</b>                      |                                          |                                                 | <b>2 238 299</b>                         |

<sup>(a)</sup> This category consists of those businesses that are yet to be coded by the ATO to an industry.

**Source:** Table 1, businesses by industry division from ABS 81 650, counts of Australian businesses, including entries and exits, June 2013 to June 2017.

The industry sector in which a business operates is determined by the good or service it produces. Arnott's is Australia's largest producer of biscuits (secondary sector), while Optus is Australia's second-largest telecommunications company (tertiary sector).



## 1.2 Activities

### TEST your understanding

1. Distinguish between revenue and assets.
2. State whether the following businesses are small, medium or large, and the reason for your decision.
  - (a) Qantas employs approximately 27 000 people.
  - (b) National Australia Bank is an international financial services company that has customers in Australia, New Zealand, Asia, the United Kingdom and the United States.
  - (c) Brookfarm is owned by Carolyn and Martin Brook; it produces gourmet macadamia nuts for domestic and export markets and employs more than 20 staff.
  - (d) Ripe Maternity Wear was started by two friends in 1996 to manufacture contemporary maternity clothes. It supplies clothes worldwide, employing no more than 20 staff.
3. Are the following statements true or false?
  - (a) Large businesses employ a small number of people.
  - (b) Small businesses do not usually have a large share of a particular market.
  - (c) In small businesses, decisions are usually made by the owners of the business.
4. Explain the difference between the private sector and public sector.
5. Outline the key characteristics of the primary, secondary and tertiary industries.

### APPLY your understanding

6. Prepare a database of 10–15 businesses that you have dealt with over the past few months — you may have bought something from them or worked in one. Copy and complete the table below and then answer the questions that follow. One example has been entered for you.

| Business name  | Business activity | No. of employees | Business size | Industry sector | Industry division |
|----------------|-------------------|------------------|---------------|-----------------|-------------------|
| 1 Redbank Café | Food and drink    | 4                | Small         | Tertiary        | Retail trade      |
|                |                   |                  |               |                 |                   |
|                |                   |                  |               |                 |                   |
|                |                   |                  |               |                 |                   |
|                |                   |                  |               |                 |                   |
|                |                   |                  |               |                 |                   |
|                |                   |                  |               |                 |                   |

- (a) What percentage of the businesses in your database are small? What percentages are medium-sized and large?
  - (b) How do the percentages compare with the figures for Australia?
  - (c) Provide two reasons for the differences/similarities between the figures.
7. Using the internet or newspapers, look for articles about different businesses that interest you. Start a file of news clippings or printouts and write an information page to attach to each article. Include the following:
    - (a) what the article is about
    - (b) background information about the business
    - (c) the section of the VCE Business Management course to which the article relates, e.g. Area of study 1, Outcome 1.



## 1.3 Identifying business opportunities

**KEY CONCEPT** Business opportunities can arise from taking advantage of innovation and entrepreneurship, recognising and taking advantage of market opportunities, identifying changing customer needs, research and development, technological development and global markets.

Identifying a **business opportunity** is not just about having an idea. An opportunity is a set of circumstances that a person can perceive as an avenue to success. If you look around, you will see so many opportunities for starting a business. Potential business owners are always searching for opportunities, including ideas for new products, new customers and new ways of running businesses. There are many sources of opportunities for business ideas, including innovation and entrepreneurship, recognising and taking advantage of market opportunities, changing customer needs, research and development, technological development and global markets. Successful business managers and entrepreneurs will be very quick to seize their opportunities.

### GREAT AUSSIE INVENTION

How would you describe a country that has invented the Victa lawnmower, Esky, Hills Hoist, Speedo swimwear, StumpCam (a small camera hidden in a cricket stump to provide action replays), surf life saving reel and insect repellent? You might describe it as a sports-loving nation that enjoys an outdoor lifestyle. Of course, the country is Australia! However, if we examine another list of inventions — penicillin, IVF freezing technique, cochlear implant (hearing implant), ultrasound technology, black box flight recorder and flu vaccine — then Australia could also be seen as a nation of scientists.

What these two lists reveal is that Australians are very innovative. According to the Australian Innovation System Report 2017, Australia has a relatively high proportion of innovation active firms by international standards. In 2015–16, an estimated 48.7 per cent of all employing firms were innovation active. These firms are distributed broadly across industries, with the highest proportion found in the manufacturing sector.

Innovation and invention can lead to the establishment of a business based on the development of new or improved products or services. Converting an innovative idea into a business concept often requires the creativity and risk taking of an entrepreneur.

Two iconic Australian inventions, the Hills Hoist and Victa lawnmower



### on Resources

 eLesson: Sources of business opportunity (eles-2973)

### studyon

Unit 1 > AOS 1 > Topic 2 > Concept 1

A business opportunity Summary screen and practice questions

### 1.3.1 Innovation

The definition of **innovation** may vary, but it generally refers to the process of creating a new or significantly improved good, service or process (way of doing something). Invention refers to the development of something that is totally new, but innovation and invention both result in the creation of something unique.

Ideas for new products, or development of and improvements to existing products, will often provide the opportunity for the establishment of a new business. Many business concepts are an innovation on an existing product. DVD players and personal computers, for example, came into existence in the same way as light bulbs and car tyres — that is, through people making technical advances with established products. Sometimes, a person has an idea for a totally new product, an invention, which will satisfy a need that is not presently being satisfied.

Young entrepreneur Chris Guzewski began rolling out Bitcoin ATMs across Australia in 2014. There are now thousands of machines that allow Australians to buy and sell using the virtual currency.



#### DID YOU KNOW?

Vegemite is an example of a great Australian invention. Food entrepreneur Fred Walker hired a food chemist to create an edible substance out of brewer's yeast. Vegemite wasn't an instant success though, and Fred tried a number of tactics to convince the consumer of the value of his product. By the late 1930s, Vegemite was accepted as an Australian product that was a valuable source of vitamins.

### 1.3.2 Entrepreneurship

Not all inventors or innovators will seek to use their idea as the basis for a business. In many cases they will be happy to sell their idea to an existing business and let someone else manufacture and market that product. To be willing to take the risk of starting up and operating a business and then working to build that business requires qualities of **entrepreneurship**.

Co-founder of the world's most successful computer software company, Microsoft Corporation, Bill Gates (pictured, right) is a classic example of an entrepreneur. While a teenager, he decided to take the risk of establishing his own business to market a computer operating system that he and a friend had developed. Today he is one of the world's wealthiest individuals. Entrepreneurs often display flair and creativity. They will frequently find new and innovative ways of promoting their products or services. They will regularly upgrade and adapt their business objectives and recognise new opportunities to expand or diversify their business operations.



#### DID YOU KNOW?

'At Microsoft there are lots of brilliant ideas but the image is that they all come from the top — I'm afraid that's not quite right.'

— Bill Gates, founder of Microsoft



### 1.3.3 Market opportunities

Markets — the places where buyers and sellers interact to trade goods and services — are always changing. A potential business owner may be able to identify opportunities from these changes in markets and take advantage of them as potential business ideas.

For example, a person may notice a good or service that is being consumed in one market, possibly overseas, and realise that the product is not available locally. This presents an opportunity to import that good or service and start a business in their own country, if the product meets a need in their local area. Another person may identify an opportunity for a new business because of an inefficiency in a market. They may feel that they can provide a good or service in a better or different manner from the way in which it is already provided. Alternatively, a business opportunity may present itself as a ‘gap’ in a market that is not already being satisfied by existing businesses.

#### DID YOU KNOW?

In the 1990s, entrepreneur John Parselle developed a system called Fingerscan, which allows people to make electronic transactions, unlock their smartphone or gain access to high security areas by pressing a finger on a flat piece of glass. Everyone has a unique set of fingerprints, and Fingerscan can identify individual customers or employees.

### 1.3.4 Changing customer needs

Markets are constantly changing, as are the needs of customers. Any person considering starting a new business might find opportunities by focusing on meeting any of these changing needs. The needs of customers in the market for any product can change due to:

- *changing incomes.* Incomes may be either increasing (so customers are likely to demand more products, particularly luxury items) or diminishing (so it is likely that customers will demand fewer products).
- *changing tastes and fashions.* Changes can increase or reduce the demand for certain products.
- *changing prices of complementary and substitute goods and services.* Some products are complementary: they go together like cars and petrol, or pens and paper. Others are substitutes: they can replace each other like margarine and butter, or tea and coffee. This means, for example, that if the price of petrol increases then demand for petrol will fall, which can cause demand for cars to fall because cars and petrol are complementary. This may lead to demand for large cars switching to small cars that consume less petrol, because large cars and small cars are substitutes.
- *changing population.* Changes in age and gender distribution will have an impact on demand; for example, an ageing population is likely to demand products related to the health and retirement industries.
- *changing expectations about the market, including future prices and incomes.* This means that customers will act in a certain way if they expect that something is going to happen.
- *changes in the number of potential customers.* An increasing number of customers often generates greater demand for products, whereas a decline in the number of potential customers is likely to reduce demand.

The prospect of meeting these changing needs before someone else does provides an opportunity for a business idea.

### 1.3.5 Research and development

Potential business owners undertaking **research and development** (R&D) have produced many of the goods and services that we take for granted. Individuals and businesses undertake R&D in order to expand their knowledge of products and processes. Many successful businesses are built on product innovation.

R&D can provide a potential business owner with many opportunities. For example, it can allow a person to develop new products in response to the actions of any competitors, or to improve existing products so that they become superior to those of competitors. R&D can also lead to technological developments, such as robotics and information technology, that improve the way the product is produced or the way it is delivered to customers, and thereby result in a new business becoming very competitive.

#### FAMOUS ENTREPRENEUR: ELON MUSK

Elon Musk (pictured, right) has an ambitious vision to change the world and humanity. He is working on achieving this through continuing investment in R&D.

With a strong commitment to reducing global warming, Musk has founded numerous companies involved in sustainable energy production and consumption, such as Tesla, Inc., an electric vehicle and solar panel manufacturer.

Even more ambitious is his goal of reducing the 'risk of human extinction'. This goal has led to him establish SpaceX, which designs, manufactures and launches advanced rockets and spacecraft. By revolutionising space technology, Musk hopes to be able to establish a human colony on Mars.



### 1.3.6 Technological development

Technological development refers to applications of knowledge that have changed people's lives and changed the way in which businesses operate. The development of new products and processes creates opportunities for people with business ideas. New communication technologies allow ideas and information to be transmitted rapidly to an ever-increasing number of people across borders, making it easier for customers to learn about products made overseas. Technologies such as the internet, mobile phones and electronic funds transfer help to open up global markets, which can be tapped by potential business owners. The use of automation in many industries has improved productivity and reduced production costs, allowing a person with a business idea to create new products at a high level of quality.

### 1.3.7 Global markets

Today, markets can be global. This means that goods and services are exchanged between businesses and customers across the world. This provides opportunities for people seeking ideas for new businesses because it means that the potential business owner can have access to more customers and more sales. Some of the advantages afforded by global markets include:

- the opportunity to grow and further expand a business
- reduced dependence on local markets
- extended life cycle of new and existing products through the discovery of new markets to sell them in
- reduced effects of fluctuations in markets caused by changes in season or demand by moving into markets with different patterns.

Before deciding to start a business that sells products in other countries, a business owner needs to consider whether or not their business idea would work in an overseas country. He or she should contemplate whether the people of the targeted country are familiar with the product. It is also important that the potential business owner thinks about how comfortable they would be selling products in overseas countries.

## 1.3 Activities

### TEST your understanding

1. Explain what innovation is and provide an example of innovation in business.
2. How can entrepreneurship act as a source of business opportunity?
3. Outline the types of business ideas that may arise from recognising and taking advantage of market opportunities.
4. List the factors that can cause the needs of customers in a market to change.
5. Using examples, explain how changing customer needs can provide opportunities for a business idea.
6. Outline the importance of research and development in business.
7. How has the development of technology created opportunities for potential business owners?
8. What opportunities do global markets present for a potential business owner?

### APPLY your understanding

9. Identify a significant invention or innovation. In what way did this creation satisfy the need for a new product or an improved product? Did it form the basis of a new business or has it been produced by an existing business?
10. Use the **Young entrepreneurs** weblink in the Resources tab to select two of the young entrepreneurs profiled in the *SmartCompany* Hot 30 Under 30 list.  
For each of them, answer the following:
  - (a) What is the nature of that person's business?
  - (b) What motivated them to go into business?
  - (c) What major obstacles or challenges have they had to face?
  - (d) How have these challenges been overcome?
11. Categorise the business opportunities listed in the table below under the most appropriate source of opportunity heading. The first one has been completed for you. Some opportunities may have more than one source.

| Business opportunity                                                            | Source of opportunity   |
|---------------------------------------------------------------------------------|-------------------------|
| A surge in the price of petrol                                                  | Changing customer needs |
| A need for a new source of energy                                               |                         |
| A new prototype for a 3D screen mobile phone                                    |                         |
| A new process for offering education                                            |                         |
| An increase in the average age of the population                                |                         |
| A robot with true artificial intelligence                                       |                         |
| Demand for Vegemite in overseas countries                                       |                         |
| A decrease in the number of people who think that the economy will perform well |                         |

### EXAM practice

12. Distinguish between innovation and entrepreneurship. **(2 marks)**
13. Australia has an ageing population, whereby there are increasing numbers of older people living in the country. Explain two types of business opportunity that this may create. **(4 marks)**

### Resources



Weblink: Young entrepreneurs

# 1.4 The personal motivation behind starting a business

**KEY CONCEPT** The personal motivation behind starting a business includes the desire for independence, to make a profit and to fulfil a market need and/or social need.

The success or failure of a business depends largely on the owner's abilities, resources, enthusiasm, initiative, level of management expertise, decision-making skills and, above all else, motivation. Two of the most crucial questions that a potential business owner has to ask themselves are:

- Am I motivated enough to want to do this?
- Do I possess the appropriate qualities and skills required to operate a business?

## DID YOU KNOW?

According to the Australian Innovation System Report 2017, Australia's level of entrepreneurial activity is among the highest in developed economies. Around 14.6 per cent of the Australian adult population (aged 18–64 years) were actively engaged in starting new businesses in 2016, representing 2.2 million early-stage entrepreneurs.

## on Resources

 **eLesson:** The personal motivation behind starting a business (eles-2974)

### 1.4.1 The desire for independence

The desire for independence is a major reason for wanting to start a business. Often, a person will desire the freedom to choose when and where they work, with whom they work and whether to work from home. The great attraction is the belief that owners will have more control over their own destiny. Some people dream about starting their own business and becoming wealthy. The potential for long-term financial independence is also a motive for starting a new business.

### 1.4.2 To make a profit

A second reason for wanting to start a business is monetary reward. Someone willing to work hard may believe that they can earn much more by working for themselves than they would by working for someone else. They would expect their extra effort to be rewarded through the profits from their own business. These rewards may not come immediately — even the most successful businesses may lose money in their early startup phase — but the hope is that eventually the business owner will earn more from being self-employed.

### 1.4.3 To fulfil a market need

A third reason for wanting to start a business is the recognition of a market need. The potential business owner may have particular skills that can be the basis of a new business, or may recognise that particular goods or services for which there is a demand are not available in a particular suburb or town. In some cases an invention or the development of a new product will inspire the developer of that product to set up a business to market it.

Starting a business may lead to greater independence, but may also increase workload.



### 1.4.4 To fulfil a social need

Sometimes a person will be motivated to start a business in order to fulfil a social need. In this situation, a social enterprise may be established. This is a business that makes a profit, or surplus, but concentrates on some sort of community or environmental need. Any surplus that the social enterprise makes may be reinvested back into the business so that it can continue to fulfil the social need.

Some examples of typical social needs are:

- providing opportunities for local unemployed people
- developing skills, providing vocational training or lifelong learning opportunities for disadvantaged people in the community
- creating access to a better quality of life for disadvantaged members of the community
- focusing on waste minimisation and recycling.

#### SECONDBITE FULFILS A SOCIAL NEED

Ian and Simone Carson established SecondBite in 2005 because they could no longer stand to see perfectly good food going to waste while there were hungry people in the community. They realised that there was a need for redistributing food that was still safe to eat but could not be sold. Approximately 8 billion dollars' worth of food is thrown away in Australia every year — there is plenty of food, yet unlimited needs.

After they began to understand the scale of food wastage in this country, the Carsons began to explore ways of redistributing food. They began by rescuing surplus fresh food from farmers, markets and supermarkets and transporting it to local agencies such as Sacred Heart Mission and Brotherhood of St Laurence. The social enterprise grew as volunteers, donors and other supporters became involved.

'You go anywhere and people hate seeing things thrown out, so once they know you can actually do something with it, they want to help you,' Mr Carson says.

When SecondBite started it operated with just three volunteers in Victoria and moved just over 600 kilograms of food. Now the national headquarters for the organisation, the Kensington warehouse operates with 5 vans, 1 truck, 23 staff and over 600 volunteers. SecondBite has warehouse locations in Melbourne, Brisbane, Sydney, Adelaide, Hobart, Devonport, and hubs in suburban and regional Victoria. They partner with providers in Perth and Darwin, and facilitate direct connections across Australia in regional and rural areas, supplying fresh food to over 1200 agencies nationally, completely free of charge.

SecondBite collects food using its fleet of refrigerated vans. Fresh produce is taken to a warehouse with cold storage and freezer space, where it is sorted and packed into crates for each community food program. The food programs use the deliveries to make up food parcels, cook dine-in meals or run school breakfast or lunch programs. These programs support people who are homeless, women and families in crisis, youth at risk, indigenous communities, asylum seekers and new arrivals to Australia.

SecondBite has also developed a nutrition education program and advocates for an end to food insecurity.

Businesses such as Muffin Break donate fresh food to SecondBite, which redistributes it to community food programs. In doing so, SecondBite fulfils a social need.





## 1.4 Activities

### TEST your understanding

1. What largely determines the success or failure of a business?
2. Identify the two most crucial questions that a potential business owner has to ask themselves.
3. Explain the four possible reasons for a person wanting to start their own business.
4. Why did Ian and Simone Carson establish SecondBite?
5. Explain how SecondBite redistributes fresh and nutritious food.

### APPLY your understanding

6. Use the **Start-ups** weblink in the Resources tab to read this UK start-up service website's 10 reasons to start a business. Rank the reasons in order from most important to least important, then share your top five with other students in your class.
7. Interview local business owners. Ask them to identify their motivation behind starting their business. Provide each business owner with the following five options: desire for independence, to make a profit, to fulfil a market need, to fulfil a social need, other. If the business owner responds 'other', then ask them what their particular motivation was. Collate your research with that of other students in your class, then graph the results. What is the most popular motivation for starting a business?

### EXAM practice

8. Distinguish between a social need and a market need. **(2 marks)**
9. 'Being self-employed is better than working for someone else.' Discuss. **(6 marks)**



### Resources



Weblink: Start-ups

## 1.5 Goal setting in business

### KEY CONCEPTS

- Goals need to be set so that an owner knows what the purpose of the business is.
- Setting goals can foster conditions for new business ideas to emerge.

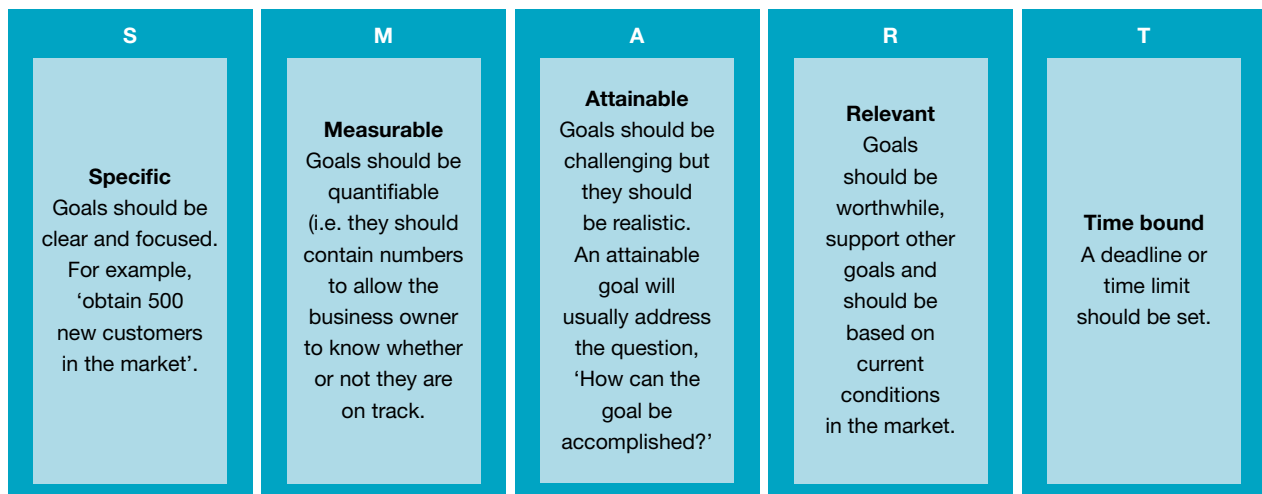
### 1.5.1 The importance of goal setting

A driver of a car usually knows his or her final destination and how they will get there. In the same way, a successful business owner has a destination in mind for his or her business. A business **goal** describes what a business expects to accomplish over a set period. Without a goal, a business has no clearly defined purpose and nothing to aspire to. Goals provide a business with direction and help to measure results. Setting goals can also allow the potential business owner to develop their ideas for a business. Setting goals is an important step in helping a business realise its vision of where it wants to be in the future. This vision is often described in a **vision statement** and is supported by a **mission statement**, which outlines how the business will achieve this vision. With these in mind, a business can develop the right kind of goals that will keep it on course to achieving the kind of success that it desires.

### 1.5.2 Goal setting

A simple and proven method of goal setting is to make the goals S.M.A.R.T. An example of a smart goal might be 'obtain 500 new customers in the market before the end of the financial year by delivering good service and making use of marketing'.

S.M.A.R.T. goals are specific, measurable, attainable, relevant and time bound. Mid- to short-term goals that are specific and measurable are often referred to as objectives.



A business owner should write their goals down and develop a written plan outlining how these goals will be attained. The goals of a small business, along with how they will be achieved and other relevant background information, can be found in a document called a business plan. We will examine business plans in more detail in chapter 3. The goals of larger businesses are often found on their websites or in annual reports. Woolworths Limited — a large retail company that sells groceries, petrol, liquor and general merchandise — states its goals on its website. Woolworths' goals are reflected in its five key priorities, which are 'building a customer and store-led culture and team, generating sustainable sales momentum in Food, evolving our Drinks business to provide even more value and convenience to customers, empowering our portfolio businesses to pursue strategies to deliver shareholder value, becoming a lean retailer through end-to-end process and systems excellence'.

Goals are the motivating force behind a business. Many businesses strive to achieve three broad types of goal: financial goals, social goals and personal goals.

## on Resources

 eLesson: Milling to success (eles-2404)

### 1.5.3 Financial goals

1. *Making a profit.* This is a financial goal that is central to many businesses. Profit is what is left after business expenses have been deducted from money earned from sales (revenue). A loss occurs when the expenses exceed the revenue. For example, if business expenses totalled \$100 000 per year and revenue from sales was \$300 000, the business would have made a profit. Many businesses not only want to make a profit, but also they want to maximise their profit. A business may set several other goals to support its main goal of maximising profit.
2. *Increase sales.* This may be done by deciding to sell products at a lower price so consumers purchase more. Alternatively, the business may seek to increase sales through more clever marketing or creating innovative products or delivering better service than other businesses.

3. *Increase market share.* Market share is a business's share of total industry sales. This is easy to visualise using a pie chart that shows the percentage of sales the business has in relation to all its competitors. In many industries, increasing market share is usually a goal only for large businesses. Such businesses often develop an extensive product range, using many different brand names, to gain an extra few percentage points of market share. Small market share gains often translate into large profits for these businesses.

4. *Expand the business.* Most businesses want to grow. Growth might be achieved by opening more outlets, employing more staff, starting new projects or introducing innovative products. A business can also expand by merging with another business so that they become one. A merger occurred when airline company

Qantas joined with Jetset Travel. Expansion can also take place through acquisition. This means that one business purchases another; for example, when Coca-Cola Amatil purchased Neverfail Springwater, which supplies bulk bottled water to Australian homes and offices.

5. *Maximising the return on investment.* Making profit is the primary goal of many businesses. This is particularly important for investors in a company. If the part of the profit gained by the business is returned to investors, then the return on their investment is important. The **return on investment** is a ratio that relates the money gained or lost on an investment relative to the cost of the investment. It is expressed as a percentage.

6. *Improving the way that the business operates.* A business should constantly strive to improve the way it goes about its day-to-day operations. Three key aspects of measuring operational performance include **productivity**, **efficiency** and **effectiveness**. Productivity measures how many outputs we produce per input. Efficiency measures how well we do things and will help to increase our productivity. Effectiveness looks at whether we are doing the right things, those that are most important to the success of the business.

There are many ways businesses can maximise profit. A business owner's idea for a business may involve selling products at low prices to increase the volume of sales or using clever advertising that will convince consumers to buy their new product.



### 1.5.4 Social goals

All businesses operate within a community and, like individuals, have certain social responsibilities. Many businesses develop social goals and adopt strategies that will benefit the community as well as achieving financial goals. Among the main social goals are:

1. *community service.* Business sponsorship of a wide range of community events, promotions and programs have rapidly increased during the past decade. Many business owners plan to financially support educational, cultural, sporting and welfare activities.
2. *provision of employment.* Most businesses do not regard employment of people as a main goal. Many business owners, however, look at the continuity of their business, sometimes planning to employ family members who otherwise might be unemployed.
3. *social justice.* Everyone has the right to be treated fairly. A potential business owner may be concerned for social justice — that is, they will plan to adopt a set of policies to ensure employees and/or other community members are treated equally and fairly.

4. *ecological sustainability*. Businesses have to take increasing responsibility for the protection of the environment. Earth is a fragile ecosystem, and we need to take care so it can sustain itself. The social conscience of responsible business owners leads them to adopt policies of conservation, recycling and restoration.

### A SOCIALLY RESPONSIBLE BUSINESS

Founded in 1976 by Dame Anita Roddick, The Body Shop is now a high profile advocate for social and environmental causes. Anita Roddick's original vision was to build a socially responsible business that supported the community. She developed five values:

1. activate self-esteem
2. oppose animal testing
3. support community fair trade
4. defend human rights, and
5. protect the planet.

These values have guided The Body Shop's employees and their business decisions for three decades. Some of the Body Shop's campaigns include 'Stop Sex Trafficking of Children and Young People', 'Defend Human Rights', 'Against Animal Cruelty', and 'Protect Our Planet'. The Body Shop prides itself on being a retail activist.



### DID YOU KNOW?

Some businesses are able to address both social and financial objectives. Woolworths (formally Safeway) and Dormit Pty Ltd, a Melbourne timber company that produces timber products, such as pallets, both actively encourage people with a disability to work for them. One quarter of Dormit's employees have disabilities.

## 1.5.5 Personal goals

Prospective business owners usually have a number of personal goals. Often, the nature and operation of the new business will tend to reflect these personal goals, especially in small businesses. Personal goals of a higher income and improved financial security, for example, complement the business goals of growth.

Personal goals for business owners are not normally made public. However, this does not diminish their importance because they motivate the business owner and may underpin the viability of the business.

### studyon

Unit 1

AOS 1

Topic 2

Concept 4

Business goals Summary screen and practice questions

## 1.5 Activities

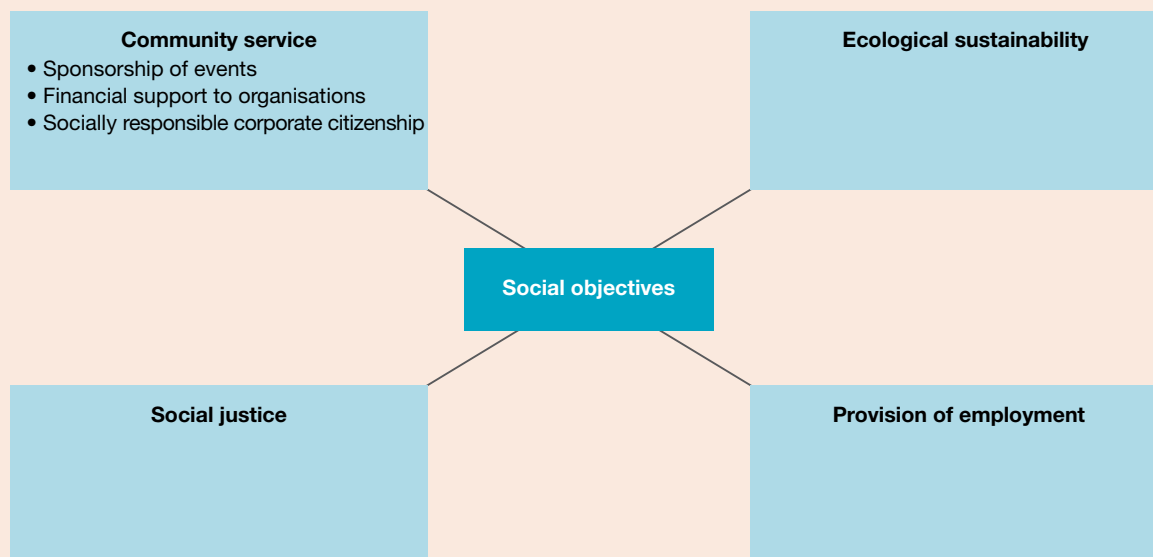
### TEST your understanding

1. What is a goal?
2. Explain why it is important for a potential business owner to set goals.
3. Write a S.M.A.R.T. goal for a person who is planning to start a plumbing business.
4. 'We plan to expand our market into Asia, increasing worldwide market share by 2 per cent.' Is this goal more likely to belong to a large or small business? Give reasons for your answer.

5. In the following examples state the business goal/s the individual is trying to achieve and how they are seeking to achieve them.
- A new business owner wishes to increase the number of retail customers, so a large sale is planned.
  - Manthi is planning to open a business in which employees will visit a retirement home so that elderly people gain some contact with other people. This will take place on a rotating basis so that employees spend one afternoon per month at the retirement home.
  - The owners of a new company knew that there would be only one way to expand their business and that would be through buying the opposition.
  - A man who is starting a small printing company is hoping to employ his nephew in the full knowledge that he may need extended periods away from work to pursue his sports career.
  - Vin is planning to start a home business and wants to use only recycled paper in the office. He is hoping to employ the services of a recycling company to take away the discarded paper.
  - The partners in a new legal firm are planning to offer advice to homeless people as part of an outreach program that visits a homeless shelter.

### APPLY your understanding

6. Construct a mind map summarising the four main social goals of a business and provide a real-life example of a business that has sought to achieve each goal. The mind map below has been started for you.



7. Comment on the statement 'All businesses care about is making money'.

### EXAM practice

- Identify and explain the five characteristics of a S.M.A.R.T. goal. **(5 marks)**
- Distinguish between social goals and financial goals, providing an example of each. **(2 marks)**



# 1.6 Characteristics of successful business managers and business entrepreneurs

## KEY CONCEPTS

- The characteristics of successful business entrepreneurs include taking risks, sharing a vision and demonstrating initiative, innovation and enterprise.
- The characteristics of successful business managers include the ability to start and see through long-term projects, leadership qualities, organisational skills and the ability to take managed risks.
- The characteristics of business managers and entrepreneurs contribute to the success of a business.

The thousands of businesses in Australia today are owned and operated by all types of people. These businesses all had a beginning, with a person or small group of people who decided to 'have a go'. Not everyone will be suited to the role of business manager or **entrepreneur**. Certain characteristics are required to succeed in starting and running a business. Let's have a close look at some of the qualities needed to commence a business, including the characteristics of successful business managers and successful entrepreneurs.

### 1.6.1 Business managers

Business owners, or managers, run a business on a day-to-day basis so that it makes a profit. They prefer to minimise risks and make calculated decisions where the outcome is reasonably clear. A business manager might have an idea for solving a problem or meeting a need in order to satisfy a target market.

There is no simple checklist of personal characteristics that guarantee success. However, many studies have shown that certain personal characteristics are helpful in managing a business, and that the potential business owner should be prepared to honestly answer the following questions:

1. Am I self-motivated, with a desire to succeed?
2. Am I self-disciplined enough to start and follow through long-term projects?
3. Am I healthy enough to withstand the extra workload and stress involved?
4. Do I have leadership qualities to assist in managing and motivating others?
5. Do I have good organisational and administrative skills?
6. Am I willing to take calculated risks?
7. Do I have the ability and willingness to learn new skills?
8. Can I make decisions based on logic rather than emotions?
9. Am I able to listen to others' advice as well as communicate my ideas to others?
10. Am I reasonably at ease in my relationships with people, and sensitive to the needs of others, especially employees and customers?
11. Am I prepared to work long hours?
12. Am I prepared to receive lower financial returns in the early years than I would receive if I worked for someone else?

A business manager runs a business on a day-to-day basis, ensuring that it makes a profit.



## 1.6.2 Business entrepreneurs

There are a range of views on what the terms *entrepreneurship* and *entrepreneur* mean. However, entrepreneurs are generally considered to be people who are willing to seize opportunities to start and operate a business, and are prepared to take risks in the hope of making a profit. Business owners displaying entrepreneurial behaviour will also establish a shared vision and will demonstrate initiative, innovation and enterprise. An entrepreneur's vision might be to make a big change or have an impact on the world with their idea for a new product. For these people, the opportunity to explore untapped markets with no guarantee of success can be motivation within itself. Entrepreneurs often do not know if their ideas are achievable or not.

### CAROLYN CRESWELL AND CARMAN'S FINE FOODS

Carolyn Creswell is the founder of Carman's Fine Foods. When she was 18 years old she scraped together \$1000 to buy out the homemade muesli business that she worked for. The owners had put the business up for sale and Carolyn thought there was a chance that she might lose her job. She made an offer with a friend, which was initially dismissed, but the owners finally made an agreement to sell.

Today, Carman's products are sold in supermarkets across Australia and exported to more than 30 countries. The business is estimated to be worth more than \$80 million. Carman's employs 25 staff at its head office and 107 staff in factories at Dandenong and Scoresby. Some

people suggest that the business was an overnight success. Carolyn Creswell responds that her success is due to her hard work. She learned everything she knows about the business while working on the job, and she believes this makes it easier for her to empathise with staff. Carolyn says that in the early days of running Carman's, she often struggled to see the light at the end of the tunnel. She believes that getting into and staying in supermarkets was a key to the success of the company. She received many rejections from the supermarkets, but persisted, and they eventually gave her a chance. Carolyn Creswell is driven by passion rather than the desire to make money. She believes it is vital to have a clear vision of where the business is heading and to consider this when making every decision. Carolyn has ambitious plans for continuing to increase sales, boost the profile of the brand and launch new products.



### on Resources

 eLesson: Starting out — Carman's Fine Foods (eles-1062)

Entrepreneurs tend to have:

- *a shared vision*. They have a clear understanding or hope of what the business will be like in the future. This gives the business a clear direction. Having a shared vision means that everyone in the business works together, as a team, to develop and then accomplish a goal. When this happens, it is much more likely that staff will enthusiastically contribute to making sure the vision is realised.
- *initiative*. They will take the first step in a series of actions or in a process. They frequently do this without someone prompting or telling them to take this step; an entrepreneur will usually make this decision independently. However, they might seek the help or advice of other people before they do so.
- *innovation and enterprise*. Innovation is either adding a new product (which can be a good or service) to an existing product line, or significantly improving an existing product or process. This could simply involve changing the way a business works so that it delivers better products. Enterprise is the effort made by someone to creatively or boldly achieve something new. Entrepreneurs exhibit enterprise by taking risks to determine if the market is interested in their ideas.

## HAVE YOU GOT WHAT IT TAKES?

Starting a new business requires courage, determination and energy, and it demands a wide range of skills. It is important for people to recognise their strengths and weaknesses, decide if they have the right personal characteristics to be a business owner, and learn the skills they don't presently have. It is best for business owners to select a business opportunity that suits their personality and builds on their strengths. If people have an honest understanding of their own personal qualities, then failure can be minimised: the 'square peg in a round hole' problem can be avoided. Business owners are a varied group. It is extremely difficult to categorise them or the qualifications they possess that make their business a success. As well, a variety of personal factors encourage individuals to go into business. However, two factors that are often mentioned are motivation and the 'entrepreneurial spirit'. They combine to form a powerful desire to create a new business.



## DID YOU KNOW?

It is said that most new ideas are '99 per cent perspiration and 1 per cent inspiration'. This saying highlights the great deal of time and effort that needs to be put into fully developing a new business concept.

## study on

Unit 1

AOS 1

Topic 1

Concept 1

**Business managers and entrepreneurs** Summary screen and practice questions

## 1.6 Activities

### TEST your understanding

1. What is the difference between a business manager and an entrepreneur?
2. Outline the characteristics that a successful business manager is likely to have. Suggest why these might be needed for a business to be successful.
3. Why is it best for business owners to select a business opportunity that suits their personality and strengths?
4. Identify the characteristics that suggest that Carolyn Creswell is an entrepreneur.
5. Outline the characteristics that a successful entrepreneur is likely to have. Suggest why these might be needed for a business to be successful.

### APPLY your understanding

6. Choose a business you would like to start. Outline the characteristics that you think you will need to be successful in this business.
7. Test yourself by answering the 12 questions for potential business owners. For each question that you answer 'yes', give yourself 1 mark. A 'no' response will score zero. Add up your score: the higher the score, the more suited you may be to operating a business. What does this tell you about your chances of success if you decided to open a business?
8. Divide a page into two columns as shown. In the first column, list the skills that you presently possess and could bring to a business. In the second column, list other skills that you would need to develop. On a separate sheet, outline how you would go about obtaining these new skills.

**Skills I presently possess**

**Skills I would need to develop**

|  |  |
|--|--|
|  |  |
|--|--|

9. Choose an entrepreneur — one that you know or have heard of — and investigate the characteristics that they bring to their business. Use the questions below to help you.
- (a) What business did this entrepreneur start, and at what age?
  - (b) Why did this person become an entrepreneur?
  - (c) What entrepreneurial behaviours does this person display?
  - (d) What skills does this entrepreneur have?

### EXAM Practice

10. Explain what is meant by 'initiative' and why it is an important characteristic common in entrepreneurs. **(2 marks)**
11. Elon Musk is a famous entrepreneur who developed PayPal, which has changed the way we purchase things over the internet; Tesla, Inc., which has seen electric cars enter the mainstream; and the Space X program, which has launched rockets into space and aims to successfully complete a mission to Mars by 2025. Analyse the importance of creating a shared vision in the success of these companies. **(4 marks)**

## 1.7 Business concept development

**KEY CONCEPT** A business concept describes the core activities of the business and the specific features and value of the goods or services it provides.

### 1.7.1 Business concept development

Have you ever thought to yourself, 'If only I could buy this product somewhere' or 'someone could make a fortune with this idea' or 'this is a great idea for a business'? This is the starting point of a business concept. As well as determining whether or not they have the motivation and personal qualities to start a business, potential business owners need to have a concept of what they wish to sell. Sometimes this will be an original idea for a good or service that is different from anything already on the market, or a distinct improvement on something already available. Alternatively it may be a realisation that a particular product is unavailable in a particular area.

The source of a business concept may come from a person's own experiences, interests, abilities or imagination. Inspiration for ideas can be generated by:

- listening to people, particularly for ideas on the goods or services people want, but that may not be readily available
- reading magazines and books and researching on the internet
- visiting displays and exhibitions in areas such as new technology or new products from overseas
- accessing government statistics and research information
- identifying a 'gap in the market' — that is, a demand not currently being satisfied
- determining improvements that could be made to an existing product.

The successful identification of a gap in the market is a key to establishing a lucrative business. It means that the new business provides something not already available. Breaking into a market that is already well served means that the new business has to do something exceptional to draw customers away from existing businesses.

All businesses in the world have started from an initial idea or concept and then grown according to their success within the market. Coke, for example, started as a medicinal tonic sold off the back of a travelling wagon. Now, the Coca-Cola Company is an internationally successful business that dominates the soft drink market throughout the world.





## CHRISTOPHER LU — CLU. LIVING

Business owner and designer Christopher Lu turned his passion for furniture design and interior design into a highly successful business employing three people. CLU. Living is a lifestyle furniture and homewares brand that offers home furnishing solutions and interior design for compact living.

Christopher's market research showed that because more people are living in apartments and townhouses, there was a growing demand for innovative ways to accommodate furniture in limited areas, incorporating multi-functionality and clever storage capabilities. His business is renowned for small space decorating using compact, space-saving, modular furniture, sourced both locally and from around the world. CLU. Living's products are selected for their modern design, quality and affordability.

'I studied the existing competition and their products, marketing techniques and unique selling points, and used this to create an exclusive offering with a unique look and feel. The CLU. brand is also built on excellent customer service. We listen carefully to our clients' needs to make sure we provide custom solutions for their unique problems based on their budget and lifestyle. This has allowed us to establish a loyal customer base,' he said.

The CLU. brand is also built on excellent customer service.



### study on

Unit 1

AOS 1

Topic 2

Concept 2

**Business concept development** Summary screen and practice questions

## 1.7.2 The relationship between business opportunities and business concept development

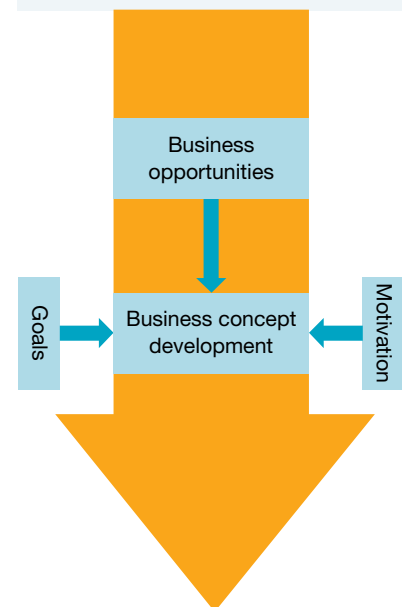
The development of the business concept is when the prospective business owner takes an idea that has arisen from an assessment of possible opportunities, and begins to turn it into an actual business. The business concept is also affected by the motivations and personal qualities of the owner wanting to start a business, as well as the goals that they want to achieve. This relationship can be seen in the diagram at right. As the business owner develops their business concept, they will need to protect their idea and then determine how feasible it is by conducting market research and initial feasibility studies. These will be explored in subtopic 1.8.

### Protecting a business idea

The potential business owner's idea or concept is referred to as intellectual property (IP). IP is any creation of the mind such as a new invention, a brand, a design or artistic creation. These creations can have a commercial value, or provide a competitive advantage, for a person or a business, so it is very important to ensure that competitors do not copy them. Almost every business would have some form of IP that needs to be protected. There are five common methods for protecting IP:

- **Trademark.** This is a right granted over a letter, word, phrase, number, sound, smell, shape, logo, picture or aspect of packaging that a business will use to represent its products and services. A registered

Ideas come from assessing business opportunities, leading to the development of the business concept.





trademark is legally enforceable and gives the business owner exclusive rights to use it for commercial purposes, license it or sell it for the goods and services that it is registered under.

- *Patent.* This is a right granted for any device, substance, method or process that is new, inventive and useful. This is legally enforceable and gives the owner exclusive rights to use the invention for commercial purposes for the life of the patent.
- *Copyright.* This is free and automatic protection, of original works such as writing, music, art, films, sound recording, broadcasts and computer programs. Although it's not necessary in Australia, placing a copyright notice in a prominent place on any work can act as a reminder to competitors. It also can be a requirement in some countries to establish copyright.
- *Design rights.* These are rights given to the owner to commercially use, licence or sell a design (the visual appearance of a product). A registered design could be for a logo, branding, packaging, new invention or new technology.
- *Domain name.* A potential owner can register a domain name (the business's unique address on the internet) so that nobody else can register it. It can be a good idea to do so even if there are no plans to build an actual website for some time. It will be available if and when the business does launch.

Patenting, copyrights and trademarks will be examined in more detail from a global perspective in chapter 2.

## 1.7 Activities

### TEST your understanding

1. 'The business concept is the starting point for any new business.' Explain.
2. Select three possible sources of new business concepts and explain how each could provide ideas for a new business.
3. Briefly explain the five common methods for protecting intellectual property.
4. Outline the link between business opportunities and business concept development.

### APPLY your understanding

5. Gerry has had an interest in antique and unusual children's toys since he was a child, and has been collecting toys from the 1940s and 1950s for many years. He is interested in setting up a toy shop, incorporating a museum or similar display for his collection. His hope is that the display of antique toys will be a means of attracting customers.
  - (a) Identify the source or inspiration behind Gerry's business concept.
  - (b) How has Gerry sought to differentiate his business from those of possible competitors?
  - (c) Outline how Gerry could protect his intellectual property.
6. Use the **Intellectual Property Australia** weblink in the Resources tab to answer the following:
  - (a) What is a patent?
  - (b) Identify and describe three examples of Australian inventions that have been successfully patented.
  - (c) What is a trademark?
  - (d) Identify and describe three examples of Australian businesses that have successfully registered a trademark.

### EXAM practice

7. Explain the importance of business concept development. **(2 marks)**
8. Jonas Salk and Albert Savin invented vaccines against a crippling disease named polio in 1953. They both chose not to patent it, saying that 'like the sun, a vaccine against polio belonged to all the people'. Explain what a patent is and discuss why you think these two scientists chose not to patent the vaccine. **(4 marks)**



### Resources



**Weblink:** Intellectual Property Australia



**Weblink:** CLU. Living

# 1.8 Market research and initial feasibility studies

**KEY CONCEPT** Market research and initial feasibility studies need to be conducted to determine the business idea's potential for success.

There will always be a risk involved in starting up a new business. Will the proposed new good or service attract customers? Will the product appeal to enough customers to generate sufficient sales to cover costs and make a profit? Once the idea for a business has been developed into a business concept, anyone thinking about starting a business should first gather some 'facts and figures' to determine if the business would survive and generate a profit. Two ways to establish how viable the business will be are to conduct a feasibility study and undertake market research. Making decisions based on reliable information concerning the needs and wants of consumers helps to minimise the risk of business failure.

## 1.8.1 Market research

**Market research** is a process involving gathering and analysing information concerning a specific market. It involves the following steps:

1. Identifying what information is needed to make a decision about the potential of the business. For example, someone wanting to set up a pet care business would want information about pet numbers and types in a particular area.
2. Gathering the relevant information from appropriate sources. This could involve surveys or interviews, or examining government statistics. Market research businesses can be hired to carry out this research.
3. Analysing and interpreting the relevant results to extract some clear information that will assist in decision making. This analysis can give the potential business owner an idea of the **market conditions** that exist for the proposed good or service.

Market conditions for a particular good or service can often be determined by finding answers to the following questions:

- Is the business concept entirely new or does it already exist?
- Who will buy the product?
- Why will they buy the product?
- What needs and wants have to be satisfied?
- How big is the market?
- Where is the market?
- Who are the competitors?
- What makes this product different from what already exists?

Market research will be explored in more detail in chapter 5.

Market research is important to ensure the product produced is likely to satisfy consumer tastes.



## 1.8.2 Initial feasibility studies

A **feasibility study** is an assessment of the business idea's potential for success. This involves determining how practical the idea is and if it would successfully translate to the market. A feasibility study might include:

- *an assessment of the market.* This involves analysing the level and type of demand for the new or improved product, who and where potential customers are and why they will buy the product, who the present and potential competitors are and what their strengths and weaknesses are, and what the business's competitive advantage is.
- *a consideration of the operations.* This involves describing the product that will be sold, the resources needed (plant, equipment, materials, staff and support personnel), the location of the business, and legal requirements.

- *an analysis of commercial feasibility.* This involves considering the financial aspects of the business idea, such as how long it will take before the business has its first sale, how the price of the product will be determined, how much finance will be needed to start the business and sustain operations, as well as forecasting sales, costs, cash flow and profit.
- *an appraisal of the potential owner's management ability.* See section 1.6.1 on the qualities required to be a successful business owner.
- *an understanding of whether others have tried this idea.* This involves finding out whether anyone else has tried the business idea and, if they failed, finding out why they failed.

The aim of an initial feasibility study is to discover the viability of a business concept.



## study on

Unit 1 > AOS 1 > Topic 2 > Concept 3

**Market research and initial feasibility studies** Summary screen and practice questions

## 1.8 Activities

### TEST your understanding

1. Briefly explain the value of market research to someone who is thinking of commencing a business.
2. Explain the term 'feasibility study'.
3. Outline the main elements of an initial feasibility study.

### APPLY your understanding

4. Sevilla is hoping to start a hair and beauty business in a local shopping centre. She has been dreaming of doing this ever since she completed a course in hair and beauty.
  - (a) Suggest to Sevilla why it might be necessary to conduct an initial feasibility study before proceeding with her business idea.
  - (b) Outline a step-by-step process that Sevilla can undertake to determine whether or not there is sufficient demand for the type of business she is proposing.
  - (c) Compile a list of six questions that a market researcher might ask to assist Sevilla in making a decision about whether to implement her business idea.
  - (d) List and explain four market conditions that would have to exist before Sevilla could be satisfied that her business had a reasonable chance of success.
5. Use the **Do market research** weblink in the Resources tab to read Business Victoria's suggestions for completing market research.
  - (a) In what ways are these steps similar to the market research process outlined in the text and in what ways are they different?
  - (b) Identify two methods suggested by Business Victoria for completing market research surveys.

### EXAM practice

6. Distinguish between a feasibility study and market research. **(2 marks)**
7. Outline three things a prospective café owner would consider in an initial feasibility study and explain why each is important. **(6 marks)**

## on Resources

 **Weblink:** Do market research

# 1.9 APPLY YOUR SKILLS Feasibility studies

## PRACTISE YOUR SKILLS

- Identify business opportunities
- Define, describe and apply relevant business management concepts and terms
- Acquire, record, interpret and share business information and ideas
- Research and analyse case studies and contemporary examples of business management applicable to planning a business
- Apply business management knowledge to practical and/or simulated business situations

Feasibility studies are an important step in assessing whether a business idea is worth pursuing. This is the case in situations where a person is considering starting a business from scratch, as well as where an existing business is considering expanding its operations into unfamiliar territory. Businesses and government organisations will always conduct an in-depth feasibility study before undertaking new projects.

## NYNGAN SCANDIUM PROJECT FEASIBILITY STUDY

Scandium International Mining Corporation (based in Nevada, United States) is in the business of mining scandium, a soft silvery-white metal that has many commercial uses, particularly in the production of aluminium alloys. It is considered a rare earth element. Because of its scarce nature, scandium has primarily been derived as a by-product from the mining of other minerals. After the discovery of high grade scandium in New South Wales, Scandium International Mining Corporation funded a feasibility study into a scandium resource deposit in Nyngan, 500 km north west of Sydney.

A preliminary economic assessment was conducted in 2014, and a definitive feasibility study was published in May 2016. The feasibility study was performed by an independent company named Lycopodium Limited with the support of other businesses in the industry. It confirmed the commercial viability of using scandium, as well as mining it in Nyngan. The study included the following highlights:

- The project is expected to last 20 years.
- The Nyngan resource is believed to be 40 per cent larger than previously estimated.
- It will produce a very high-grade oxide product of 98–99.99 per cent.
- The mine could be constructed while satisfying all relevant environmental laws and community expectations according to an Environmental Impact Statement.
- It would cost around US\$87.1 million to set up the mine.
- It would cost approximately US\$21 million dollars yearly to operate the mine.
- It would generate revenue of roughly US\$75.4 million each year.
- The selling price of the oxide was assumed to be US\$2000 per kg.
- It would cost around US\$557 for each kilogram of scandium oxide mined.
- It would produce 37 690 kg of scandium oxide per year.
- Investment in the project would likely yield a 33.1 per cent return on the initial investment.
- It would take approximately 3.3 years to pay off the initial capital outlay of US\$87.

Scandium is a soft silvery-white metal that has many commercial uses, particularly in the production of aluminium alloys.



The feasibility study was performed with the following general assumptions:

- The feasibility study is presented on a 100 per cent ownership basis. The company effectively owns 80 per cent of the project through its Australian subsidiary, EMC Metals Australia Pty Ltd. The remaining 20 per cent of EMC Australia Pty Ltd is owned by Scandium Investments LLC, a Nevada corporation owned by private interests.
- No debt is to be used to finance the operations.
- No inflation has been factored into future cash-flow calculations.
- Production will commence in 2018 and conclude in 2037.



## Resources



**Weblink:** Scandium International Mining Corporation

## 1.9 ACTIVITIES

### TEST your skills

1. What is scandium?
2. Where is the Nyngan project located?
3. When did Scandium International Mining Corporation conduct its preliminary economic assessment?
4. When was the definitive feasibility study published?
5. Do you think the company would have been happy with the findings of the feasibility study? Justify your response.

### APPLY your skills

6. Why do you think the figures might be presented in \$US?
7. At the time of the report, one US dollar was equal to 1.31 Australian dollars. Use this conversion rate and the information from the case study to find the following in Australian dollars:
  - (a) the cost to set up the mine
  - (b) the yearly cost to operate the mine
  - (c) the yearly revenue generated by the operation
  - (d) the assumed selling price of a kilogram of scandium oxide
  - (e) the cost of mining a kilogram of scandium oxide.
8. The return on investment is a percentage showing how much profit would be generated compared to the cost of setting up and running the mine. Do you think this percentage would change if we were to use Australian dollars instead of US dollars in our calculations? Why or why not?
9. Why do you think Scandium International Mining Corporation might have engaged an independent company to prepare the feasibility study?
10. Why do you think it is important to note the assumptions when looking at a feasibility study?
11. Consider a government infrastructure project that has been built or is being considered. It could be the Victorian level crossing removals project, a plan to connect Melbourne and Sydney via high speed rail, or a new freeway that is being built. Use the internet to find out more about the project and answer the following questions.
  - (a) What is the name of your chosen project?
  - (b) Describe the nature of the project.
  - (c) Describe five key features that you would expect to see in the feasibility study of this project.
  - (d) Explain why it would be important to consider each of those five features before deciding whether to go ahead with the project.
12. In groups of three or four, identify an opportunity or opportunities for commencing a business in your local area or school.
  - (a) Complete market research for your business idea.
  - (b) Complete a feasibility study for your business idea.



# 1.10 APPLY YOUR SKILLS Establishing a business

## PRACTISE YOUR SKILLS

- Identify business opportunities
- Define, describe and apply relevant business management concepts and terms
- Acquire, record, interpret and share business information and ideas
- Research and analyse case studies and contemporary examples of business management applicable to planning a business
- Apply business management knowledge to practical and/or simulated business situations

## AN INTERVIEW WITH THE BATHROOM BROTHERS

**Interviewer: Why did you want to establish your own business?**

*Marko:* After renovating multiple bathrooms for friends, family and our own properties, we felt passionate about the whole process of renovation. The satisfaction of seeing the old bathrooms transform and look so great was really rewarding. Also having control of the hours we work and being our own boss was very appealing.

**Interviewer: How did you identify a business opportunity?**

*Nebojsa:* We had heard a lot of horror stories about tradespeople being unreliable, taking shortcuts, charging excessive amounts or being booked out for months. We found that when compared with quotes from experienced tradespeople, we were able to be very competitive from both price and quality aspects. The sheer level of interest through word of mouth made it apparent that this had the potential to progress into a full-time business.

*Marko:* Also, we knew that the housing industry was going strong. We thought that many people with older existing houses who did not want to over-capitalise with a large renovation would see the benefit of having a new bathroom to add value to their property.

**Interviewer: How did you identify a potential target market?**

*Marko:* We identified that in the current economic climate people are often not able to afford major renovations but have enough for a kitchen or a bathroom update. We realised that the bathrooms we were completing for clients were those who were not able to afford a full house renovation but wanted to refresh and add value to their property with a new bathroom.

**Interviewer: You once said you take only moderate rather than high risks as entrepreneurs. Please elaborate.**

*Nebojsa:* The economy can turn at any time for whatever reason and having a family means others are depending on our success. While opening most types of business carries a certain level of risk, we would not be prepared to risk our family's financial security by taking on large amounts of debt to fund a new business venture. There is just too much to lose at this stage in our lives.

**Interviewer: What would you consider to be your entrepreneurial skills?**

*Marko:* Neb and I are fairly similar in that we are able to identify demand in the market, are creative, organised and have great interpersonal skills. These have all been crucial in the early days of our business and will no doubt be important for its future success.

Marco and Nebojsa Radisic of Bathroom Brothers.



## 1.10 ACTIVITIES

### TEST your skills

1. Recall the factors that prompted Marko and Nebojsa to establish their business.
2. Summarise how Marko and Nebojsa identified (a) a business opportunity and (b) a potential target market.
3. Do you agree with their stance on taking risks as entrepreneurs? Explain your answer.
4. Identify the skills that have helped Marko and Nebojsa establish a successful business.

### APPLY your skills

5. Compile a list of the relevant personal skills and qualities that should be considered before commencing each of the following businesses:
  - (a) a take-away food store in a medium-sized country town
  - (b) a childcare centre in an outer suburb of Melbourne
  - (c) a house maintenance service operated from home
  - (d) an accountancy practice in Geelong.
6. In groups of three or four, identify an opportunity for commencing a business in your local area or school. Prepare a report, to be shared with the rest of the class, under the following headings:
  - Outline of business concept
  - Reasons for selecting this concept
  - Personal or other skills necessary to run the business
  - Likely demand for the good or service (is there a 'gap in the market'?)
  - Innovation in good or service (or in the way these are delivered)
  - Basic market research needed
  - Existing competitors in the local area
  - The predicted level of success.
7. In pairs, identify a business of which you have some knowledge. It could be a business that employs a member of your family or a friend; where you work part time; or a local business you are familiar with. Interview the owner of the business and prepare a report for presentation to the rest of the class, covering the following issues. You might like to use the questions below, or make up your own.
  - What opportunities did the owner identify before they started their business?
  - What was the owner's original motivation for going into business?
  - Did the owner set goals for themselves or the business before starting the business?
  - What personal qualities does the owner have that they felt were necessary for operating a successful business?
  - What reasons did the owner have for deciding on the particular business concept?
  - What market research did the owner undertake before commencing the business?
  - Did the owner undertake any initial feasibility study, and if so, how did they do this?
  - Has the owner made use of any innovation, or a particular specialty that sets them aside from competitors?
  - What major decisions did the owner face when they commenced their business?
  - Did the owner make any mistakes during the commencement period, and if so, what did they learn from them?
  - Is there anything that the owner would have done differently during the commencement period?
  - What is the history of the business?
  - What successes and failures has the business had along the way?
  - What are the main reasons for this business's success?
  - Is there any advice the business owner would offer to someone commencing a business?

You may wish to video the interview, then view and discuss it in class.

# 1.11 The contribution of businesses to the nation

**KEY CONCEPT** Businesses in Australia make a significant contribution to the nation — both to the economy and to social wellbeing.

## 1.11.1 The economy

Before we can discuss the contribution businesses make to the economy we must first gain an understanding of what an economy is. An **economy** is a system set up to answer three basic questions:

1. What goods and services are produced?
2. How do we produce those goods and services?
3. How are those goods and services distributed; that is, who will receive the goods and services produced?

Many different economic systems have been used, but the type of economic system we have in Australia is called a *market capitalist economy*. This means that most answers to the economic questions are provided by private buyers and sellers.

Now that we understand what an economy is, let's consider how businesses in Australia actually contribute to our economy.

The economy in action: consumers (buyers) and businesses (sellers) come together in a marketplace to buy and sell a wide variety of goods and services.



### Business contribution to employment and taxation revenue

Employment keeps the economy healthy. Employed Australians will use the wage they have earned to buy goods and services to meet their needs and wants, supporting business and opening up further opportunities for job creation. Businesses employ large numbers of people. In June 2017, the Australian Bureau of Statistics (ABS) estimated there were 4.8 million people employed in small businesses, 2.6 million people employed in medium-sized businesses and 3.5 million people employed in large businesses.

Small businesses drive employment growth in Australia, hiring more staff than large businesses. During the last 20 years, the small business sector has been the major generator of new jobs in the Australian economy. Large businesses also make an important contribution. ANZ, for example, employs 21 000 people in Australia. Businesses, therefore, have an important role to play in supporting employment growth in Australia and in reducing unemployment. In addition to providing employment, businesses contribute to revenue raised through taxation. Not only do they pay tax, but also their employees pay income tax. Taxation is used to provide goods and services that may benefit the whole community, such as a better education system.

#### DID YOU KNOW?

Around 61 per cent of small businesses do not employ staff; 27 per cent employ 1–4 people and 9 per cent employ 5–19 people, according to Australian Bureau of Statistics figures.

### Business contribution to economic growth

**Economic growth** sounds good, but what is it? Growth occurs when a nation increases the real value of goods and services over a period of time. One common measure to check whether economic growth has occurred is to see whether our gross domestic product or GDP has grown. GDP is the monetary value of all the finished goods and services produced in Australia over a specific period. Business plays an important

role in contributing to our overall economic growth by producing a wide range of goods and services. The ABS estimated that in 2016–17, small businesses produced over \$390 billion of Australia’s economic output. Medium-sized businesses contributed more than \$250 billion and large businesses produced over \$490 billion.

### Business contribution to export earnings

**Exports** refer to the sale of our goods and services in other countries. Exporting products overseas contributes to Australia’s **balance of payments** (BOP). The BOP is a record of trade and financial transactions between residents of Australia and residents of the rest of the world, over a given period. A favourable BOP exists when there are more payments coming in than going out. Exporting products creates jobs, boosts incomes and improves our living standards.

Many businesses export their products to overseas markets. Rio Tinto earns more than 90 per cent of its revenue from overseas. Collingwood-based Circus Oz, the highly acclaimed Australian circus company, also contributes to exports. The company has toured the world with its talented ensemble of leading artists, acrobats, performers and musicians, which has generated important export earnings. Since its first world tour in 1980, Circus Oz has performed in 27 countries across five continents to over 4 million people.

Circus Oz has successfully exported its world-class, distinctly Australian work



#### DID YOU KNOW?

The balance of payments consists of two accounts, which are always in balance. The current account records transactions such as exports and imports, income and transfers. The capital and financial account records borrowing and lending transactions. Historically, Australia has recorded large current account deficits (CAD), often importing more goods and services than it exports. Over the last 20 years, however, Australian exporting industries have become more competitive in global markets.

### Business contribution to research and development

Businesses undertake research and development (R&D) in order to expand their knowledge of products and processes. Researchers and scientists undertake R&D in a business to produce new products, improve existing products or develop new processes (such as improving the way a product is produced or delivered). Because of their size, large businesses in particular have the capacity to undertake extensive innovation. Finding new ways to do things results in improved efficiency and increased productivity.

According to the ABS, Australian businesses spent \$16.6 billion from 2015–16, which was a 12 per cent decrease (a significant decrease of \$2.3 billion) than the amount spent on R&D from 2013–2014. This was the first year since 2009 that investment in R&D had decreased. Of the \$16.6 billion spent, large businesses contributed \$9.4 billion, medium-sized businesses contributed \$4.4 billion and small businesses contributed \$2.8 billion.

GlaxoSmithKline is a large pharmaceutical company. The company invests more than \$50 million in R&D in Australia each year. The main purpose of their research is to discover and develop new medicines and vaccines.





Businesses in the manufacturing and professional, scientific and technical services industries were the major contributors to the R&D spending. BlueScope Steel is a steel manufacturer that makes large contributions to R&D. Its R&D team provided the technological foundation for the introduction of COLORBOND® steel in 1966. Today this product is in demand from customers all around the world.

### DID YOU KNOW?

The Australian Bureau of Statistics, in its latest survey of research and development activity, found a strong relationship between the rate of R&D expenditure and the size of the businesses. Large businesses are increasingly more likely than small businesses to undertake innovation.

## 1.11.2 Social wellbeing

Social wellbeing refers to how well a nation's people live. This may be affected by access to basic needs and services such as water, food, shelter and health, as well as education, relationships with others in society, community engagement and material possessions.

Wellbeing can be quantified using economic measures such as GDP, income, the level of employment and consumption of goods and services. Wellbeing can also be determined through non-economic measures including our level of personal happiness and self-fulfilment, crime and death rates, environment quality and political freedom. Many of these can be difficult to measure precisely.

We have already looked at how businesses contribute to GDP, create jobs and pay tax. Let's have a closer look at the contribution that businesses make to some of these non-economic influences on social wellbeing.

### Business contribution to career and social wellbeing

By providing employment for people, businesses don't just provide people with a source of income. People who have jobs have the opportunity to build up their self-esteem by doing something that they consider to be worthwhile. Working for a business allows people to feel as though they belong within the business, as well as a sense of contributing to the needs of society. This can contribute to a person's level of personal happiness and self-fulfilment. In addition, the social connections that people make at work may also affect their health, personal habits and general wellbeing.

### Business contribution to innovation

We have already reflected on the contribution that businesses of all sizes make to R&D. As well as having an impact on the economy, invention and innovation have changed the way we live and improved our wellbeing. Consider the way that computers, tablets such as the iPad, the mobile phone and the internet have dramatically changed our quality of life. The innovations of businesses large and small, and of individual entrepreneurs, have also helped to solve some of the world's urgent problems, with new solutions including fair trade, mobile money transfer, restorative justice and carbon reduction.

Google is an example of both an innovative and a socially responsible business. The company is well known for its innovative culture. It encourages employees to work together to develop ideas, which has led to the development of a creative and passionate workplace. The company also encourages staff to be involved in charitable efforts of all kinds, and its code of conduct covers respect for other employees, conflicts of interest, financial integrity and responsibility, confidentiality and obeying the law.





## Business contribution to corporate social responsibility

While all businesses aim to make a profit and maximise their market share, to do so in a manner that is not socially responsible is likely to be counter-productive — customers will eventually find out which businesses are acting responsibly and which are not. Customers can react by refusing to purchase a business's product if they learn that the business is exploiting employees, engaging in animal cruelty or polluting the environment. Anyone who decides to start a business intending to exploit customers or employees is unlikely to continue in business for long.

**Corporate social responsibility** involves the managers or owners of a business taking steps to ensure that the broader social welfare — including employees, customers, suppliers and the environment — is taken into consideration when conducting business dealings. Socially responsible behaviour can be expensive in the short term, but in the long run it does turn out to be in a business's interest. It is also good for social wellbeing, because it means that customers are treated fairly and that the environment is not damaged. Employees will want to work for businesses that are socially responsible. Working for a socially responsible business allows people to contribute directly to community wellbeing. For the socially responsible business, the costs of replacing staff will be reduced and productivity is likely to increase. More people are choosing employers based on their values and how they contribute to society. People want to be proud of the business they work for and this feeling may add to their level of personal happiness and self-fulfilment.

### study on

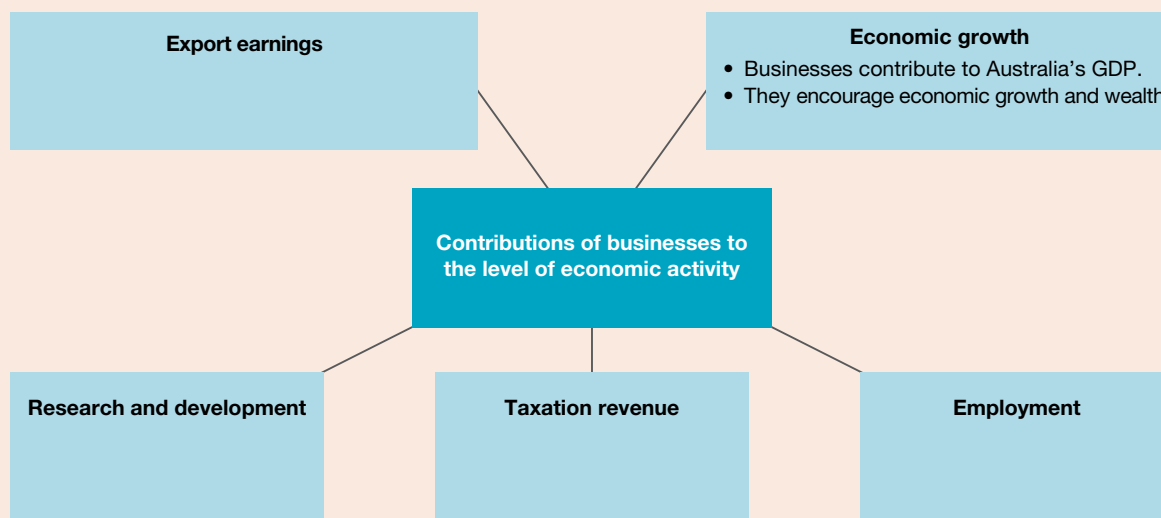
Unit 1 > AOS 1 > Topic 1 > Concept 2

**Contributions of businesses** Summary screen and practice questions

## 1.11 Activities

### TEST your understanding

1. What are the three basic questions that all economic systems must answer?
2. Construct a mind map outlining the five key contributions of businesses to the level of economic activity. The mind map below has been started for you.



3. Decide whether each of the following statements are true or false. If the statement is false, write a correct statement.
- Economic growth can be measured by GCP.
  - Employed Australians will use the wage they have earned to spend more, which supports businesses and encourages job creation.
  - A favourable balance of payments exists when there are more payments coming into Australia than going out.
  - Research and development is just about getting the business ready so that it is prepared for research.
  - Gross domestic product is the total amount of spending on waste disposal.
4. Define the term 'corporate social responsibility'.
5. Businesses contribute to the social wellbeing of the nation by investing in \_\_\_\_\_ and \_\_\_\_\_ thereby changing the way we live and adding to our quality of life. Through \_\_\_\_\_, businesses support the career and social wellbeing of employees. Businesses also contribute to social wellbeing by acting in a \_\_\_\_\_ manner, resulting in employees and suppliers being treated fairly, positive customer relationships and a clean environment.

### APPLY your understanding

6. Complete the table below by stating what contribution each scenario makes to the economy. The first entry has been completed for you. Some scenarios may make more than one contribution.

| Situation                                                                                                               | Contribution                                                              |
|-------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------|
| A large energy company plans to build a new power plant just outside a regional town.                                   | Contribution to employment<br>Contribution to career and social wellbeing |
| A small company has completed new research on an innovative product.                                                    |                                                                           |
| A telecommunications company has seen a dramatic increase in the volume of services it offers over the last five years. |                                                                           |
| A small business earns half its revenue from overseas.                                                                  |                                                                           |
| A medium-sized business decides to sponsor a local community event.                                                     |                                                                           |

7. Use the **Business export success** weblink in the Resources tab to undertake research about a business that has been successful in exporting its products. Write a short report using the following headings:
- Name of the business
  - What the business does
  - What the business exports
  - Where the business exports its products
  - Reasons for success.
8. You have been asked by the local newspaper to write an article on the importance of businesses to the Australian economy. Your article will appear in a special supplement dealing with business. Prepare your article exactly as you would like it to be published, using a publishing program for layout if possible. Use your imagination and choose a thought-provoking headline. After you have prepared your first draft, confer with a partner to edit your article to publishing standard. Display the articles around the room.

### EXAM practice

9. Describe two economic contributions that businesses make to the nation. **(4 marks)**
10. Explain two ways in which behaving in a socially responsible manner could make a business more profitable in the long run. **(4 marks)**



Resources



Weblink: Business export success

## 1.12 EXTEND YOUR KNOWLEDGE Business contribution to the economy — Taxation revenue

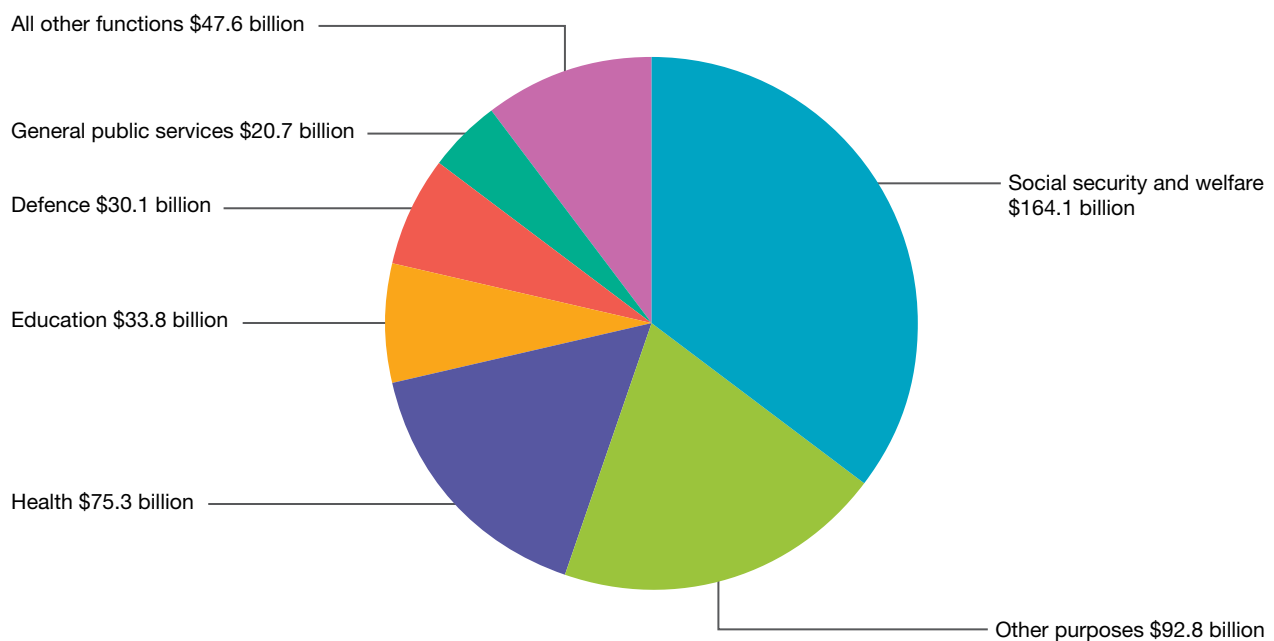
**KEY CONCEPT** Businesses in Australia make a significant contribution to the nation — both to the economy and to social wellbeing.

In Australia, the government uses money it collects in the form of taxes to pay for a range of public goods and services that society couldn't function without. Public schools, hospitals, roads and the military are all paid for by taxes collected by the government from individuals and businesses. Most societies have functioned this way since ancient times, and all of us will at some stage pay taxes and receive the benefit of public goods and services paid for by taxes. As Benjamin Franklin once said, 'In this world nothing can be said to be certain, except death and taxes'. Despite this, there has always been great debate about how much tax individuals and businesses should pay as well as how this money should be spent.

The Australian government expects to spend the money that it has received primarily through taxes on these goods and services. In the most recent budget, the greatest outlays have been on items such as social security and welfare (\$164 billion), which includes pensions for the elderly and those with disabilities, as well as payments to support those who are unable to find employment or are in a disadvantaged position. Health (\$75 billion), Education (\$34 billion), and Defence (\$30 billion) are also some of the more significant areas of spending for the government, which expects to pay a total of \$464.3 billion dollars in the 2017–18 financial year on public goods and services.

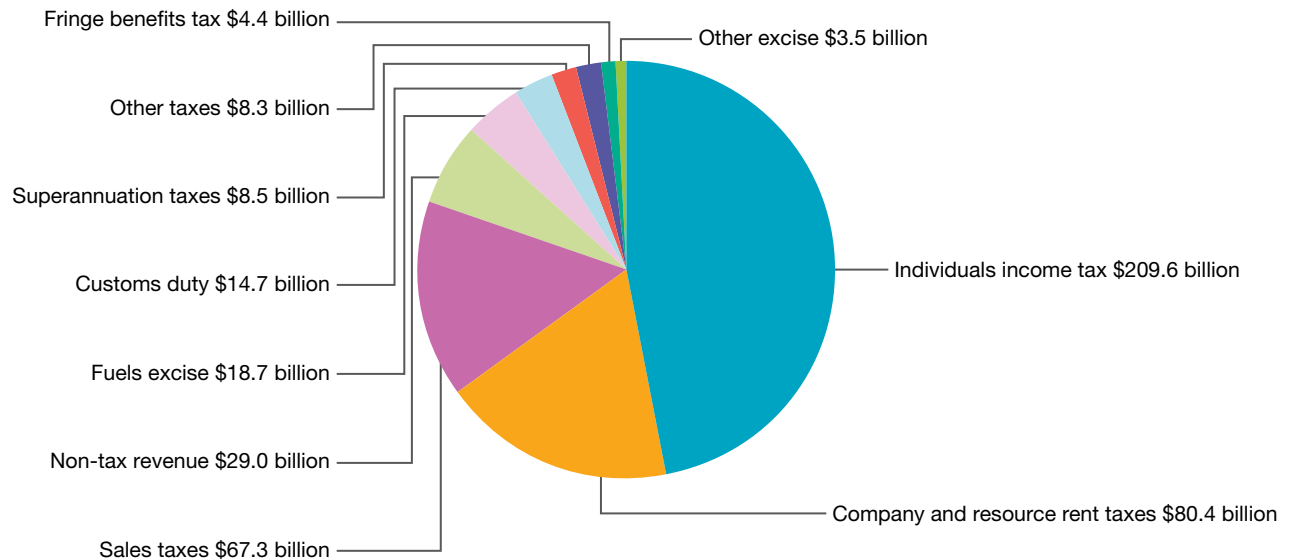
Much of the nation's tax revenue comes from businesses, either through company taxes or individual income tax paid by owners of small businesses not operating as a company. Business activities also indirectly account for the majority of tax revenue received. Businesses employ many people who pay tax on the income they receive from their employer and are involved in transactions that result in other duties and sales taxes.

Government expenditure in the 2017–18 Australian Federal Budget



**Source:** Commonwealth of Australia, *Budget Overview*, 9 May 2017, p. 32.

## Sources of government revenue in the 2017–18 Australian Federal Budget



**Source:** Commonwealth of Australia, *Budget Overview*, 9 May 2017, p. 32.

## PAYING THEIR FAIR SHARE

While the idea behind our taxation system is that it should collect taxes from those individuals and businesses who have been able to prosper in our society, doing this fairly has proven to be difficult in practice. Our complex tax system allows individuals and businesses to deduct a wide range of costs incurred in their attempts to earn an income. For example, a retailer who buys a pair of shoes for \$40 and sells them for \$100 may have received \$100 worth of income, but hasn't earned \$100 profit. In fact, in addition to the \$40 they paid for the shoes, the retailer would also have to pay for expenses such as electricity and wages for employees. In the interest of fairness, the business is allowed to deduct these costs of doing business and pay tax only on their profits. While this example may seem quite straightforward, the complexities surrounding taxation has given rise to an entire profession of accountants whose job is to deal with taxation issues for their clients and employers.

Things get even more tricky when dealing with multinational corporations who derive some of their income from within Australia as well as overseas. There is the temptation for some multinational corporations to avoid or minimise paying tax in Australia by understating their profits here and overstating them in nations that have lower tax rates. Our complex taxation laws leave a grey area between legally minimising tax and illegally avoiding it. Large companies often pay millions of dollars to stay on the right side of this grey area and maximise profits for their shareholders.

In 2016, 11.5 million documents, which became known as the 'Panama Papers', were leaked from a Panamanian law firm Mossack Fonseca. The documents revealed how very high-income earners and multinational corporations from around the world were using offshore investments to avoid paying their fair share of tax in countries such as Australia. With many multinational corporations' shareholders being overseas residents, much of the profits gained by these companies do not end up in Australia once distributed as dividends. Many have argued that it is becoming obvious that, whether or not it is legal, some large corporations operating in Australia are not paying their fair share of tax and that the laws need to change.

EXXONMOBIL paid no corporate tax on \$25 billion of revenue over the last three years. They are not alone, however; the Australian Taxation Office's corporate tax transparency report showed 36 per cent of large companies had zero tax payable in 2014–15. This is an improvement from the previous financial year where the figure was nearly 38 per cent.



## 1.12 Activities

### TEST your understanding

1. Explain the purpose of taxes in a country like Australia.
2. What is the largest area of government spending and what kind of things does this pay for?
3. What is the Australian government's biggest source of revenue?
4. What were the 'Panama Papers'?
5. According to the corporate tax transparency report, what portion of large companies pay corporate tax? Why do some people view this as a problem?

### EXTEND your understanding

6. What do you think Benjamin Franklin meant by his statement, 'In this world nothing can be said to be certain, except death and taxes'?
7. Write a letter to the treasurer of Australia explaining why you think we should increase or decrease spending on one of the items in the budget. You should use facts and statistics to support your argument.
8. Write 300–500 words on whether you think the taxation system in Australia is fair and why.

## 1.13 Methods for fostering a culture of business innovation and entrepreneurship in a nation

**KEY CONCEPT** There are many ways in which a nation can encourage innovation and entrepreneurship, including government investment in research and development (R&D), council grants for new businesses, business mentorships, school-based educational programs in entrepreneurship and the creation of regional business start-up hubs.

Businesses such as Google and Apple nurture innovation and entrepreneurship through the use of collaboration, new technology, active support systems, time provided for creativity and by not shunning failure. Similarly, a nation may encourage a culture of business innovation and entrepreneurship. Businesses can do this through their activities, but governments at all levels can also promote innovation and entrepreneurship through policy and financial assistance.

### 1.13.1 Government investment in research and development

Investment in R&D is expensive and not necessarily within reach of all businesses. Federal and state governments support businesses to conduct R&D via direct funding, grants and tax incentives. Through a number of avenues, the federal government provided approximately \$10.1 billion in funding to R&D in Australia in 2016–17. Funding is provided to universities, publicly funded research agencies such as the CSIRO and businesses. Government support for businesses comes through programs such as the research and development tax incentive, which provides a tax offset to encourage businesses to engage in R&D.

In the 2017–18 Federal Budget, the federal government announced a \$1.1 billion National Innovation and Science Agenda (NISA) designed to enable Australia to take full advantage of new economic opportunities.



The government has expressed the desire to establish Australia as a leading global financial technology hub and is announcing a new package that aims to position our local financial technology industry as a world leader.

AusIndustry is a division of the Department of Industry, Innovation and Science, and is the federal government's principal agency for delivering assistance, programs and services that support industry, research and innovation. AusIndustry offers assistance programmes such as:

- *the Entrepreneurs' Programme*. This initiative is a multi-platform network of practical advice and support for businesses, including advice from people with private sector experience, co-funded grants to commercialise new products and processes, funding to take advantage of growth opportunities, and connection and collaboration opportunities.
- *the R&D tax incentive*. This scheme encourages business investment in R&D, as well as growing and sustaining innovative, competitive and export-orientated Australian industries. The tax incentive is an easy-to-access entitlement that is available to businesses of all sizes in all industry sectors. Under this scheme, eligible small to medium-sized companies with annual turnovers of less than \$20 million apply for a refundable tax offset of 43.5 cents for every dollar spent on R&D. A 38.5 per cent non-refundable tax offset is available to other eligible businesses.
- *Regional Innovation Funds*. These initiatives provide support to stimulate investment and diversify the economic and employment base in the regions of Tasmania (Australian Government Innovation and Investment Fund), Geelong (Geelong Region Innovation and Investment Fund) and Melbourne's north (Melbourne's North Innovation and Investment Fund).

DroneShield is a drone detection company based in the United States, but will soon be moving its headquarters to Australia, after recently listing on the Australian share market. The business develops and sells hardware and software used for the detection of drones, which otherwise could present security or safety risks. DroneShield CEO James Walker has said that Australia's R&D Tax Incentive was an important factor contributing to the technology company's decision to move to Australia.



## JUMBO VISION'S \$1 MILLION GRANT

Jumbo Vision International, a Perth technology company, was recently awarded a \$1 million commercialisation grant from the Australian government's Entrepreneurs' Programme, which will allow it to start exporting its virtual reality product to Europe and the United States.

The company's 200 square metre CADwalk visualisation experience simplifies design and layout planning processes for command-and-control rooms and other technical environments. It uses software as well as 2D and 3D stereoscopic projectors and motion-tracking cameras to create a simulation of a room. This allows operators, architects, engineers and other stakeholders to physically



walk through the full-sized representation of a control room and modify the layout as necessary in real time. Designing these types of assets is normally a very time-consuming process.

'This grant is a validation of an innovative concept that we developed to counter design frustration,' said Jumbo Vision General Manager Lena Kimenkowski. 'CADwalk is now a tool we can take to an expanded global stage.'

Mr Kimenkowski said that Jumbo Vision was not inventing products from scratch, but rather combining existing technologies to produce new systems.

CADwalk has been trialled in Australia and New Zealand. Many businesses and organisations have already benefited from the technology, including some major oil and gas mining companies, CSIRO, AGL, South East Water and Transpower NZ.

The Department of Economic Development, Jobs, Transport & Resources (DEDJTR) has established Boost Your Business Vouchers to support Victorian businesses to become more productive, employ more people, improve market access and, in general, increase their scale, diversity and profitability. Eligible applicants may receive up to \$50 000 in one of the following six streams:

- Advanced Victorian Manufacturing
- Asia Gateway
- Defence, Aerospace and Security
- Food Innovation
- Social Enterprise Capability
- Victoria Israel Innovation.

### SUN HEALTH FOODS' GROW YOUR BUSINESS GRANT

Sun Health Foods is an Australian manufacturer of health bars, including a wide range of nut and honey bars. The private company was established in 1980 and also produces a range of gluten-free and nut-free products. It supplies these products to major supermarkets, petrol stations and convenience stores across Australia.

The business was awarded an \$11 500 Grow Your Business grant by the Victorian Government, allowing it to manage increased capacity at its new location in Moorabbin and explore new markets in Australia and overseas. Managing Director Theodore Andriopoulos is hopeful that several new initiatives will create an increase in customer interest and sales.

'Innovation is our hope for survival in the future, I think,' Mr Andriopoulos said. 'And that's something that we've had experience with in the last 39 years, and unless we keep that I don't think we would be able to be very competitive.'



## 1.13.2 Council grants for new businesses

From time to time, local councils will provide business grants and funding programs. Occasionally these will apply to new businesses. The City of Melbourne has a small business grants program that provides financial assistance to small businesses currently located or intending to locate within the City of Melbourne. The objective is to encourage the establishment, growth and retention of innovative, creative and sustainable businesses. A number of other councils, including Frankston City Council, Greater Shepparton City Council, Macedon Ranges Shire Council and Northern Grampians Shire Council, also have business grants programs with similar objectives for new or existing businesses.

## SOUTHSIDE SOCIAL

Frankston City Council's small business grants program has contributed a total of \$240 000 towards supporting 20 local businesses in its four years of operation. Southside Social received a grant in the start-up category for \$15 000. A restaurant specialising in American gourmet burgers, fancy fries, and spiked shakes, Southside Social's point of difference is that it sources local produce, wine and beer. Graffiti-style art is also featured throughout the venue.



### on Resources

-  **Weblink:** Department of Industry, Innovation and Science
-  **Weblink:** Boost Your Business Vouchers information

### 1.13.3 Business mentorships

A **business mentor** is a person with extensive business experience who can guide a business owner with less experience. They will offer knowledge, wisdom and advice to an inexperienced business manager or entrepreneur to help them set goals, maintain perspective, expand their networks and grow. A business mentorship refers to the relationship between the mentor and the business manager or entrepreneur (the mentee). Mentoring allows the business owner to develop skills and abilities in innovation and entrepreneurship for free, and at a faster rate than if they were on their own. A mentorship can occur informally — for example, through a business contact providing advice and support as needed. Formal mentoring is also provided through government or not-for-profit organisations.

Local councils will often facilitate information sessions for starting or supporting new businesses. Many councils have small business health check services and mentoring programs available. For example, Glen Eira City Council and Kingston City Council offer a Mentor Partners Program that provides volunteer business mentoring support and guidance to help small business owners to develop their businesses.

### 1.13.4 School-based educational programs in entrepreneurship

Awareness of entrepreneurship can be improved through education and information programs. Schools teach courses in economics and business, including VCE Business Management, so that students have some knowledge of entrepreneurship. Many programs also allow students to experience entrepreneurship.

There are several school-based educational programs in entrepreneurship. One popular program is called '\$20 Boss' and is organised by the Foundation for Young Australians and the National Australia Bank. Participating students are given \$20 each as seed funding to create their own business. Students may decide to use the funding on their own start-up, or pool it with other students to work on a joint project. At the end of the program, students are encouraged to pay back the start-up money.

Victoria University organises an annual I Plan A Business (iPAB) competition that gives emerging student entrepreneurs the opportunity to develop an idea for a business or social enterprise, then prepare and enter a business plan. Students need to apply their creativity and business skills to the business plan to win prizes.

ABW Enterprise Education is a not-for-profit organisation that delivers a range of business simulations for schools. Working in teams, students learn from the hands-on experience of running a virtual business.



Students at Kurunjang Secondary College participated in \$20 Boss and improved their entrepreneurial and leadership skills.



## Resources



Weblink: \$20 Boss



Weblink: iPAB competition

### 1.13.5 Regional business start-up hubs

Small Business Centres Victoria (SBCV) Network is a network of business centres providing a range of small business services in 9 metropolitan and 17 regional locations throughout Victoria. Business centres provide subsidised premises, advice, services and support to new and emerging businesses to assist them to become established and profitable. Business centres may also host workshops and seminars providing small businesses with access to low-cost resources and information. Because they are locally based and operated, each business centre has an appreciation of the regional issues affecting an individual business and is able to tailor advice to suit the specific needs of each business.

Many of these business centres are members of Business Enterprise Centres (BEC) Australia, a not-for-profit network of business enterprise centres that provide support to small business owners. Some of these business centres have also been established by Workspace Australia. This is a not-for-profit organisation that has established small business centres in Bendigo, Castlemaine, Donald, Dunolly, Eaglehawk, Gisborne, Inglewood, Kinglake and Maldon.

INNOVIC (the Victorian Innovation Centre) is a not-for-profit organisation that assists innovators and entrepreneurs. The organisation helps to turn new ideas into viable products and create new businesses of the future. It offers a wide range of practical services, free seminars and innovation resources to help potential business owners with their business ideas, as well as innovation through all the stages of the business's development.

## 1.13 Activities

### TEST your understanding

1. Summarise the ways in which governments at both federal and state level invest in research and development in Australia.
2. For what reason do you think Jumbo Vision International received a commercialisation grant from the Australian government's Entrepreneurs' Programme?
3. Explain how Sun Health Foods benefited from a Grow Your Business grant.
4. What is the purpose of the small business grants programs offered by some local councils?
5. Define the term 'business mentor' and explain how a mentor can assist a business manager or entrepreneur.
6. Outline how school-based educational programs can improve awareness of and experience in entrepreneurship.
7. Describe the type of support that regional business start-up hubs such as Small Business Centres Victoria offer new and existing business owners.

### APPLY your understanding

8. Use the **Grants and assistance** weblink in the Resources tab to find out more about grants and assistance in the area of innovation and entrepreneurship. Search the programs or use the grant finder then use the table below to record the information you find on the website, under each appropriate heading.

|                  | Grants | Assistance |
|------------------|--------|------------|
| Innovation       |        |            |
| Entrepreneurship |        |            |

9. Use the **Small Business Centres Victoria** weblink in the Resources tab to answer the following questions about the Small Business Centres Victoria (SBCV) network:
  - When and by whom was this network set up?
  - What are the key objectives of SBCVs?
  - Identify five different services offered by SBCVs, and explain how each operates.
  - Identify the closest business centre to your home or school.

### EXAM practice

10. Describe two methods by which the Australian government supports and funds businesses to undertake research and development. **(4 marks)**
11. Explain one reason why the Australian government funds school-based programs for entrepreneurship, even though the students participating in such programs would in all likelihood be too young and too busy with school to establish their own business? **(4 marks)**



### Resources



Weblink: Grants and assistance



Weblink: Small Business Centres Victoria



# 1.14 EXTEND YOUR KNOWLEDGE Research and development

**KEY CONCEPT** Businesses make a large contribution to research and development (R&D), but more could be done to ensure that there is a culture of business innovation in our nation.

## RESEARCH AND DEVELOPMENT AND GOVERNMENT

R&D does not necessarily mean scientists in lab coats performing experiments. Businesses can carry out R&D in many different ways. A restaurant, for example, might develop and test new recipes for commercial production. A manufacturer might establish a new process or a product with added value. A farmer might develop new lines of food products or drought resistant produce. Businesses of all sizes can undertake R&D. However, a major factor that prevents many businesses, particularly small businesses, from attempting to innovate is the cost of R&D and the lack of funding.

Many have suggested that the government should do more to encourage businesses to spend money on R&D. Cochlear Limited chairman Rick Holliday-Smith has said, 'We would recommend the government to reward appropriately defined innovative companies for their incremental R&D spend by increasing the concession for additional R&D expenditure.'

Others have suggested that the government needs to allocate its funding more effectively. Professor Barney Glover, chair of Universities Australia, has said, 'I think it's fair to say that over the last decade when we've seen a very significant increase in the R&D tax incentive . . . we haven't seen the same improvement in Australia's international innovation performance.' Professor Glover has argued that Australia should not simply rely on an indirect tax incentive to encourage innovation in business, but rather the indirect tax break should be complemented by direct payments to businesses collaborating on research with universities and public researchers. Australia's Chief Scientist, Alan Finkel, has also suggested that the government should introduce a targeted grant system.

Despite this, many small businesses have managed to invest in R&D. Ento is a workplace rostering software company that was launched in 2009. Since then it has increased its revenue and staff, and more than 1500 workplaces use its product across Australia. The company has received financial assistance from the federal government.

A great deal of R&D in Australia is carried out in partnerships between business and public research bodies such as universities.



## RESEARCH AND DEVELOPMENT—DOES IT MAKE CENTS?

Australian business expenditure on R&D (known as BERD) increased for the third consecutive year in 2013–14, to a total of \$18.9 billion, according to figures released in 2015 by the Australian Bureau of Statistics (ABS). Large businesses accounted for just under two-thirds (59 per cent) of total R&D expenditure, while medium-sized businesses contributed 24 per cent and small businesses contributed 17 per cent. But is spending millions of dollars on R&D really worth it? Many Australian businesses, including Ford Australia, seem to think so.

Ford closed its Broadmeadows car factory and Geelong engine plant in October 2016. However, the company retains a design and engineering business in Australia with approximately 1500 staff working in R&D. Ford recently refurbished its Broadmeadows headquarters to house its Asia-Pacific Engineering Centre, and it also maintains a research and development centre in Geelong and a test facility at the You Yangs proving grounds at Lara.

Speaking at the 50th birthday celebration of the You Yangs proving grounds, Ford Australia president and CEO Graeme Whickman said that its Australian R&D facilities are instrumental as part of the company's capability as an innovator and centre of excellence for the Asia-Pacific region. 'In 2015 alone, Ford spent around \$300 million on R&D, bringing to \$2 billion the amount of money spent on R&D over the past six years,' he said.

Australian businesses do have a long way to go when it comes to matching the R&D efforts of other businesses around the world. ABS research shows that even though there was an increase in business expenditure on R&D (BERD), Australia continues to lag behind what other Organisation for Economic Co-operation and Development (OECD) countries spend on innovation as a proportion of gross domestic product (GDP).

Federal government investment in Research and Development has been less than impressive in recent years. Spending of only 0.4 per cent of the nation's GDP on R&D in 2015 placed Australia as the third lowest in the 18-nation OECD. South Korea was the highest spending nation as a proportion of its GDP, devoting 1.18 per cent of its GDP to R&D.

Australian state governments and the private sector placed a considerably greater emphasis on R&D. Adding state government and private sector funding to federal funding, Australia spent an amount that equates to 2.1 per cent of its GDP on R&D in 2015, ranking it ninth among the OECD nations. Again, South Korea led the pack, spending 4.3 per cent of its GDP on R&D.

What the future holds for Australian government funding into R&D is difficult to predict. While the benefits of R&D to the economy are undeniable, they are also difficult to measure, which means that R&D funding is always subject to great political debate.

Ford's Asia-Pacific design and engineering facilities in Melbourne can take an entire line of cars from sketches through to 3D renderings, to clay models, prototypes and finally to the vehicles you see on the road.



## 1.14 Activities

### TEST your understanding

1. Explain why R&D is more than simply performing experiments.
2. What factors can prevent businesses from investing in R&D?
3. Briefly outline the benefits for Ento in receiving R&D assistance from the federal government.
4. In 2015, how much did Australia as a whole spend on R&D as a proportion of its GDP?
5. Outline the contribution that Ford has made to R&D in Australia.
6. Explain how Australia compares to the other OECD countries in terms of business expenditure on research and development.

### EXTEND your understanding

7. Use the internet to research another business that has received financial assistance from the government for R&D. Phrases such as 'R&D grant' or 'R&D rebate' might be useful to enter into a search engine such as Google. Write a one-minute newflash that covers:
  - the name of the business
  - what the business produces
  - what type of funding or grant it received
  - why the business received the government assistance
  - the impact of the government assistance (what it will be used for).
8. Calculate how much money large businesses, medium-sized businesses and small businesses spent on R&D in 2015.
9. Use the **OECD Main Science and Technology Indicators** weblink in the Resources tab to find the most up-to-date OECD statistics. Choose 'BERD as a percentage of GDP' to find the BERD/GDP ratios of OECD countries.
  - (a) Graph this information for the top 15 countries. For each country, show how the ratio of BERD to GDP has progressed over the last five years.
  - (b) Write a comment summarising the results of your graph. Do you see any trends? Which countries are improving their BERD (as a proportion of GDP)? How is Australia performing compared to the other top OECD countries?
10. Do you think that the government should do more to encourage businesses to spend money on research and development, or should it be left up to the corporate sector?



# 1.15 Review

## 1.15.1 Summary

### Sources of business opportunity

- A business opportunity can come from innovation and entrepreneurship, recognising and taking advantage of market opportunities, changing customer needs, research and development, technological development and global markets.
- Invention and innovation can lead to the development of new or improved products or services, which can form the basis for the establishment of a business to sell those products or services.
- Converting an innovative idea into a business concept often requires the creativity and risk-taking ability of an entrepreneur for success to be achieved.

### The personal motivation behind starting a business

- Any person wanting to set up a business must be very clear about their objectives and motivation.
- The motivations behind starting a business include the desire for independence, both financially and personally, to make a profit, to fulfil a market need and to fulfil a social need.

### The importance of goal setting in business

- Goals should be S.M.A.R.T. — that is, they should be specific, measurable, attainable, relevant and time bound.
- Businesses strive to achieve three broad goals: financial, social and personal.

### The characteristics of successful business managers and business entrepreneurs and how these characteristics contribute to business success

- Some characteristics of entrepreneurs are the ability to take risks, share a vision and demonstrate initiative, innovation and enterprise.
- Some characteristics of successful business managers are the ability to start and see through long-term projects, leadership qualities, organisational skills and the ability to take managed risks.
- Business owners must be able to assess honestly their own personal characteristics to determine whether they have the necessary attributes to operate a successful business.
- The characteristics of business managers and entrepreneurs ensure that a business will be successful. Without a goal or direction, without leadership or organisation, a business would be likely to fail.

### The importance of business concept development

- A business concept describes the core activities of the business, the specific features and value of the goods or services it provides, and the target market.

### The relationship between business opportunities and business concept development

- A business concept is developed by a prospective business owner after an idea has arisen from an assessment of possible business opportunities.

### Market research and initial feasibility studies

- The prospective business owner should carry out some initial market research to determine the viability of their business concept.
- A feasibility study is an assessment of the business idea's potential for success. This involves determining how practical the idea is and whether it would successfully translate to the market.

### The contribution that businesses make to the economic and social wellbeing of a nation

- Businesses contribute to the economic wellbeing of a nation by providing employment, contributing to taxation revenue and boosting economic growth and export earnings. They also contribute to research and development.
- Businesses contribute to the social wellbeing of a nation by supporting career development and social wellbeing, innovation and corporate social responsibility.

### The methods by which a culture of business innovation and entrepreneurship may be fostered in a nation

- Innovation and entrepreneurship may be encouraged and nurtured in a nation in many ways, including government investment in research and development, council grants for new businesses, business mentorships, school-based educational programs in entrepreneurship, and the creation of regional business start-up hubs.

## 1.15.2 Key terms

**assets** items of value owned by a business

**balance of payments** a record of a country's trade and financial transactions with the rest of the world

**business** any activity conducted by an individual or individuals to produce and sell goods and services that satisfy the needs of society, as well as making profit

**business mentors** a person with extensive business experience who offers knowledge, wisdom and advice to a less experienced business manager or entrepreneur

**business opportunity** a set of circumstances that presents itself as an avenue to success

**corporate social responsibility** managing a business in such a way that the broader social welfare of the community, including its employees, customers, suppliers and the environment, is taken into consideration when making business decisions

**economic growth** when the real value of goods and services increases over a set period of time

**economy** a system set up to determine what to produce, how to produce and to whom production will be distributed

**effectiveness** a measure of whether the business is doing the right things — those that are most important to the success of the business

**efficiency** measures how well we do things. For example, if we are able to produce more outputs with from the same inputs we have become more efficient at using these inputs.

**entrepreneur** a person who is willing to seize opportunities to start and operate a business, and is prepared to take risks in the hope of making a profit

**entrepreneurship** the ability and willingness to start, operate and assume the risk of a business venture in the hope of making a profit

**exports** goods or services sold by one country to individuals, businesses or governments in another country with the aim of extending sales and market penetration

**feasibility study** an assessment of the practicality and potential for success of a proposed business idea

**goal** what a business expects to achieve over a set period of time

**industry** the classification of groups of businesses related to the particular good or service they produce

**innovation** either creating a new good, service or process, or significantly improving an existing one

**market conditions** the features of a market into which a new good or service is to be introduced, which include factors such as the number of potential customers, level of competition and potential for growth

**market research** a process of systematically collecting, recording and analysing information concerning a specific market

**market share** the proportion of total sales in a given market or industry that is controlled or held by a business, calculated for a specific period of time

**mission statement** describes what the business does and how it will achieve its vision

**productivity** how many outputs we produce per input. It is calculated using the formula:

$$\text{Productivity} = \text{outputs/inputs}$$

**profit** what is left after business expenses have been deducted from money earned from revenue



**research and development** (R&D) a set of activities undertaken to improve existing products, create new products and improve production processes

**return on investment** a positive or negative percentage that relates the money gained or lost on an investment to the cost of that investment. It is usually taken to mean that the return on the investment occurs over a 12-month period.

**revenue** the income that a business earns from the sale of goods and services to customers

**shareholders** (or members) the owners of a company

**vision statement** describes where the business wants to be in the future (say five years from now)



## Resources



Digital doc: Key terms glossary (doc-29408)

### 1.15.3 Review questions

#### TEST your understanding

1. Explain the role of innovation and entrepreneurship in the establishment of new businesses.
2. Outline how each of the following sources of business opportunity can foster new business ideas:
  - recognising and taking advantage of market opportunities
  - changing customer needs
  - research and development
  - technological development
  - global markets.
3. Identify and explain the key factors that may motivate an individual to become a business owner.
4. Outline what is meant by 'S.M.A.R.T.' goals.
5. List and explain three broad types of business goals.
6. What are the key characteristics that are likely to be present in a successful business manager?
7. What is entrepreneurship, and why is it so important for business success?
8. What is a business concept?
9. How might a prospective business owner devise a business concept?
10. Explain the relationship between business opportunities and business concept development.
11. Outline an initial market research process that could be used by a prospective business owner to determine market conditions for their proposed product or service.
12. Describe the possible contents of an initial feasibility study.
13. Explain the economic contribution that businesses make to our nation.
14. Summarise the contribution that businesses make to the social wellbeing of Australia.
15. Describe the methods by which the federal and state governments invest in research and development.
16. Briefly outline how the following methods foster a culture of innovation and entrepreneurship in a nation:
  - council grants for new businesses
  - business mentorships
  - school-based educational programs in entrepreneurship
  - the creation of regional business start-up hubs.



17. Select the most appropriate words from the following list to complete the paragraph below.

|             |                 |                  |                   |
|-------------|-----------------|------------------|-------------------|
| R&D         | education       | gap              | social            |
| feasibility | technological   | independence     | innovation        |
| profit      | market research | entrepreneurship | market conditions |

New ideas for businesses can come from a range of sources, including identifying a \_\_\_\_\_ in the market, \_\_\_\_\_ development and changing customer needs. Prospective business owners can be motivated by the desire for \_\_\_\_\_, the need to make a profit and to fulfil a market and/or \_\_\_\_\_ need. Before establishing a business, the owner should determine whether there is enough demand for the good or service to ensure that it will survive and generate a \_\_\_\_\_. By carrying out a process of \_\_\_\_\_ and conducting an initial \_\_\_\_\_ study, he or she can determine whether appropriate \_\_\_\_\_ exist to give the business a chance of success. A new invention can often provide the stimulus to begin a new business, although sometimes the improvement of an existing product, known as an \_\_\_\_\_, can serve the same purpose. Recognising such opportunities and being able to act on them is an indication of the qualities of \_\_\_\_\_ in the prospective business owner. Innovation and entrepreneurship can be fostered in a nation by methods including government investment in \_\_\_\_\_ and school-based \_\_\_\_\_ programs.

### APPLY your understanding

18. Categorise the goals listed in the table below under the most appropriate broad type of business goal heading. The first one has been completed for you.

| Business goal                   | Broad type of business goal |
|---------------------------------|-----------------------------|
| Profit                          | Financial goal              |
| Provision of employment         |                             |
| Community service               |                             |
| Increased market share          |                             |
| Improved financial security     |                             |
| Increased sales                 |                             |
| Ecological sustainability       |                             |
| Maximising return on investment |                             |

19. Jonathon is a motor mechanic employed at a local service station. He has a quiet, withdrawn, unassertive personality. He is a highly skilled mechanic who enjoys working with machinery. However, he finds it difficult to mix with people. He is easily distracted by other events and struggles to concentrate on work other than repairing machinery. He also finds it rather hard to stick to a set routine. Jonathon is considering starting his own car repair business.

- Identify Jonathon's major problem areas in terms of the characteristics needed to operate a business.
- Determine how Jonathon's personal characteristics might have an impact on his business if he started one.
- Predict Jonathon's chances of successfully operating his own car repair business.
- Advise Jonathon on the characteristics he would need to develop to successfully operate a business.

20. Identify whether the characteristics in the table below are consistent with business managers or entrepreneurs by placing a tick in the appropriate column.

| Characteristic                                 | Business manager | Entrepreneur |
|------------------------------------------------|------------------|--------------|
| Starting and seeing through long-term projects |                  |              |
| Taking risks                                   |                  |              |
| Organisational skills                          |                  |              |
| Sharing a vision                               |                  |              |
| Demonstrating initiative                       |                  |              |

21. If you were going to start your own restaurant, what market research or initial feasibility studies would you conduct?
22. Using an example of a real business, outline how businesses contribute to the economic and social wellbeing of Australia.

### EXAM practice

23. Distinguish between ‘research and development’ and ‘technological development’ and provide examples of each. **(3 marks)**
24. Outline the personal motivation behind the founding of a business/organisation that you are familiar with and explain how the business helps the owner to achieve their personal goal(s). **(3 marks)**
25. Jane manages a sporting goods retail outlet. She wishes to increase the sales revenue of the store, which totalled \$1.4 million in the past financial year and feels that setting goals for her five full-time staff members might help. Suggest a sales-related goal that Jane could set for each member of her team and explain how it satisfies the criteria of a S.M.A.R.T. goal. **(5 marks)**
26. Explain how businesses contribute to the economic and social wellbeing of a nation. **(4 marks)**
27. Explain two methods by which a culture of business innovation and entrepreneurship may be fostered in a nation. **(4 marks)**



### Resources



Digital doc: Missing word glossary quiz (doc-29409)



Digital doc: Crossword (doc-29410)

### study on

Unit 1

AOS 1

Topic 1

The importance of business in Australia Sit topic test

Unit 1

AOS 1

Topic 2

Developing the business idea Sit topic test

## 1.15.4 School-assessed coursework

### OUTCOME 1

**Describe how and why business ideas are created and developed and explain the methods by which a culture of business innovation and entrepreneurship may be fostered in a nation.**

### ASSESSMENT task — case study analysis

Read the following case study and then complete the questions.

#### Moregolf

Mick and Simone McGrath are the owners of Moregolf, a wholesale business located in Oakleigh. Because it is a wholesale business, it sells golf products to retailers. As well as Mick and Simone, the business employs a warehouse manager and five sales contractors.

Mick and Simone purchased the business because of a desire to be independent — both financially and personally. Before they took over, they spent some time with the previous owner observing the day-to-day operations of the business. They also met with accountants who helped them to develop a business plan. Mick and Simone have goals for Moregolf, including making a profit and increasing sales, as well as expanding the business and introducing new products.

The owners of Moregolf have been prepared to take risks and have been willing to change direction to meet the needs of the market. Mick and Simone say they have learnt from their mistakes. 'We started off selling a range of hardware, such as golf bags and clubs,' Simone says. 'But we found that we could not continue to compete with the larger golf equipment outlets.'

They decided to focus on specialised or niche products instead. These are products that appeal to a specific group of people with a common interest. Moregolf now wholesales products such as Golf Pride and Lamkin grips, golf club shafts and repair gear. They also offer repairs and sell accessories. The business is now at a stage where it is starting to see profit and is becoming better known in the industry.

Moregolf is a socially responsible business. It sponsors community events and donates prizes. Moregolf participates in the Tee Up For Kids charity day every year. The business recently had solar panels installed on its warehouse to reduce its carbon footprint.



1. Outline the personal motivation behind Mick and Simone wanting to start a business.
2. Describe two sources of business opportunity that might have influenced Mick and Simone in making their decision concerning their purchase of Moregolf.
3. Explain why it is important to set goals before starting a new business.
4. Distinguish between a business manager and entrepreneur.
5. Explain how the characteristics of business managers and entrepreneurs contribute to business success.
6. Explain why the development of a business concept would be important to Mick and Simone.
7. Recommend to Mick and Simone whether or not market research or an initial feasibility study would have been appropriate when they were buying their business. Justify your answer.
8. Describe two contributions that Moregolf makes to Australia's economic and/or social wellbeing.
9. Explain one method by which a culture of business innovation and entrepreneurship may be fostered in a nation. Suggest whether or not this method would be applicable to the case of Mick and Simone.

### on Resources

 **Digital doc:** School-assessed coursework (doc-29411)

# CHAPTER 2

## Planning a business — external environment

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### 2.1 Overview

#### 2.1.1 Why it is important

Climbing to the peak of a mountain requires thorough planning. The route needs to be carefully plotted, weather forecasts studied and essential equipment organised. It is the same in the world of business. Anybody who is starting a new business should spend time planning. Planning is the process of setting goals, or objectives, and deciding how they will be achieved. Significant amounts of time, energy and money will go into the business, and if an owner expects to make a profit, then they need to have a plan.

A business plan is a written summary and evaluation of the business idea. It shows the clear direction of the business, and how it will maintain its focus. It enables the owner to think through all the facets of a new business and to examine strategies relative to management, marketing, finance and resources.

The business plan identifies areas of strength and weakness, opportunities and threats, and shows the owner the probability of success. Businesses operate within what is referred to as the internal environment and the external environment, and both have an effect on the planning of a business. In this chapter, you'll be studying how factors in the external environment affect business planning.



#### ATLASSIAN'S PLANS AND THE EXTERNAL ENVIRONMENT

Scott Farquhar and Mike Cannon-Brookes (pictured, standing left and right) started their enterprise software business in Sydney in 2002 as university drop-outs, working in a garage with some servers and \$10 000 on a credit card. This young technology company now sells software to some of world's largest companies, and has grown from two to more than 2500 employees.

Now with offices in six countries, Atlassian is truly a business that has to deal with global issues. Not only does Atlassian need to manage the problems associated with being a global company, but it also needs to contend with large competitors such as Slack and GitHub.

Initially, Atlassian's goal was to gain 50 000 customers. It has achieved this goal — more than 112 000 large and small businesses now use its products — but the company will not stop there. Atlassian has said that its



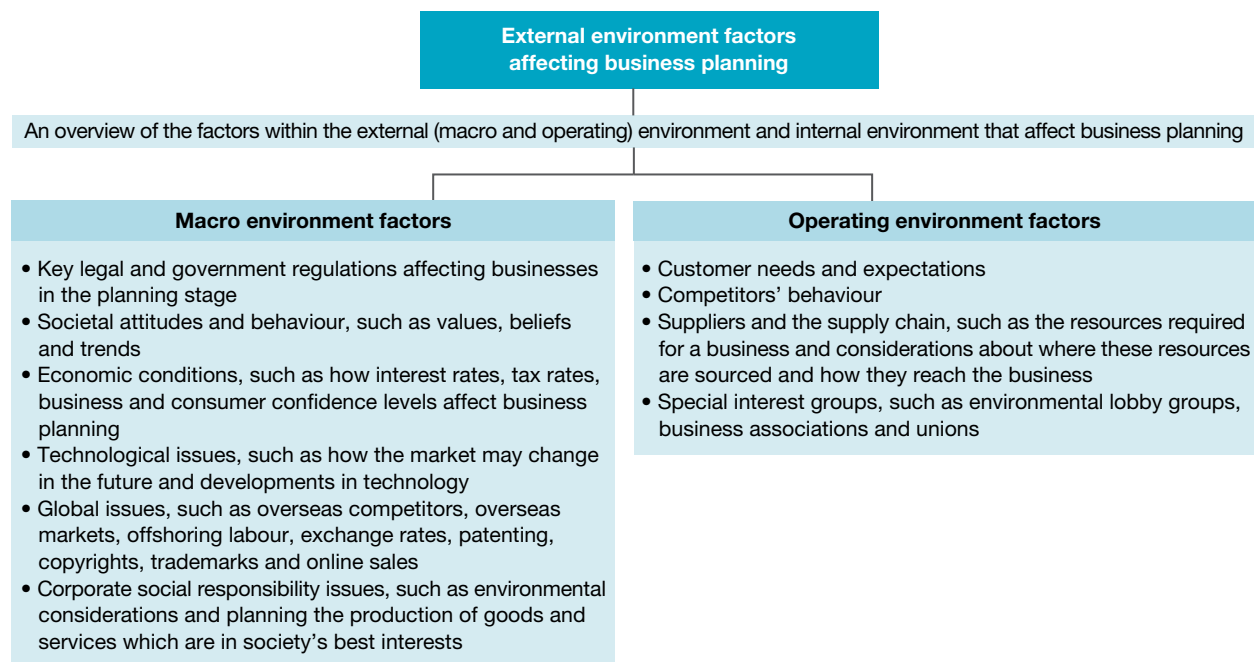
objective is now 100 million monthly active users. Another of Atlassian's goals is to 'unleash the potential in every team'. Its products help teams to collaborate, build software and serve their customers better. Over time, the company's customers have begun to use its software in ways that the founders never imagined and Atlassian has changed its products accordingly.

Atlassian makes its software free for use by not-for-profit organisations and charities. Another way the company fulfils its corporate responsibility obligations is by donating 1 per cent of profit, products and employee time to charity. This pledge has raised more than \$10 million, including funding for the education of thousands of children in developing countries.

## 2.1.2 What you will learn

### Key knowledge

Use each of the points from the VCE Business Management Study Design below as a heading in your summary notes.



### Key skills

These are the skills you need to demonstrate. Can you demonstrate these skills?

- Define, describe, and apply relevant business management concepts and terms
- Acquire, record, interpret and share business information and ideas
- Research and analyse case studies and current examples of business management applicable to planning a business
- Apply business management knowledge to practical and/or simulated business situations
- Explain the benefits and costs of corporate social responsibility management practices with respect to business planning

**Source:** VCE Business Management Study Design (2017–2021) extracts © VCAA; reproduced by permission.



### Resources



Digital doc: Key terms glossary (doc-29412)



Weblink: Atlassian



## 2.2 Business environments

### KEY CONCEPTS

- The internal environment refers to influences that come from within the business itself.
- The external environment consists of macro and operating factors and refers to influences that come from outside the business.
- The factors within the external environment and internal environment affect business planning.

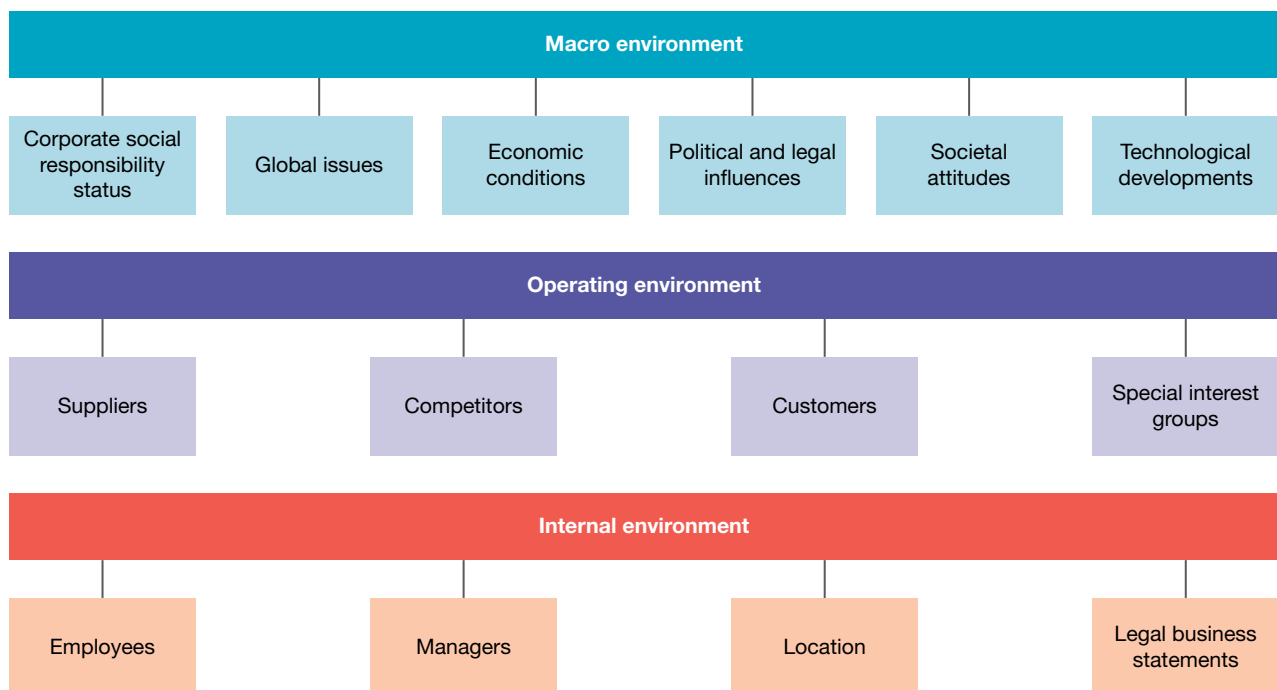
The surrounding conditions in which the business operates are called the **business environment**. This can be divided into two broad categories: internal and external. These environments consist of various stakeholders. Each of these stakeholders has an interest in the business and places different demands on the business. Sometimes, their interests may be similar or in conflict. Management, therefore, must balance the interests of all stakeholders in its decision making and planning.

The **internal environment**, or the micro environment, includes those factors over which the business has some control, such as employees, managers, management style, corporate culture and company policies.

The **external environment** includes those factors over which the business has little control, such as economic conditions, government policy, competitors and technology. It may be further divided into the **operating environment** and the **macro environment**.

The factors that make up the business environment are continually undergoing change and act as pressures on the operations of a business. A business owner must consider these factors when planning. Let's now take a closer look at each of the stakeholders in the internal and external environments.

The internal and external (operating and macro) business environment



### Resources



eLesson: Factors in the business environment that affect business planning (eles-2975)

## 2.2.1 The internal environment

The internal environment is made up of elements created by the people within the business. The internal environment of your classroom, for example, is determined by the interactions of the people within it. Teachers and students can shape and influence what occurs. Over time, these forces interact with each other to give each business its unique characteristics.

The following are among the main elements that make up the internal environment:

- *Employees.* These are the people working for a business who expect to be paid fairly, trained properly and treated ethically in return for their contribution to production. Employees are a business's most important resource. Businesses that provide a work environment that maximises employee satisfaction achieve high levels of output.
  - *Managers.* These are the people who have the responsibility for successfully achieving the objectives of the business. Every business, whether they be for-profit or not-for-profit, small, medium-sized or large, needs effective management to succeed. The skills and expertise of the management team in coordinating the business's resources largely determine whether the objectives of the business are achieved.
  - *Location.* The location of the business will determine whether or not the business is visible and accessible to potential customers. A good location is an asset to the business and can lead to high levels of sales and profits.
  - *Legal business structure.* One of the main decisions that the business owner will need to make is the most appropriate legal structure to use. The four main structures include sole trader, partnership, private limited company or public listed company. Each structure has its own advantages and disadvantages.
- We will explore the internal environment and all of the elements outlined above in more depth in chapter 3.

Spotify has planned for employees to be integral to its success. The office culture is part of an internal environment that is designed to be fun and inspiring. At its Australian office, music artists are brought in every few months for employees to enjoy during 'Spotify Sessions'.



## 2.2.2 The operating environment

A business's operating environment, sometimes called the task environment, is made up of stakeholders external to the business which have a direct impact on the operation of the business. The business has less control over these factors than internal environment factors. The four main stakeholders are:

- customers — the people who purchase goods and services from the business, expecting high quality at competitive prices
- competitors — other businesses or individuals who produce and sell rival, or competing, goods or services to the ones offered by the business
- suppliers — the businesses or individuals that supply materials and other resources that the business needs to conduct its operations
- special interest groups — the groups of people who attempt to directly influence or persuade a business to adopt particular policies or procedures, including lobby groups, business associations and unions.

### DID YOU KNOW?

Union membership in Australia more than halved between 1990 and 2015, from 40.5 per cent of the workforce to just 15 per cent, according to Australian Bureau of Statistics data.

## 2.2.3 The macro environment

Changes in the macro environment can affect all businesses. This environment comprises the broad forces, conditions and trends in the economy and society within which the business operates. The business has no control over these factors. Changes within the macro environment make it necessary for managers to make adjustments to the business's planning. For example, new government regulations may require a business to plan to install pollution-control devices. Or, in response to changing social attitudes, businesses may plan to alter traditional work practices to accommodate more family-friendly policies and fewer discriminatory policies. The main factors that make up the macro environment are:

- political and legal influences — the laws or regulations made by parliaments and courts, which affect how businesses operate and behave
- societal attitudes — the factors relating to changes in the attitudes, behaviour, tastes and lifestyles of communities on a local, national and international scale
- economic conditions — the set of influences that relate to economic activity, including interest rates, wages, unemployment, exchange rates and inflation
- technological issues — the issues related to the growing use of tools, techniques or systems
- global issues — the pressures that arise as a result of businesses operating in worldwide markets and competing on a global scale
- corporate social responsibility issues — the pressures on a business to take into account in its operations the broader social welfare of the community.

### study on

Unit 1 > AOS 2 > Topic 1 > Concept 1

The business environment Summary screen and practice questions

## 2.2 Activities

### TEST your understanding

1. What is meant by the term 'business environment'?
2. Using an example, explain the difference between the internal and the external business environments.
3. Explain the relationship between the external environment and the internal environment.
4. Read the following scenarios and explain what factor in the internal environment is either likely or unlikely to lead to the business's success.
  - (a) Employees at Southbound Logistics are encouraged to work in teams in order to brainstorm creative solutions. A person's position within the business is not considered a barrier because everyone is asked to provide ideas about how to improve the business.
  - (b) At Lancowen Legal Practice they've been serving customers in the same way for years and the manager, Bill Beaumont, says there is no need to change the recipe. He regularly briefs his employees on the direction he thinks the business should take and demands that employees get on with their designated duties and leave the big ideas to him.
  - (c) At Edwards they have no stated position on equal opportunity in the workplace, or any other issue for that matter. The human resource manager says he makes it up as he goes along.

- (d) When Kay started work at Bellgowan she felt ill at ease. There were so many rules and regulations to follow. Drinks were held every Friday night for employees, but it wasn't a case of 'come along if you would like' — it was a case of 'you must come'. The company has designated this hour as 'fun time' and everyone must be involved.
  - (e) Beth Harket has decided to locate her new café in a shopping centre.
  - (f) Gil is planning his new business and hopes to start an auto parts store. He intends to name the business 'Gil's Auto'.
5. What is meant by the term 'operating environment'?
  6. List the four main stakeholders in the operating environment.
  7. Fill in the gaps in the following definitions.  
 A \_\_\_\_\_ is any business or individual who purchases goods and services from the business, expecting high quality at competitive prices.  
 A business's \_\_\_\_\_ are those businesses and individuals that supply the materials and other resources that the business needs to conduct its operations.  
 \_\_\_\_\_ are groups of people who attempt to directly influence or persuade a business to adopt particular policies.
  8. What is meant by the term 'macro environment'?
  9. Identify which macro force is affecting the business in each of the following cases.
    - (a) Julie runs a small busy restaurant. She recently introduced technology that allows wait staff to electronically send orders to the kitchen. This means better service for the customer because the order is taken more efficiently and more time can be devoted to other tasks such as the prompt delivery of food and drinks.
    - (b) John Anderson is the manager of a function centre that hosts large weddings and conferences. He makes sure to include an acknowledgement of the traditional owners of the land, the Wurrunjeri people, in his opening remarks.
    - (c) Mia has to design and print new labels for the foods sold in her deli. This is because changes to the food labelling laws require that all foods list the ingredients by particular portion size. This allows customers to more easily compare different food items. She thinks that this may affect which foods customers choose.
    - (d) A local bottle shop is no longer allowed to sell imported premixed alcoholic drinks because of a government ban on food imports from particular countries.

### APPLY your understanding

10. In a small group, brainstorm the elements that determine the environment of your Business Management class. Choose a speaker to share your comments with the other groups in your class.
11. Choose a business that you have heard about and use the internet to research the following:
  - (a) The internal environment of the business — for example, you could find out about the business's ethical standards or equal opportunity policy. How many employees does the business have? Who are its managers?
  - (b) The operating factors that affect the business — for example, who are its competitors, customers and suppliers? Does it currently face pressure from interest groups such as environmental lobby groups or unions?
  - (c) The macro factors that affect the business — for example, does the business use technology? What laws must it comply with? Does it consider corporate social responsibility to be important?
12. Write a two-paragraph response to the following:  
 'Large businesses have no control over the external environment in which they operate. They are at the mercy of any external change.'

### EXAM practice

13. Compare the operating and macro environments of a business with the use of examples (include one similarity and one difference). **(4 marks)**
14. Explain what is meant by the internal environment and outline one stakeholder found in this environment. **(3 marks)**

## 2.3 Key legal and government regulations

**KEY CONCEPT** Business owners need to consider their responsibilities in regard to legal and government regulations when planning a business.

### 2.3.1 Legislation and government regulation

Society expects business owners to abide by the laws made by parliaments and local councils and in rulings set down by the courts. In Australia, each level of government (federal, state and local) imposes its own direct and indirect regulations to which all businesses must adhere. Elected governments also attempt to make or change the laws that have an impact on businesses.

Some business laws relating to the levels of government

| Federal government                                                                                                                                                                                                                                                                                                                                                                                | State government                                                                                                                                                                                                                                                                                                                                                                                                  | Local government                                                                                                                                                                                                                                                                                                                                                                                           |
|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Federal government obligations include: <ul style="list-style-type: none"><li>• payment of taxes for employees (earning above the minimum taxable income level) and for businesses with company tax and GST</li><li>• provision of employee superannuation</li><li>• observance of customs regulations</li><li>• abiding by relevant legislation that would affect business operations.</li></ul> | State government obligations include: <ul style="list-style-type: none"><li>• provision of employee entitlements, including workers compensation, work health and safety (WHS) requirements, award rates of pay and entitlements</li><li>• payment of payroll taxes</li><li>• abiding by relevant state legislation (e.g. health, trade practices, employment)</li><li>• abiding by pollution controls.</li></ul> | Local governments (city, municipal and shire councils) have control over the following business activities: <ul style="list-style-type: none"><li>• approving new development and alteration (to an existing building) applications</li><li>• fire regulations</li><li>• parking regulations (e.g. provision of parking by new businesses)</li><li>• size, location and shape of business signs.</li></ul> |

In the past two decades, significant changes have occurred in the legal framework within which businesses must operate. In addition to new interpretations of existing laws, a large number of new statutes have been introduced, which have a major impact on business planning. This new legislation includes laws on taxation, industrial relations, occupational health and safety, equal employment opportunity, anti-discrimination and protection of the environment. Some of the key legal and government regulations that businesses need to consider in the planning stage of a business are summarised in the figure on next page.

It is essential that business owners have a sound working knowledge of the laws that will affect their operations when they are planning their business. Businesses that do not obey the law risk losing customers and their reputation, being fined, or losing the right to continue trading.

#### study on

Unit 1 > AOS 2 > Topic 1 > Concept 2

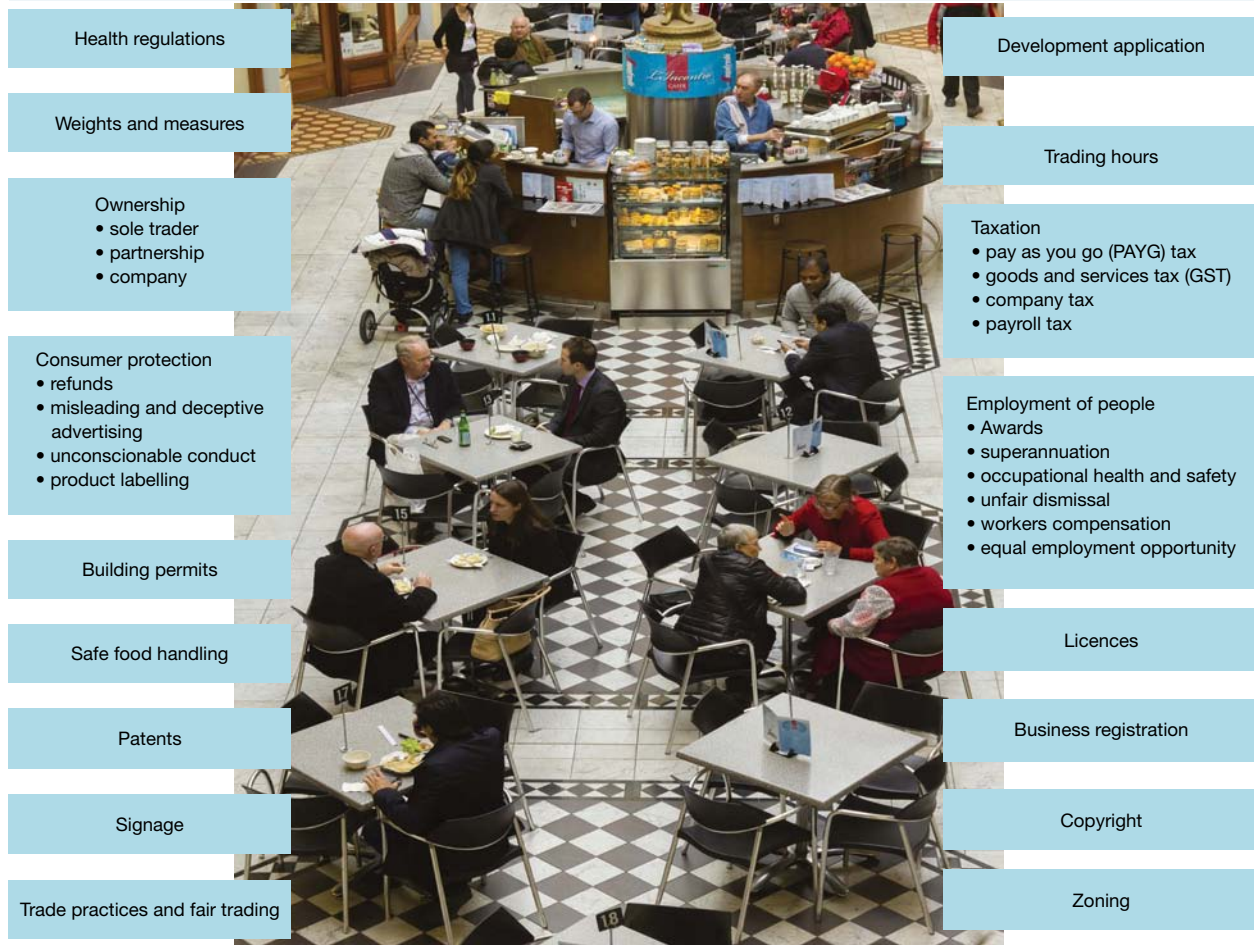
Legal and government regulations Summary screen and practice questions

### 2.3.2 Laws related to establishing a new business

When a business is first established, a business name must be registered with the Australian Securities and Investments Commission (ASIC) unless the owner is trading under their own name, in which case registration is optional. New business name registrations require an Australian business number (ABN), and a partnership or company requires its own tax file number. If the business is established as a company, it is required to register with ASIC to receive a Certificate of Registration and an Australian company number (ACN).



Almost every aspect of a business will be affected by legislation and government regulation.



### 2.3.3 Laws related to location

The acquisition and development of business premises will be influenced by local government zoning and building regulations, as well as regulations relating to the position and size of signage. Fire regulations and parking regulations will also affect the layout and location of business premises.

### 2.3.4 Health regulations

Local government also imposes health regulations under the *Food Act 1984* (Vic). Each local council supplies businesses (primarily those dealing with food, such as cafés, restaurants, butcher shops and bakeries) with the regulations and standards they have to meet in order to obtain a licence to operate. Some regulations relate to:

- temperature for food storage
- kitchen layout
- employee clothing requirements
- correct food handling.

A health inspector will assess premises regularly and often without warning to ensure the business owner maintains standards. If problems occur, the business is given a period of time to rectify the situation or it will be closed down.

Councils implement the *Food Act 1984* (Vic) at the local level through registration and the monitoring and inspection of food premises. Local councils are required to obtain and test food samples to determine if the food produced is safe and suitable for human consumption.



### 2.3.5 Employment regulations

While the majority of businesses are owner-operated, many also employ casual, part-time or permanent staff. Business owners who are planning to employ staff will need to comply with a variety of employment laws and regulations. Legislation covers conditions of employment, unfair dismissal, dispute settling methods, protection of human rights in employment, and employer responsibilities for tax payments on behalf of employees. Employee welfare is provided for through occupational health and safety legislation. Business owners also need to be aware of their legal responsibilities when recruiting and selecting staff, especially in regard to discrimination and equal employment opportunities. Larger businesses will often employ human resource professionals whose responsibility, amongst others, is to ensure that the business is acting in accordance with all legislation related to employment.

Under the *Equal Opportunity Act 2010* (Vic) it is illegal to discriminate against pregnant women.



#### Anti-discrimination regulations

Several federal and state laws aim to end discrimination in the workplace. Business owners will need to be aware of this during the planning stage. One of the most important pieces of legislation in this area is the *Equal Opportunity Act 2010* (Vic). This Act makes it unlawful to discriminate against an employee on the basis of attributes such as age, impairment, marital status, physical features, political belief, race, religious belief, sex or sexual orientation.

Under this Act, an employer must take reasonable steps to eliminate discrimination, sexual harassment and victimisation from the workplace. An employer may be held liable if discrimination occurs in the workplace, or if the obligation to make any adjustments necessary is not met.

## Work health and safety regulations

Each state and territory in Australia has its own health and safety laws (both acts and regulations). A business owner must plan to meet the requirements set out in the acts and regulations in their state or territory. In Victoria, the *Occupational Health and Safety Act 2004* (Vic) is the main legislation covering occupational health and safety.

### 2.3.6 Taxation laws

Taxation laws apply to all businesses. All registered businesses are required to prepare a set of accounts — the **business activity statement** (BAS) — at regular intervals, either monthly or quarterly. The BAS details the collection and payment of the **goods and services tax** (GST), and payment of pay as you go (PAYG) income tax instalments on behalf of employees. The business may also have to pay state government payroll tax, as well as tax payable on its own earnings. A business owner will need to plan to comply with tax laws.

### 2.3.7 Trade practices and consumer protection

An area of law that has significantly altered business conduct is legislation that promotes fair trade and competition, and provides consumer protection. The legislation provides explicit guidelines for trade practices, fair trading, advertising and credit. Specifically, the Australian Consumer Law, set out in Schedule 2 of the *Competition and Consumer Act 2010* (Cwlth), states that consumers have the right to purchase goods that are of good quality and fit for the purpose for which they were bought. These rights are part of the contract between the retailer and the consumer. If goods are faulty, then the retailer has breached the contract and the consumer is entitled to a replacement or a cash refund. The *Competition and Consumer Act* also covers product safety and labelling, unfair market practices, price monitoring and industry codes.

The ACCC took ticket reseller Viagogo to court in 2017 for breaching the Australian Consumer Law after receiving more than 400 complaints against the company in one year alone. The ACCC alleged the company misled consumers by making representations on their website that tickets to certain events were scarce and likely to run out soon. This created a sense of urgency, even though tickets were still available through other sources. The ACCC also alleged Viagogo inflated prices and did not disclose additional fees.



#### DID YOU KNOW?

The *Competition and Consumer Act 2010* (Cwlth) deals with anti-competitive and unfair market practices, mergers and takeovers that have the potential to decrease competition within a market, and product safety and liability.

### 2.3.8 Environmental protection legislation

Federal, state and local governments jointly administer environmental protection laws in Australia through bilateral agreements. A business owner will need to understand which laws apply to their business when they are in the planning stage. The *Environment Protection and Biodiversity Conservation Act 1999* (Cwlth) covers the protection and management of matters of national environmental significance. In Victoria, the *Environment Protection Act 1970* (Vic) applies to noise emissions as well as preventing pollution and environmental damage to the air, water and land.



If business owners plan to meet their legal responsibility to protect the environment, it is likely that the business will benefit in the long term through cost savings, competitive advantage and operational efficiencies. Minimising the environmental impact of the business will also be good for the health and safety of employees and customers.



## 2.3 Activities

### TEST your understanding

1. Why is it important for business owners to have a good working knowledge of their legal rights and responsibilities?
2. Identify and describe three aspects of running a business that involve legal responsibilities.
3. List three business activities over which local government has control.
4. Outline the features of some of the other legal and government regulations by completing the table below.

| Regulation                              | Explanation | Application to business planning |
|-----------------------------------------|-------------|----------------------------------|
| Anti-discrimination regulations         |             |                                  |
| Work health and safety regulations      |             |                                  |
| Taxation regulations                    |             |                                  |
| Trade practices and consumer protection |             |                                  |
| Environmental protection legislation    |             |                                  |

### APPLY your understanding

5. Examine each of the following situations, and explain whether the owner has met their legal obligations and why.
  - (a) Dennis is an electrician who is planning to own and operate his business. He does not apply for an ABN because he believes it is not necessary for a sole trader.

- (b) Katie and Marie are planning a partnership in a dressmaking shop. They decide to use Marie's tax file number as the official TFN for the business.
  - (c) Gino is planning to open a fish and chip shop. He is not intending to find employees, but wants to give his teenage children extra pocket money for helping out in the shop at busy times. He does not think that he will need to include any PAYG information on his BAS.
  - (d) Dianne has recently opened a babywear shop. She inadvertently sells a type of dummy that has been banned because it is dangerous. She claims she did not know about the ban.
6. Arrange to have a representative from the school canteen outline the laws and regulations that apply to this business.

### EXAM practice

- 7. Explain what the *Competition and Consumer Act 2010* (Cwlth) is and provide two examples that show how it helps to protect businesses and consumers from unfair treatment. **(3 marks)**
- 8. Outline the importance of having anti-discrimination laws such as those in the *Equal Opportunity Act 2010* (Vic). **(2 marks)**

## 2.4 Societal attitudes and behaviours

**KEY CONCEPT** When planning a business the business owner will need to consider changing social values, beliefs and trends.

Another factor in the macro environment that businesses should consider is the societal attitudes and behaviours that may affect the planning stage of a business. Societal attitudes are the ideas, values and beliefs held by people in a particular society. These attitudes sometimes affect the way that people behave. Behaviour relates to the actions that express these ideas, values and beliefs. Societal attitudes and behaviours are constantly changing. This affects how individuals live, work and consume products, how businesses operate and how stakeholders view the business in which they have an interest.

### 2.4.1 Values and beliefs

Values and beliefs refer to the shared principles and morals of a group of people or society — ideals about what is good or bad and necessary or unnecessary. These are often a learned way of life and can be passed on to younger members of society by older members. Values and beliefs can be reflected in the way people behave, the way they treat each other and what they prioritise. Values and beliefs determine, for example, what people do, what they wear, what and how they eat, and where and how they live. People in a particular society may have certain attitudes towards work, leisure time and customer service based on their values and beliefs. These attitudes will need to be considered by the business owner during the planning stage.

Because many people value the preservation and protection of the natural environment, many supermarkets now sell seafood products with the MSC label — an assurance that sustainable fishing standards have been met.





Society's attitudes about what is right and wrong are constantly changing and this affects the ways in which businesses plan and the way that they are managed. Increased access to rapid communications has made the world's population acutely aware of what businesses are doing. Pressure from society has forced businesses to implement procedures to preserve and protect the natural environment. One recent example of this is the response of supermarkets, including Coles, Woolworths, IGA and Aldi, to customer pressure over sustainable seafood. They all now claim varying degrees of sustainable sourcing for their seafood. Marine Stewardship Council (MSC) is an independent non-profit organisation that offers certification for sustainable seafood to fisheries, seafood producers and brands. You may have seen the blue MSC label on seafood products — this assures customers that the seafood can be traced back to a sustainable source. Coles has full MSC certification and traceability in place for their fresh and packaged seafood, while Woolworths, IGA and ALDI all sell MSC-certified frozen and canned seafood.

Society requires that businesses sell acceptable products and treat staff with respect. Businesses today are also expected to contribute to society by giving something positive to the communities in which they operate. As part of their 'Energy for Life' community program, AGL Energy gives back to the community and supports families who are struggling to pay their energy bills. Under the program, employees are provided with the opportunity to be involved in giving to causes that they have an interest in, volunteering or participating in fundraising events.

## 2.4.2 Trends

A trend is the general direction in which people's attitudes or behaviour in society is developing or changing. One trend businesses should consider when planning relates to demographics. Demographics are the characteristics of the human population. You may have heard of Australia's ageing population. This means that the median age of the population is rising, and there are more elderly people living in the community than ever before. For a business, the effect of this social change might provide an opportunity when planning, particularly in the area of healthcare. On the other hand it could provide some challenges, such as labour shortages, in some areas. Businesses that plan for changing demographics are likely to thrive, while those that do not may struggle to survive.

Another trend that may affect a business in the planning stage is the demand for businesses to provide family-friendly workplaces. There is a growing belief that businesses must support families, and the provision of better childcare options and more flexible hours are increasingly being considered by businesses. There is also a growing belief that businesses must cater for **workplace diversity**. Employees will have different issues that may be related to gender, age, language, ethnicity, cultural background, disability, sexual orientation and religious belief. Businesses are required to effectively manage a diverse range of employees and cater for their specific needs. For example, if a business employed a person with a disability, it would be expected that the business takes some steps to ensure the needs of that employee are met in order for them to perform their job appropriately.

The *Fair Work Act 2009* (Cwlth) provided employees with a legal right to request flexible working arrangements. This request forms part of the National Employment Standards (NES). Certain employees have a right to make a request (e.g. a parent of a child who is of school age or younger, a carer, someone over 55 or someone experiencing violence from a member of their family). A request can only be refused on reasonable grounds.



Businesses that embrace diversity are more innovative and open to change, since people from a wide range of backgrounds are able to bring different perspectives. A business that becomes known as fair and equitable will also have a better chance of attracting and retaining staff. A diverse workforce could lead to increased morale, creativity and productivity, giving a business a competitive edge.



## study on

Unit 1

AOS 2

Topic 1

Concept 3

**Societal attitudes and behaviour** Summary screen and practice questions

## 2.4 Activities

### TEST your understanding

1. Distinguish between 'societal attitudes' and 'societal behaviours'.
2. In your own words, outline what values and beliefs are.
3. Using an example, explain the impact that changing values and beliefs have on the decisions made when planning a business.
4. What is a trend?
5. Outline two trends that have led to significant change and have the potential to influence business planning.

### APPLY your understanding

6. 'Societal attitudes and behaviours affect the decisions that are made by business owners when planning a business.' Discuss the extent to which this is true.
7. Use the **Creating a family-friendly workplace** weblink in the Resources tab to find some information about how to create a family-friendly workplace. Read through the ways suggested on the website and then summarise each way in your notes.
8. In groups of four or five, research and report on a social issue confronting businesses in your local area. You may wish to prepare a PowerPoint presentation or use desktop publishing software for your report.
  - (a) Outline the issue.
  - (b) How have local businesses reacted to the situation?
  - (c) What indicators would you use to determine the success or failure of a business's response to the situation?
9. Explain a value that you hold and discuss how it influences your decisions as a consumer.

### EXAM practice

10. Explain, with reference to a business you have studied this year, why it is important for a business to be mindful of trends. **(4 marks)**
11. Describe one value that society holds and outline how it may affect business planning. **(3 marks)**

### on Resources

 **Weblink:** Creating a family-friendly workplace

## 2.5 EXTEND YOUR KNOWLEDGE Societal attitudes and behaviours

**KEY CONCEPT** Societal attitudes and behaviour such as values, beliefs and trends affect business planning

### THE RISE OF VEGANISM

While vegetarianism and veganism are far from being new concepts, there is a rapidly growing number of ethical consumers who refuse to use animal products. Their reasons for doing so vary but can generally be narrowed down to the following:

1. *Animal cruelty.* Many more people are becoming aware about the cruelty that is involved in the creation of animal-based products, such as fur, leather, meat and dairy. Numerous reports and documentaries have been released that expose the way in which many animals in commercial farms and abattoirs are raised and slaughtered.
2. *Environmental impact.* A growing amount of research is suggesting that the meat and dairy industry is environmentally unsustainable in a number of ways. The following facts and statistics highlight some of the issues associated with meat and dairy consumption:
  - 51 per cent of global greenhouse gas emissions are due to livestock and their byproducts.
  - Animal agriculture is responsible for 91 per cent of the destruction of the Amazon rainforest.
  - The meat and dairy industry use one-third of the Earth's fresh water.
  - The amount of water that goes into producing one burger patty is approximately 2498 L, which is the equivalent of two months of shower water for the average person.
  - The land needed to feed a meat eater is approximately 18 times that needed to feed a vegan.
3. *Health benefits.* Many people are moving to a plant-based diet on the basis that it is healthier than consuming meat and dairy. While research by the World Health Organization has established red meat and processed meats as a cause of cancer, some nutritionists argue that a certain amount of meat and dairy is part of a healthy and balanced diet. Australian Dietary Guidelines state that 'appropriately planned vegetarian diets, including total vegetarian or vegan diets, are healthy and nutritionally adequate'.

Serbian tennis great Novak Djokovic is among a growing number of athletes that have committed to a plant-based diet.



This growing trend has proven to be big business in Australia, the third fastest growing vegan market in the world. In 2016 the Australian packaged vegan food market was worth almost \$136 million and is expected to reach \$215 million by 2020.

Vegan products that have increased in popularity include dairy alternatives such as almond, soy, coconut and oat milk, dairy-free sweets, tofu, meat imitations produced from vegetable proteins and, of course, fruit and vegetables. There is also a rise in the demand for vegan pet foods, clothing, accessories and restaurants which cater for vegan diets. Mainstream supermarkets such as Coles and Woolworths have increased the number of vegan products they stock on their shelves in recent years, with Aldi announcing the introduction of a wide range of vegan products in 2018. Even fast-food outlets such as Hungry Jack's and Subway now offer veggie patty burgers with the vegan option to exclude cheese.

### Lord of the Fries

In 2004, Mandy Walker Koronczyk and Mark Koronczyk launched an unnamed mobile chip van that sold fries and sauces without many of the cheap and nasty ingredients seen in other fast-food outlets. It was the beginning of what has grown into a very successful Melbourne-based franchise 'Lord of the Fries' (named by Mark's brother Sam).

Following the success of their mobile chip van, Lord of the Fries' first permanent fast-food outlet was opened in Melbourne 2005. Through a franchising model, the company has since opened stores in Queensland, New South Wales, South Australia, Western Australia and New Zealand. The Flinders street and Swanston street outlets in particular have become an iconic late-night option for those who are out and about in the city, wanting to indulge in the extensive menu, which includes a variety of fries, burgers, onion rings, hot dogs and more.

What many people are not aware of until they enter Lord of the Fries is that despite its street-front appearance as a traditional fast-food outlet selling chips and beef-mince burgers, this franchise has at its core an entirely different philosophy on fast food. Lord of the Fries is above all committed to its ethical principles, which dictate the need for an entirely vegan menu. All sauces, hot dogs, burgers and other traditionally meat-heavy menu options are made entirely from plant-based ingredients, often mimicking the taste of meat and dairy.

Lord of the Fries is a business case study demonstrating how veganism has rapidly entered the mainstream fast-food industry. Its success can largely be attributed to its ability to attract not only the growing number of vegans and vegetarians in Melbourne, but also those who appreciate the taste of good food, regardless of the fact that it is plant based.



## 2.5 Activities

### TEST your understanding

1. Distinguish between non-vegan vegetarians and vegans.
2. Outline the three main reasons why people embrace a vegan lifestyle.
3. Outline two facts that support the notion that veganism is a growing trend in Australia.
4. Read 'Lord of the Fries'. How does this fast-food franchise differ from traditional fast-food burger franchises?

### EXTEND your understanding

5. List the advantages and disadvantages of eating a vegetarian diet.
6. Explain why it might benefit Lord of the Fries to look like a traditional fast-food burger restaurant from the outside.
7. Explain how trends may affect business planning.





8. In your notebook, construct a table with two columns labelled like the example below. Identify as many trends as you can that may affect business planning in the first column. In the second column, outline a possible effect that this trend might have on the planning of a business. Two examples have been completed for you.

| Trend                                                                    | Possible effect on business planning                                                |
|--------------------------------------------------------------------------|-------------------------------------------------------------------------------------|
| There is an increasing demand for live streaming.                        | A business will need to plan to incorporate live streaming into its marketing.      |
| There is an increasing demand for food derived from sustainable sources. | The business will need to consider whether its suppliers use sustainable practices. |

## 2.6 Economic conditions

**KEY CONCEPT** Business owners need to consider the state of the economy when planning a business. Interest rates, tax rates, business and consumer confidence levels have an effect on the decisions made during the planning stage.

### 2.6.1 Economic conditions and influences

**Economic conditions** refer to the many influences that relate to economic activity in a country, region or the world and include interest rates, wages, unemployment, exchange rates and inflation. Economic forces have an enormous impact on both business and customers. They influence a business's capacity to compete and customers' willingness and ability to spend. Economies do not always experience constant growth. Rather, the level of economic activity changes from periods of growth ('boom') to recession ('bust') and back to boom conditions. The following figure shows the impact of each phase of the business cycle on a business's performance.

Phases of the business cycle — all of the economies in the world go through fluctuations, experiencing good times and downturns.

#### Expansion — key features

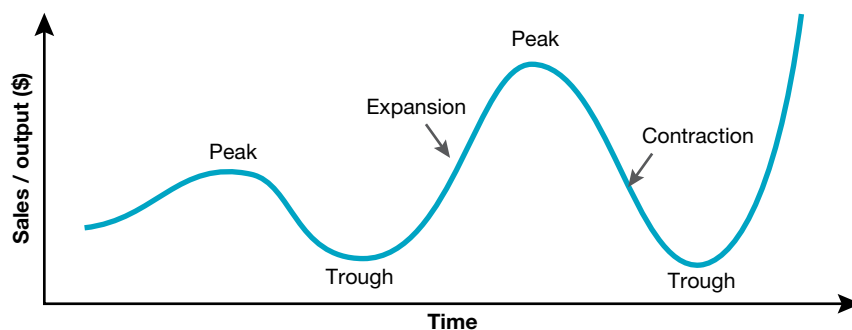
- Increasing consumer spending
- Business expectations increasingly optimistic
- Increasing business investment
- Sales and profits rising
- Unemployment falling

#### Contraction — key features

- Decreasing consumer spending
- Business expectations increasingly pessimistic
- Decreasing business investment
- Sales and profits falling
- Unemployment rising

#### Peaks — key features

- Wages and salaries at high levels
- Business operating at full capacity
- Sales and profits at highest levels
- Low level of unemployment



#### Troughs — key features

- Wages and salaries at low levels
- Business operating at below full capacity
- Sales and profits at lowest levels
- Consumer spending at lowest levels
- High level of unemployment



When an economy is in a downturn, it will most likely mean that customers are not spending as much. Reduced spending translates to reduced opportunities for business. When an economy is booming, lower levels of unemployment and rising incomes are likely to increase the overall level of spending in the economy. There are many opportunities for businesses to do well in this situation, and business owners may plan to expand as sales and profits increase.

Information on economic growth, inflation trends, average weekly earnings, consumer confidence, interest rates, consumer spending and unemployment provide businesses with insight into economic trends. This information on the level of economic activity allows businesses to predict possible threats to, and opportunities for, business activity during the planning stage.

During a time of economic contraction consumer spending drops. This can be disastrous for some businesses.



### DID YOU KNOW?

An Australian Bureau of Statistics survey of bankrupt businesses found that 35.2 per cent of owners blame 'economic conditions' as the reason for failure. Twenty-five years ago, the main reason for business failure was lack of business ability. Today only 10.1 per cent of businesses fail for this reason.

## 2.6.2 Interest rates

An **interest rate** is the price charged or paid for the use of money. It is used to calculate the proportion of a loan that is charged as interest to the borrower (or the proportion of a deposit paid to the depositor), and is typically expressed as an annual percentage of the total amount loaned or deposited. For a business, interest generally represents a cost involved in generating revenue. Typically, interest rates rise in periods of inflation and when there is more demand for credit. A rise in interest rates tends to stifle business activity (because credit becomes more expensive).

Changing interest rates can significantly affect a business's planning. Any loan repayments that the business has will be affected by falling or increasing interest rates, as will the opportunities to obtain finance. A high interest rate will reduce the likelihood of a business making a large profit, which will undoubtedly influence the business owner's planning. Prospects for expanding or growing the business will also be reduced. Falling interest rates, however, may result in business loans becoming more affordable. Consequently, a business owner may plan to expand their business under these circumstances.

Interest rates can also have a significant effect on consumer spending. Lower interest rates mean that consumers have more money to spend after making repayments on their loans. This extra money to spend on goods and services generally results in increased sales and, hence, profitability for businesses. A business owner may plan to expand their business under these circumstances because of the potential for increasing profits.

### 2.6.3 Tax rates

Taxes also represent a cost for businesses. A **tax rate** is the percentage of income or value of a good, service or asset paid as tax. In Australia, for example, income tax and company tax is imposed as a percentage of a business's net income. Some taxes, such as land tax, are levied on the value of an asset. The tax rates on certain activities may affect the decisions that the business owner makes when planning the business. For example, an activity that offers tax deductions may prove to be an attractive option when in the planning stage.

#### DID YOU KNOW?

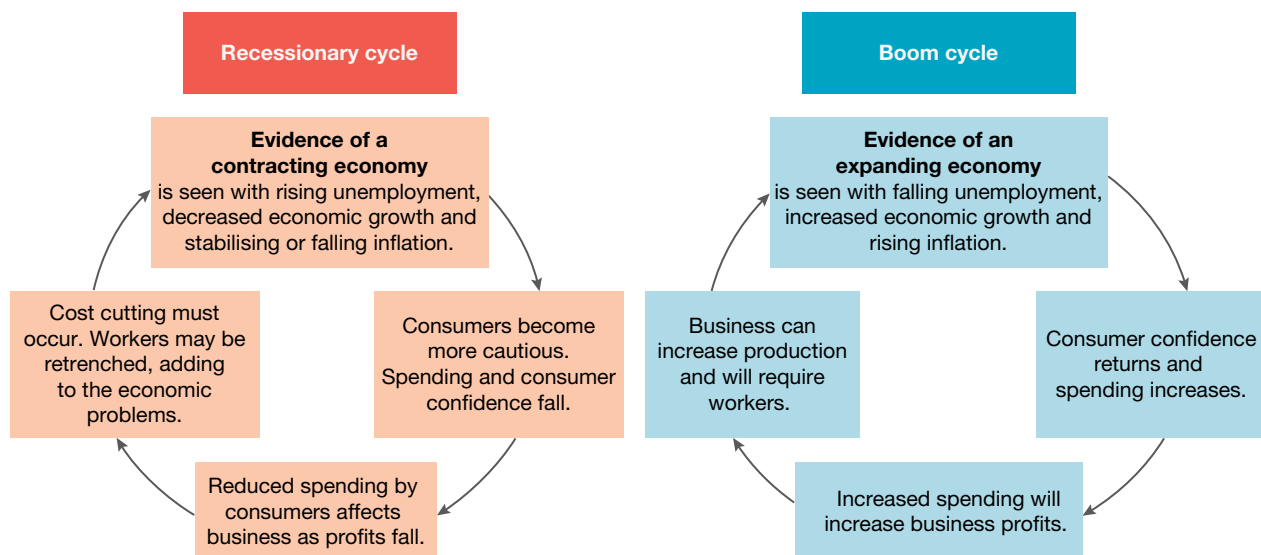
Tax rates can be classified as progressive, proportional or regressive.

- A progressive tax is one where the rate of tax rises as the taxable amount increases (for example, income tax).
- A proportional tax is one where the rate of tax stays the same as the amount rises (for example, company tax).
- A regressive tax is one where low income earners pay the same rate of tax as high income earners. Effectively, this means that the relative tax rate increases as a person's ability to pay it decreases.

### 2.6.4 Business and consumer confidence levels

Business and consumer confidence levels refer to how businesses and customers are feeling about the economy. When consumer confidence is high, for example, consumers will generally be optimistic about their financial condition, particularly their ability to find and maintain employment, and they are more likely to make purchases. If a business owner is feeling positive about the future, or if they sense that consumer confidence is high, then this is likely to be reflected in the decisions that they make during the planning stages of a business. For example, if business and consumer confidence levels are high, it is possible that a business owner will plan to expand the business, take on more debt or employ more workers.

The recessionary and boom cycles. The government uses its economic policies to stabilise the economy and reduce the fluctuations in the business cycle. It can do this by using monetary and fiscal policies.



When an economy is booming, the level of consumer confidence is likely to be rising. This means that consumers are generally feeling positive, especially in their ability to obtain and hold onto employment. Consumers will therefore be likely to increase the amount of money that they spend. This may lead to businesses expanding and increasing the number of people they employ.



## study on

Unit 1

AOS 2

Topic 1

Concept 4

Economic conditions Summary screen and practice questions

## 2.6 Activities

### TEST your understanding

1. Explain what is meant by the term 'economic conditions'.
2. Outline the difference between an economic downturn and a boom.
3. In what way can economic forces influence the actions of customers?
4. What are interest rates, and how do they affect the decisions made when planning a business?
5. Explain why tax rates are a cost for businesses.
6. Outline how business and consumer confidence levels affect the decisions made when planning a business.

### APPLY your understanding

7. Form a small group and choose one of the phases in the business cycle diagram. Consider each bullet point from that phase and suggest what impact each issue could have on a business's planning. Choose a presenter to report your findings to the whole class.
8. Use the **Monetary policy** weblink in the Resources tab to find the Reserve Bank's most recent interest rate decision.
  - (a) What is meant by the term 'cash rate'?
  - (b) At its most recent Board meeting, what did the Reserve Bank decide to do about its target for the cash rate?
  - (c) Summarise the reasons given for the Board's decision.
  - (d) In your opinion, how will the decision impact on business owners' planning?

9. The **Westpac Melbourne Institute Index of Consumer Sentiment** rose 3.9 per cent in July 2018, its most positive reading since November 2013. For eight consecutive months, the Index has been above 100, which means that optimists outnumber pessimists.
- (a) Explain in your own words what this means.
  - (b) What do you think it means for businesses when the index is above 100, with optimists outnumbering pessimists?
  - (c) Why would a business owner be concerned if the index that measures confidence was falling?

### EXAM practice

10. Identify and explain each phase of the business cycle. **(4 marks)**
11. Using examples, distinguish between tax rates and business confidence levels. **(4 marks)**
12. Explain two ways in which lowering interest rates may affect business planning. **(4 marks)**

## on Resources

 **Weblink:** Monetary policy

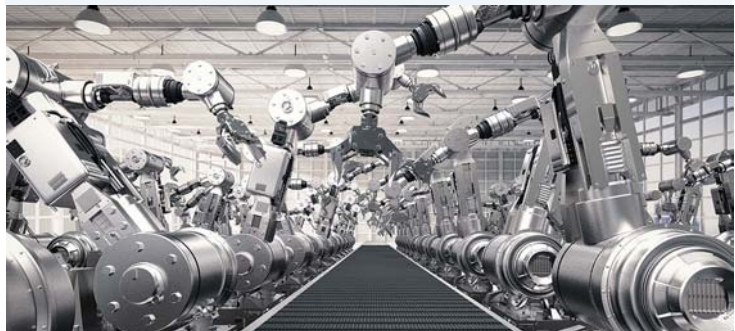
## 2.7 Technological issues

### KEY CONCEPTS

- Business owners need to consider technological issues when planning a business.
- These issues relate to markets changing in the future and technological development.

**Technological issues** relate to the growing use of tools, techniques or systems by businesses to solve problems or to serve a purpose in operations. Innovation in technology has increased at a remarkable pace, revolutionising the workplace and every aspect of daily life. With appropriate technology, businesses can increase efficiency and productivity, create new products and improve the quality and range of goods and services. For survival, businesses must monitor and adapt rapidly to technological innovations. Failure to detect and adopt new technology could result in products and businesses becoming rapidly obsolete.

In 2017, a McKinsey & Company study found that about 30 per cent of tasks in 60 per cent of occupations could be computerised and millions of jobs could be taken over by robots. The professions most at risk are those that are on some level routine, repetitive and predictable (e.g. telemarketing, tax preparers and fast-food cooks).



### DID YOU KNOW?

According to the ABS, 3.6 exabytes, or 3.6 million terabytes, were downloaded in the three months ending 31 December 2017. This was a 19.7 per cent increase in data downloads when compared to the three months ending 30 June 2017 and a 38.6 percent increase in the 12 months ending December 2017.



## 2.7.1 Developments in technology

The use of hi-tech robotics in many manufacturing industries is improving productivity, reducing operating costs and eliminating many boring and repetitive tasks. The cost of global communications is declining and the tools of information technology are becoming easier to use. New communication technologies allow information to be transmitted rapidly to an ever-increasing number of customers, with a speed that now makes communication almost instantaneous. Global communications systems make it possible for businesses to coordinate design, production and distribution worldwide. The internet, mobile phones, interactive video and electronic funds transfer, for example, are helping to open up the global marketplace at an unprecedented rate. The latest ABS statistics reveal that there are 13.5 million subscribers to the internet in Australia, more than 2 million of which are business and government subscribers.

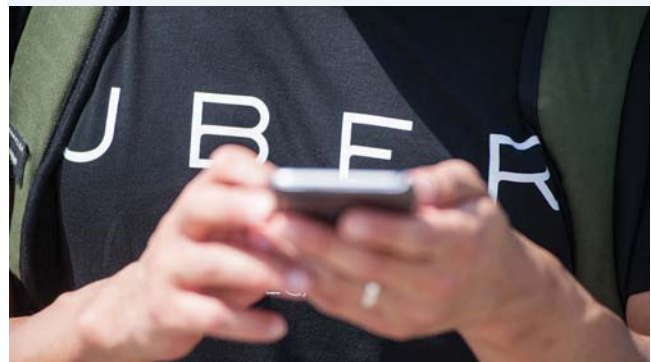
While the development of new technology brings many benefits to a business, it does have shortcomings. Technological change has led to a decrease in the number of employees required by many businesses as they have been replaced by the technologies that reduce costs, improve quality and delivery speed. The speed of change has resulted in product life cycles becoming shorter, which means that products do not last for a long time and constantly need to be updated. A consequence is that businesses need to spend more time and money on research and development to remain competitive. On the other hand, changing technology opens up new markets, which can present opportunities for businesses.

When a business owner is planning a business, they will need to consider the benefits and limitations of technology. The planning stage must incorporate the opportunities that developments in technology provide.

Cloud technology stores valuable data and files on the internet, allowing them to be accessed from anywhere in the world. Microsoft is just one of many companies that have integrated cloud technology into their new products.



Ride-sharing company Uber has transformed the taxi industry through its innovative use of technology. Uber's mobile app connects customers who need to travel with nearby drivers who are willing to transport them. Uber was founded in 2009 and has grown rapidly. It now operates in hundreds of cities in over 60 countries around the world. In many countries, other taxi companies have responded to Uber by implementing their own technologies, such as hailing apps, and challenging the legality of some of Uber's services.





### DID YOU KNOW?

'It's pretty incredible to look back ... to when Microsoft was starting and realise how work has been transformed. We are finally getting close to what I call the digital workstyle.'

—Bill Gates, founder of Microsoft

## 2.7.2 The future of business technology

It is impossible to predict the future, but it is expected that over the next five to ten years we will live with more internet-connected devices, including computers, phones, appliances, vehicles and robots. This will generate huge amounts of data, presenting a challenge to businesses — what data is useful and what is not? The ability to analyse this big data will also present opportunities for businesses. There is no doubt that technology will become smarter, meaning that robots and computers will replace more workers completing dangerous, repetitive or mundane jobs. Many businesses will take advantage of 3D printing and wearable technology. Driverless vehicles are already in use in industries such as agriculture and mining. More people will be using autonomous vehicles, and it is likely that pay-per-use will gradually replace car ownership. This provides opportunities for more people to work creatively while they are being driven to their destination.

Technology will undoubtedly change at an ever-increasing pace. Australia Post is already trialling small parcel deliveries by drone and expects that the device will revolutionise the way parcels are delivered within the next five to ten years. A human using a video system currently operates a drone, but how long will it be before they are fully autonomous?



### AUSTRALIAN JOBS THAT COULD BE REPLACED BY TECHNOLOGY

**Technology could make almost 40 per cent of Australian jobs, including highly skilled roles, redundant in 10 to 15 years, a new report has found.**

The Committee for Economic Development of Australia (CEDA) report highlighted the need for more funding and a cooperative approach to prepare for huge changes in the workforce.

Almost five million jobs face a high probability of being replaced in the next two decades, while a further 18.4 per cent of the workforce had a 'medium probability' of their jobs being eliminated, the report found.

CEDA chief executive Professor Stephen Martin said the world was on the cusp of another industrial revolution being driven by technology, and it was not just low-paid, manual jobs at risk.

'What we've found is that going right through to dentists, and clergy and chemical engineers — and, dare I say, even editors or newspaper proprietors and, heaven forbid, even economists — all of these are in grave danger of perhaps outliving their usefulness,' Professor Martin said.

The report said jobs that involved 'low levels of social interaction, low levels of creativity, or low levels of mobility and dexterity' were most likely to be replaced by automation.



While automation had already replaced many jobs in manufacturing, agriculture and mining, in the coming decades industries such as the health sector would also be impacted, it was found.

'Health is an especially significant area likely to be impacted, through automation in clinical data and predictive diagnostics (analysis roles), to robotics assisting in areas from surgery to nursing and from hospital logistics to pharmaceutical dispensary,' the report said.

The report found that advances in technologies such as cloud computing, artificial intelligence and big data were largely driving the change.

With approximately a quarter of Australians employed in jobs involving driving, the patenting of a driverless car by Google, enabled by big data, could profoundly change the labour market, the report found.

'Based on the progression of Moore's Law, we shall see computing technology improve approximately 10 000 fold over the next 20 years,' the report said.

'The affordability of autonomous driving systems will improve dramatically.

'Furthermore, if the statistic that 90 per cent of road accidents are caused by human error is correct, governments will inevitably regulate that such systems are mandatory because of the savings to life and health costs.'

CEDA estimated that in December 2012, of the 11.5 million Australians employed nationally, about 28 per cent had jobs that involved driving.

If all vehicles become autonomous in the next 20 years, the report said, those jobs would need to change as the 'human skill of driving a vehicle is no longer an essential part of the job'.

'The customer service aspects of the job will become far more important,' the report said.

If Parliament did not start shaping workplace policy around technological changes, the country would be left behind, Professor Martin warned.

'Every other country in the world is going to be faced with the same sorts of challenges, particularly in the era of globalisation,' he said.

'We simply cannot sit back and say a short-term political cycle will solve the problem. There are many deep and grave issues that this country needs to face to retain its economic first world status.

'We are competing with the rest of the world and tech disruption is going to affect us just like it's going to affect everyone else.'

The CEDA report said Australia had adapted well to the impact of changing technologies on the workforce so far.

'The nation created over six times the number of jobs it lost over the five years to June 2014,' the report said.

'We generally know where the jobs are being lost, and knowing which jobs are a lost cause is important to avoid investing expensive tertiary education in the wrong areas and scarce investment capital that could go into growth industries.'

But the report said where the new jobs would be and why they were being created was the most important challenge for future governments.

**Source:** Loretta Florance, 'Almost 40 per cent of Australian jobs could be replaced by technology by 2025, report finds', *abc.net.au*, 16 June 2015.

## DID YOU KNOW?

A report released by the Committee for Economic Development in Australia (CEDA) in 2015 entitled 'Australia's future workforce?' found that there is a high probability that almost 40 per cent of the jobs that exist in Australia today could be replaced by automation within the next 10 to 20 years. This statistic represents more than 5 million people. The report identifies five emerging technologies: cloud services, the Internet of Things, Big Data, Artificial Intelligence and robots, and immersive communications.

## 2.7 Activities

### TEST your understanding

1. What is technology?
2. Make a list of technologies currently used by businesses.
3. Explain the benefits of technological development.
4. Outline the limitations or costs of new technology.
5. In your opinion, what developments in technology will we see in five to ten years' time?
6. Suggest how developments in technology affect business planning.



### APPLY your understanding

7. There are so many new applications of technology. For example, many supermarkets have equipment that allows you to scan your own groceries and pay for them using a debit or credit card. QR codes can allow you to easily access complicated URLs by scanning with a mobile phone. Can you think of any ways that the technology you use might affect the planning of businesses with which you interact?
8. Using the internet, research the latest trends in technology. Suggest any technological developments that will be applicable to businesses in the near future.

### EXAM practice

9. Explain two effects of introducing new technology on the planning stages of a business you are familiar with. **(4 marks)**
10. Explain whether you believe developments in technology, such as automation and artificial intelligence (AI), will benefit the planning of businesses in the future. Justify your response. **(4 marks)**

## 2.8 Global issues

**KEY CONCEPT** When planning a business, business owners need to consider global issues. These issues include overseas competitors and markets, offshoring labour, exchange rates, protection of intellectual property at a global level and online sales.

Elements within the macro environment can combine and operate at a global level. **Globalisation** means that businesses now operate in a worldwide market. Better technologies, methods of transportation and unrestricted trade have allowed the whole world to become a single market. This presents both challenges and opportunities for businesses. The major challenge that many businesses face is that they now find themselves competing on a global scale. Globalisation also allows businesses to buy and sell goods and services internationally, opening the door to increased profits and a level playing field.

Successful business owners understand the necessity to adapt to the constant and rapid changes in the global environment. When planning a business, the business owner needs to consider many global issues including overseas competitors and markets, offshoring labour, exchange rates, protection of intellectual property at a global level and online sales.

### 2.8.1 Overseas competitors and markets

When undertaking business planning, a business owner must take into account the possibility that they will face competitors from overseas. Global competition exists because of rival, or competing, businesses that serve customers internationally. Business owners planning to compete against overseas competitors know that they must build a competitive advantage based on the strengths of the business, as well as by reducing costs and improving the quality of the product. It is also important to have knowledge of all competitors — whether they are found in a local market, nationally or overseas. Business owners who are aware that they will face overseas competition must stay informed of their rivals' strategies, and their strengths and weaknesses. Businesses may plan to differentiate their goods and services from other businesses in order to be competitive. A possible source of this differentiation is innovation.

Just as overseas competitors can sell their goods and services in Australia, local businesses can also sell their products in overseas markets. Selling goods and services to overseas markets spreads the business's risk and allows it to grow. However, there are unique issues for the business owner to consider, such as transportation and distribution, conversion of currency, taxes and duties, marketing and packaging requirements. When planning to sell to overseas markets, business owners need to consider the different requirements of these

markets, such as customs and cultures. The product that they sell locally may need to be modified or tailored to suit the needs of an overseas market. It is always a good idea for the business owner to speak to someone who has experience in exporting to overseas countries. The Australian Trade Commission (Austrade) supports businesses in growing overseas markets, and can provide information, assistance and advice about exporting, understanding foreign regulations and best business practices.

### 'HARRY'S CAFÉ DE WHEELS' EXPANSION INTO CHINA

Harry's Café de Wheels is an iconic pie cart located on Cowper Wharf Road in Sydney. The café was founded in 1938 and there are now ten other Harry's Café de Wheels operating in Sydney and Newcastle. The business recently expanded into China, with plans to build hundreds of pie carts across the country over the next 15 years. The owner of Harry's Café de Wheels, Michael Hannah, has worked with business partners in China to ensure that the sites and food are authentically Australian. The majority of ingredients are currently sourced in Australia and shipped monthly to China. Austrade supported the project.



## 2.8.2 Offshoring labour

The opportunity to use labour in overseas countries is something that the business owner needs to consider when in the planning stage. **Offshoring** refers to the practice of moving some of a business's processes or services to the same or another business located in an overseas country. Businesses usually do this to take advantage of lower costs, including labour and transportation, as well as more favourable economic conditions in other countries. Many businesses choose to offshore their labour-intensive stages of production (e.g. the assembly of car engines) or complex services (e.g. using call centres in overseas countries to assist Australian customers). Telstra uses offshore labour in the Philippines and India in its call centres and for other support roles. Qantas uses offshore maintenance facilities to perform maintenance checks on many of its aeroplanes.

Offshoring has historically been a contentious issue because it has resulted in the loss of local jobs. Groups such as workers' unions argue that offshoring labour to nations with lower wages and working conditions often leads to the exploitation of foreign workers, as well as local unemployment.

## 2.8.3 Exchange rates

An **exchange rate** is the price of one country's currency expressed in terms of another country's currency. Essentially, the exchange rate determines how much of one currency has to be given up in order to buy a given amount of a different currency. Australia's exchange rate is commonly measured using the US dollar. For example, in the media you will often hear Australia's exchange rate quoted in Australian dollars per US dollar (AUD/USD). In this case, if the AUD/USD is \$0.77, this means that one Australian dollar is worth 77 US cents.

Exchange rates are affected by many factors such as:

- interest rates
- the rate of inflation
- the balance of trade
- political stability
- the general state of the economy
- the quality of a country's governance.



The exchange rate plays an important part in the planning of businesses that intend to export goods and services or import materials. Any changes in exchange rates will affect businesses. Basically, a depreciation (a fall in the value of a country's currency in relation to another currency) will usually make exports cheaper and imports more expensive. This means that exporting businesses will benefit while manufacturers or retailers importing materials or goods will face increasing costs. Conversely, an appreciation (an increase in the value of a country's currency in relation to another currency) makes exports more expensive and imports cheaper, and reduces the competitiveness of businesses that export.

Business owners also need to be aware of exchange rates because they may pay overseas suppliers for materials. The supplier is likely to invoice the business in the currency of the supplier's country. Furthermore, businesses may need to locate or develop a method for converting payments they have received from overseas customers.

Exchange rates affect any financial transactions that a business may make, as well as demand for its products and the price of imported materials.



## 2.8.4 Protection of intellectual property at a global level

In chapter 1 we examined the range of options available to the business owner for protecting intellectual property (IP). It is important to ensure that competitors do not copy any creations of the mind that a business has developed, such as new inventions, brands, designs or artistic creations, as these can provide a competitive advantage. As it is likely that businesses will face overseas competitors, it is essential to protect intellectual property at a global or international level. This can be done through the use of:

- **patents.** A patent is an exclusive right granted for any device, substance, method or process that is new, inventive and useful. This is legally enforceable and gives the owner exclusive rights to use the invention for commercial purposes for the life of the patent. However, an Australian patent will generally only protect the rights of the patent owner in Australia. At present there is no 'international patent'. A patent must be obtained in each country in which the business seeks protection for its invention, in accordance with the laws of that country. A second option for businesses seeking patent protection in several countries is to file an international application under the Patent Cooperation Treaty (PCT), administered by the World Intellectual Property Organization (WIPO). IP Australia supports businesses in making this application.
- **trademarks.** A trademark is a right granted over a letter, word, phrase, number, sound, smell, shape, logo, picture or aspect of packaging that a business will use to represent its products and services. However, an Australian trademark only provides protection within Australia. Similarly to patenting, trademark owners can seek trademark protection overseas by applying for protection in each separate country.

Mars Incorporated fiercely protects its intellectual property including the Mars brand and other brands including Snickers, M&Ms and Dove. The company closely monitors its global markets for any misuse of its IP, including similar product names and packaging designs. Before it launches a new product, Mars carries out trademark searches to ensure that the name of the new product is not the same as, or similar to, something that is already available in the market.





Another option is to make a single international application filed through IP Australia nominating the Madrid Protocol countries in which protection is required. The Madrid Protocol is a treaty that provides a solution for registering and managing trademarks worldwide.

- **copyright.** Copyright is a free and automatic protection of original works such as writing, music, art, films, sound recording, broadcasts and computer programs. Copyright is generally obtained automatically without the need for registration or other formalities. Although it is not necessary to do so in Australia, and in a majority of countries, placing a copyright notice in a prominent place on any work can act as a reminder to competitors. Nearly 180 countries have ratified the Berne Convention — an international treaty that sets a minimum set of standards for the protection of the rights of creators of copyrighted works around the world. However, some countries have not signed the treaty, so a business owner must be aware that it can be a requirement in some countries to establish copyright.

## 2.8.5 Online sales

Large numbers of businesses now sell products to consumers directly over the internet. When planning, a business owner will need to consider the options of selling through a physical store, an online store or both. Online sales present many opportunities for businesses. Firstly, long-term costs will be reduced as the business is not required to pay for premises and expenses such as electricity and water. In addition, the business will reach a wider market, as customers can purchase the business's products from around the world. However, the business owner needs to realise that setting up and maintaining a professional-looking website can be expensive, and some expertise may be required. Websites crash, and when the website is down customers will not be able to make purchases. Nevertheless, when planning the business, a business owner needs to be aware that failing to go online could result in the business being uncompetitive.

### study on

Unit 1

AOS 2

Topic 1

Concept 6

Global issues Summary screen and practice questions

## 2.8 Activities

### TEST your understanding

1. Define the term 'globalisation'.
2. Explain why overseas competitors need to be considered by business owners during the planning stage.
3. How can a business compete against overseas competitors?
4. Outline the benefits and costs involved in selling products in overseas markets.
5. Explain what offshoring is and why businesses offshore their labour.
6. Define the term 'exchange rate'.
7. What effect do exchange rates have on business planning?
8. Briefly explain the methods for protecting intellectual property at a global level.
9. Identify the benefits and costs of online sales.

### APPLY your understanding

10. Use the **Austrade** weblink in the Resources tab to find a video featuring a business that sells its products to overseas markets. Once you have selected a video, work in a group to answer the following questions.
  - (a) What is the name of the business, and what product does it sell?
  - (b) Name the overseas market or markets that the business sells to.
  - (c) What advice does the video provide for business owners planning to export to overseas markets?Present your answers to the rest of your class.

11. Identify the global issue or issues that the following businesses are dealing with:
  - (a) Vic Gas uses a call centre in India to aid and assist its customers.
  - (b) My Electronics, which sells consumer electronics, video games, Blu-ray discs, DVDs and CDs through its stores in Australia, is planning to set up an online store. It will need to install a currency converter on its website.
  - (c) Jan has had problems with other businesses and individuals copying her products and selling them on the market.
12. Use the **Intellectual property** weblink in the Resources tab watch a video about intellectual property. Write down five suggestions that IP Australia has made for businesses.
13. Explain why many Australian workers' unions might argue against offshoring labour.

### EXAM practice

14. Rio Tinto is an Australian-based mining and resources company that primarily exports commodities, such as coal, iron ore and many others. Explain how a depreciation in the Australian dollar (AUD) against foreign currencies such as the US dollar (USD) would affect Rio Tinto's business planning. **(3 marks)**
15. Distinguish between copyrights and trademarks. **(4 marks)**

### on Resources

-  Weblink: Austrade
-  Weblink: Intellectual property

## 2.9 Corporate social responsibility issues

### KEY CONCEPTS

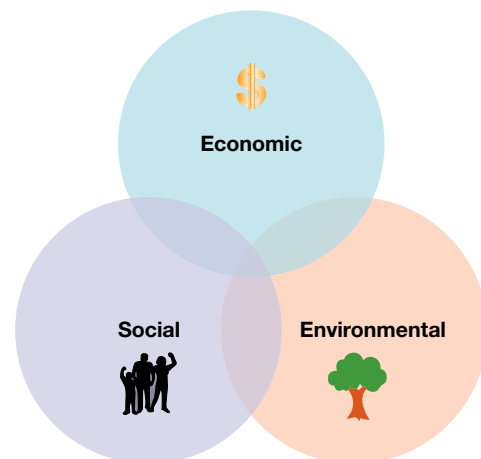
- A business must plan to operate in a socially responsible manner.
- Corporate social responsibility management practices have benefits and costs.

### 2.9.1 Corporate social responsibility

The traditional view of business is that it exists to create products, earn a profit and provide employment. As society's expectations of acceptable business behaviour change, socially aware business owners recognise the importance and necessity of planning business objectives that incorporate **corporate social responsibility**. Businesses today are very much concerned with planning for the **triple bottom line**. This means that they are no longer simply focused on making a profit at all costs — the business's financial or economic performance — but rather, they recognise that environmental and social performance are also important.

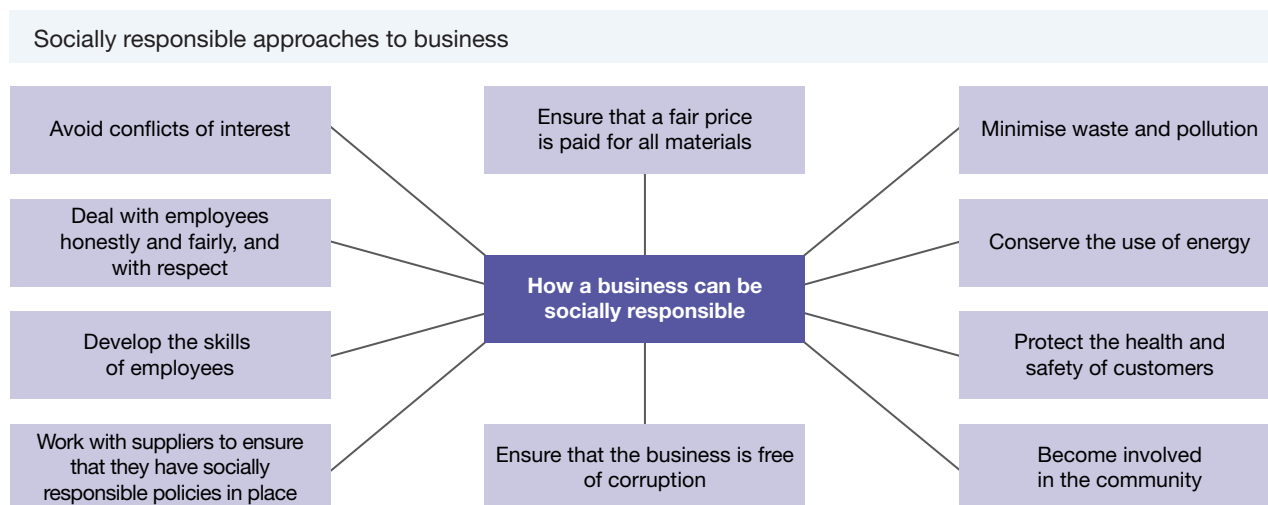
Businesses that take their social responsibilities seriously are often rewarded with improved business performance. Customers will purchase products from socially responsible businesses. Planning to incorporate socially responsible practices can result in the business becoming more competitive. The relationships that the business has with stakeholders such as other businesses, governments, the media, suppliers, specific interest groups and

Triple bottom line business planning incorporates economic, environmental and social aspects.



the community are also much more likely to be positive. Obviously, socially responsible behaviour costs money in the short term, and it can be very time consuming to introduce policies and practices that are socially responsible, but in the long run, corporate social responsibility does turn out to be in the business's, and society's, best interests.

There are many ways in which a business can be socially responsible. Some of these are summarised in the diagram below.



## 2.9.2 Environmental considerations

A business owner will need to address environmental considerations when planning their business. It is important to ensure that the business's production process will not have a serious or negative impact on the environment. For example, a business could plan to incorporate renewable energy initiatives, such as solar or wind power into its operations; source sustainable ingredients; implement waste-reduction strategies, such as recycling; or support suppliers who use environmentally friendly methods of production.

## 2.9.3 Planning the production of goods and services that are in society's best interests

In addition to environmental considerations, when planning a business, the business owner should also ensure that the production process does not have serious or negative impacts on community health and social conditions. A business could plan to purchase materials and other resources from local suppliers (rather than from overseas) to demonstrate support for the local community by providing employment. Furthermore, an owner could ensure that the suppliers the business will deal with operate workplaces that are free from exploitation. The business owner must also ensure that the business's facilities and technology will contribute to the health and welfare of staff (above and beyond what is required by legislation and regulations).

Fair Trade is a trading partnership that seeks greater equity in international trade. It promotes the rights of marginalised producers and workers, especially in low-income countries.



How the product will be packaged and marketed should also be considered. In addition, the business owner will need to make sure that the product is of the required quality — that it is safe and reliable. A dangerously defective or harmful good could result in the injury or death of consumers. The product delivery can also raise issues around the socially responsible behaviour of managers, such as fair and equitable treatment of customers.

### ETIKO PLANS FOR CORPORATE SOCIAL RESPONSIBILITY

The founder of Etiko, Nick Savaidis, believes that businesses should make a positive contribution to society. Etiko is a small business based in the outer south-eastern suburbs of Melbourne that planned for corporate social responsibility from the outset. Mr Savaidis started the business when he realised that it was impossible to purchase sports products that came with full guarantees that no employee exploitation was involved in production.

Etiko sells fashion, footwear and sports equipment that are made using offshore labour in a carefully chosen factory in Sri Lanka. Etiko fully integrates the principles of sustainability from all perspectives: economic, environmental and social. The company combines socially responsible production practices with environmentally sound materials to produce a range of products that are Fairtrade certified and sweatshop free. However, purchasing products that are manufactured in a socially responsible manner means that Etiko must pay up to three to four times the price that other fashion brands pay for their products.

Mr Savaidis wants Australians to know that they can buy a range of socially responsible fashion items from t-shirts to underwear and even footwear. He says, 'No-one likes the idea of wearing clothing that is potentially made with child, sweatshop or slave labour. However, the reality is that most people in Australia have got wardrobes full of items made by people, young and old, who have been exploited ... simply because we as consumers want cheap fashion. Our brand proves that it is possible to put social and sustainable values into the market and succeed.'

It is no coincidence that Etiko has won many awards in the area of corporate social responsibility, including an Australian and New Zealand Fairtrade Product of the Year award in 2013. Etiko was recently ranked Australia's most ethical fashion brand in the Australian Fashion Report, which assesses measurements such as the supply chain, worker pay and welfare. From the sales of its products, Etiko also helps to fund community development, microcredit and healthcare programs in many developing countries.

Etiko received a \$75 000 Impact Investment Readiness Fund grant from NAB at the end of 2015, which is hoped will support the further growth of the business. The company has plans to export and will invest in marketing and distribution to be able to compete against larger retailers.

The founder of Etiko, Nick Savaidis, and his staff planned a business based on corporate social responsibility.



### DID YOU KNOW?

According to research undertaken by Global Business Responsibility Centre, businesses that plan for and implement a policy of caring for the triple bottom line outperform other businesses in the market.

### on Resources

 **eLesson:** Corporate social responsibility management issues regarding business planning (eles-2976)

## 2.9 Activities

### TEST your understanding

1. Define the term 'corporate social responsibility'.
2. Name the three aspects of the triple bottom line.
3. Why do many businesses plan for the triple bottom line?
4. Describe the possible implications of planning for the triple bottom line on:
  - the business
  - employees
  - competitors.
5. Outline what Etiko does that makes it socially responsible.
6. What are the benefits of managing a business in a socially responsible manner?
7. What are the costs of managing a business in a socially responsible manner?
8. Explain one way in which a business owner can plan to:
  - address environmental considerations
  - produce goods and services that are in society's best interests.

### APPLY your understanding

9. In groups of three or four, research the arguments for and against corporate social responsibility. Which set of arguments do you support? Provide reasons for your answer.
10. A business decides to undervalue its inventories and debtors to indicate favourable liquidity and thus better short-term financial stability of the business. In groups of three or four, record the advantages and disadvantages of this decision and its corporate social responsibility implications. Choose a spokesperson to share the group's comments with the rest of the class.
11. Use the **ISO** weblink in the Resources tab to find out what the International Organization for Standardization (ISO) is and what standards the organisation offers in the areas of environmental management, energy management, sustainable events and social responsibility. Choose one of the standards and record its ISO number. Take thorough notes explaining what the standard covers.
12. Use the **Etiko** weblink in the Resources tab to read or watch an interview with Nick Savaidis. Summarise what Mr Savaidis has to say about corporate social responsibility.
13. Consider the following statement, 'A business must be socially responsible in order to succeed'. Explain whether you agree or disagree with this statement and justify your response.
14. Do you think it would be more difficult to plan for positive social and environmental performance rather than successful economic performance? Explain your answer.

### EXAM practice

15. Explain the benefits and costs of corporate social responsibility management practices with respect to business planning. **(4 marks)**
16. Distinguish between environmental considerations and the production of goods and services that are in society's best interests as issues affecting business planning. **(3 marks)**

### **on** Resources



Weblink: ISO



Weblink: Etiko



## 2.10 EXTEND YOUR KNOWLEDGE Corporate social responsibility and the triple bottom line

**KEY CONCEPT** Practices which contribute to corporate social responsibility

### UNDERSTANDING THE TRIPLE BOTTOM LINE

Being sustainable means taking into account the impact your business has on the environment and communities in which it operates. By paying attention to the social and environmental bottom line, you can run your business in a more efficient and effective way. This can have a positive impact on your financial bottom line, and it makes good business sense.

Sustainability expert John Elkington coined the term 'triple bottom line' and argued that there should be three bottom lines:

1. the 'profit' bottom line, which is a measure of the traditional 'profit and loss' financial bottom line
2. the 'people' bottom line, which is a measure of how socially responsible a business has been
3. the 'planet' bottom line, which is a measure of how sustainable and environmentally responsible the business has been.

All of us understand the basic concept of living within our means. If we spend more than we earn, then at some point we hit the wall financially. However, when it comes to the environment and our use of its resources, the people of the world are not living within their means.

According to the Global Footprint Network, we currently use the equivalent of 1.4 planets to provide the resources we use and to absorb the waste we produce. This is not sustainable. Based on estimates from the United Nations on resource use and population, the Global Footprint Network predicts that between 2035 and 2050 we will reach the point where we need the equivalent of two planets to support us.

The fundamental issue is that as the world's population increases and consumerism continues to grow, the demand for the planet's limited resources will also increase. In 1950, global population stood at 2.55 billion people. In 2010 it was more than 6.8 billion, and by 2020 it is estimated that it will exceed 7.6 billion.

The 1950s signalled the beginning of a consumer spending boom that started in the United States and quickly spread across the globe. This consumer-led boom generated major improvements in the quality of people's lives, but it also changed the way we interacted with, and impacted on, the environment.

Today, it means that the world is living on 'environmental credit'. At some point, future generations are going to have to pay a price for the over use of our natural resources.

The number of vehicles purchased each year has increased from less than 10 million in the 1950s to more than 86 million in 2017. At the same time, oil consumption has increased by tens of millions of barrels per day. In addition to using up the world's limited supply of oil, this has led to increased exhaust emissions that harm humans and contribute to global warming.



### Sustainability and your business

Managing your business sustainably means managing it in a way that maximises the bottom line but optimises environmental, economic and social benefits for society as a whole. The initiatives that sit under such a sustainability strategy are what many large businesses call 'corporate responsibility', 'corporate social responsibility' or 'corporate citizenship'.

## Business is changing

A 2008 IBM worldwide survey of senior executives highlights this business shift towards sustainability. Sixty-eight per cent of business respondents said they were implementing sustainability 'as an opportunity and platform for growth', and more than 50 per cent said their company's sustainability activities were giving them an advantage over their top competitors.

Despite this positive shift, nearly two-thirds of businesses questioned by IBM admitted they didn't fully understand their customers' concerns around sustainability. Understanding and responding to your customers on this issue is vital for your business relationships. As it currently stands, only 17 per cent of the IBM survey respondents said they really engaged and collaborated with customers regarding their sustainability activities.

The report also highlighted the need to involve employees in any sustainability initiatives. A key reason for this is your customers will increasingly be asking your employees about the actions your business is taking for the community and the environment.

## What do Australians think about businesses and sustainability?

In 2008 Unilever Australia commissioned AMR Interactive Research and Newspan to look at Australians' attitudes towards corporations and sustainability. It found:

- 90 per cent wanted Australian businesses to invest more in sustainable practices
- 72 per cent thought companies had a broad responsibility to act responsibly
- 81 per cent thought companies could still make a profit while being environmentally responsible and taking the welfare of their workers into consideration
- 64 per cent thought companies needed to focus on sustainability to maintain their future profits.

## The Net Balance/Australian Fieldwork Solutions (AFS) SME Sustainability Index

The Net Balance/AFS SME Sustainability Index was compiled from interviews with 800 decision makers from across 14 industries, with companies that employ 5 to 199 people. When asked which challenges they considered a major concern for their businesses, compliance and economic sustainability issues scored highest:

- maintaining revenues — 74 per cent
- finding the right talent for your industry — 70 per cent
- meeting government regulations — 55 per cent.

However, the results also suggest that some Australian SMEs were not yet fully aware of the cost-saving benefits that come from improving the efficiencies of their operations. Six out of 10 SMEs did not consider energy efficiency a major concern when it came to saving money, yet this is one of the easier money-saving actions businesses can implement as part of their sustainability strategy.

There's an old saying that 'waste is another word for lost profit', yet only a third of SMEs had a major concern about managing their waste. And despite the extensive media coverage about the need for businesses to reduce their greenhouse emissions, only 25 per cent of SMEs said this was a major concern.

The survey did, however, uncover some positive indications. On the recruitment front, 26 per cent of organisations nationally said a 'sustainable image' helped them to recruit the best employee talent. On a very positive note, 65 per cent of SME managers said they wanted to take action on climate change.

The research showed there was a gap between perception and reality when it came to how SMEs saw themselves on environmental issues. Asked if their business was 'environmentally friendly', 72 per cent of those surveyed indicated that they were. However, less than 15 per cent were actually undertaking relevant activities that are sustainable enough to be considered environmentally friendly. Clearly there is still a long way to go. According to the Index, those SMEs that had undertaken sustainability-related actions had experienced cost savings.

Those who were experiencing success were very positive about the sustainability results that were being obtained. New business opportunities, manufacturing efficiencies, improved employee morale, cost savings and resource savings were just some of the benefits outlined by SMEs interviewed by AFS.

The results also show more than one in five SMEs were being pressured directly by customers to be more sustainable.

## How will sustainability benefit my business?

It is reasonable for Australians to want the same lifestyle and opportunities they have right now, but, as the research reveals, they want business to fix the problems caused by their current lifestyles. This is where the opportunity lies. Businesses that respond to this concern with a price-sensitive quality product or service that makes a difference will stand a better chance of getting a sale.

**Source:** Extracts from J Dee, *Small business big opportunity: sustainable growth*, Melbourne, 2010 Sensis Pty Ltd, pp. 4–13.

## DID YOU KNOW?

The Australian Bureau of Statistics defines SMEs as:

- micro businesses, employing fewer than five people
- other small businesses, employing five or more but fewer than 20 people
- medium businesses, employing 20 or more but fewer than 200 people.

SMEs employ more than four million people in Australia, and contribute 46 per cent of the value of Australia's GDP.

## PLANTIC FANTASTIC

Plantic Technologies Limited manufactures a cutting-edge bioplastic made from corn starch. The product is 100 per cent compostable and dissolves in water. Plantic's head office, principal manufacturing and R&D facility is located in Australia. It was founded in 2003 and now employs 70 people located within the Kuraray group (which owns the company) in many locations throughout the world.

All of Plantic's bioplastic is produced organically. Plantic chief executive Brendan Morris says, 'when our starch is produced we take a portion: another portion goes to animal feed; another to compost or fertiliser, so the whole crop is used. There's no waste.'

Among other purposes, Plantic can be used in plastic trays, such as the ones you might have eaten chocolates from. Once finished, the tray can simply be thrown on to a compost heap. Plantic's customers include Nestle, Cadbury and British retailer Marks & Spencer.

Use the **Plantic Technologies** weblink to watch video clips of some innovative ways Plantic Technologies is helping companies to achieve the 'triple bottom line'.

Businesses produce goods and services and must endeavour to minimise their environmental impact. Plantic Technologies produces biodegradable chocolate box packaging, which disperses in water, for British retailer Marks & Spencer.



## on Resources

 **Weblink:** Plantic Technologies

## 2.10 Activities

### TEST your understanding

1. Read 'Understanding the triple bottom line'. What does being sustainable mean?
2. Why is sustainability important?
3. List some of the expected benefits of implementing a sustainability strategy.
4. Read 'Plantic fantastic'. Outline the socially responsible strategy that Plantic Technologies has implemented.

### EXTEND your understanding

5. Do you think that sustainability is something that needs to be added to the list of things to do, or should it be something that business owners do naturally?
6. Using the articles, suggest strategies that business owners can use to meet the following socially responsible expectations.

| Corporate social responsibility expectations                 | Strategy that a business can use |
|--------------------------------------------------------------|----------------------------------|
| Customers demand healthy lifestyle products.                 |                                  |
| Society wants a clean environment.                           |                                  |
| Society expects businesses to treat employees appropriately. |                                  |
| Customers expect businesses to understand their needs.       |                                  |

## 2.11 APPLY YOUR SKILLS Corporate social responsibility management practices

### PRACTISE YOUR SKILLS

- Define, describe, and apply relevant business management concepts and terms
- Acquire, record, interpret and share business information and ideas
- Research and analyse case studies and current examples of business management applicable to planning a business
- Apply business management knowledge to practical and/or simulated business situations
- Explain the benefits and costs of corporate social responsibility management practices with respect to business planning

Social responsibility for a business includes obligations to the community, above and beyond making a profit, obeying laws or honouring contracts. It is the awareness of a business's management of the social, environmental, political and human consequences of its actions. A socially responsible business will attempt to achieve two goals simultaneously: (1) expanding the business and (2) providing for the greater good of society. It recognises that business activities have an impact on society globally and, as such, that it needs to give careful consideration to its actions. The central theme is 'above and beyond' making a profit and obeying the law.

It is important to note that social responsibility is not just about helping the local community. A business that is truly socially responsible will be mindful of the welfare of its employees through providing benefits such as childcare or flexible working arrangements.

### PENNICOTT WILDERNESS JOURNEYS

Pennicott Wilderness Journeys was planned with the intention of operating sustainably, in harmony with the environment and the local community. The company offers six experiences in Tasmania: cruises along the coast of Bruny Island and Tasman Island, both of which are located on the south-eastern coast of Tasmania; a land-based day tour of Bruny Island; two cruises that depart from Hobart; and the new Three Capes Track, a multi-day walking experience. The ultimate goal of this business is to use its financial success 'to reinvest into the local community and the environment that we live and work in'.

The company, which was founded in 1999 and is operated by Robert Pennicott and his family, has a very strong focus on sustainability. It attempts to employ members of the local community and source services from local businesses. Twenty-five per cent of the profits from the business are donated to local, national and international conservation, community fundraising and humanitarian projects. All of the tours are 100 per cent carbon offset



and its energy use, water consumption and waste output are assessed through the EarthCheck system. All of the business's products have achieved Advanced Ecotourism certification.

Rob Pennicott founded Pennicott Wilderness Journeys with environmental considerations in mind and planned to contribute back to the local community.



It is no coincidence that the business has won many awards, including the Qantas Award for Excellence in Sustainable Tourism for 2012, 2013 and 2014. Their Bruny Island Cruise also won Australia's Best Tourist Attraction in 2014 and 2015.

Pennicott Wilderness Journeys is now planning to expand the business further. A Wilsons Promontory Cruise, departing from Tidal River, will soon open. The venture is expected to cost \$3.5 million and produce \$9.7 million in economic benefits for the local community each year as well as create 16 jobs for the region. More jobs will be created over the next five years and the project will also directly contribute to the conservation of Wilsons Promontory. The expansion was made possible with a \$650 000 federal government grant.

Mr Pennicott says that Wilsons Promontory is well known from the land but few people have experienced the same beauty from the sea. 'We're honoured to have the opportunity to operate cruises that showcase Wilsons Promontory. We understand how important it is to work with the community and together help protect it for future generations. Sustainability is at the heart of everything we do and we will work hard to ensure this venture operates with environmental best practice,' he says.

A highlight of the cruises offered by Pennicott Wilderness Journeys is observing sea and coastal wildlife in its natural habitat, including these fur seals off Bruny Island. As well as operating with the environment and local community in mind, the business also donates to a range of conservation projects. It has donated more than \$100 000 towards coastal conservation projects undertaken by the Tasmanian Parks and Wildlife Service.





## CUT N CURL HAIR SALON: CORPORATE SOCIAL RESPONSIBILITY WITH STYLE

Kristen Lowe, owner of the highly successful small business Cut n Curl Hair Studio, is aware of the business's social responsibilities towards her employees and the wider community.

### What must you do to be a socially responsible employer?

I have fantastic employees who are one of the main strengths of my business. I have a responsibility for their welfare at work, as well as their future development. All my employee processes, therefore, must meet rigorous criteria. I have policies that encourage equal employment opportunities and anti-discrimination. I am also conscious of my employees having to balance their work and family responsibilities. Consequently, I use a flexitime roster, which allows an employee, within specified limits, to select the hours she will work. The benefit to the business is that I am able to retain my experienced, dedicated staff.



### Do you have a social responsibility to the wider community?

Definitely. The community is where my customers and I live so I must always be mindful of the business's reputation. One of my main business goals is for Cut n Curl to have a good reputation within the wider community; something I feel very proud about. Consequently, I must act honestly and ethically in all my business dealings. I must also constantly monitor and evaluate how I operate the business in order to maintain this good reputation. Being a reputable business is good business, as it results in a large number of loyal, repeat customers.

### What community organisations is your business involved with?

I am passionate about rescuing injured wildlife and we actively support WIRES (the Wildlife Information and Rescue Service). The business also provides financial and non-financial assistance to the RSPCA Million Paws Walk, fundraising events for our local hospital such as the 'Cut-a-thon' festival, and each month we provide free haircuts for seriously ill, home-bound elderly people. My employees and I gain a great deal of satisfaction from being able to fulfil these activities.

## 2.11 Activities

### TEST your skills

1. What effect have corporate social responsibility issues had on Pennicott Wilderness Journeys' planning?
2. Outline what Pennicott Wilderness Journeys does that makes it socially responsible.
3. Identify any other macro or operating factors that have affected Pennicott Wilderness Journeys' planning.
4. In your own words, what do you think is meant by the term 'corporate social responsibility'?
5. Do you consider Cut n Curl to be a socially responsible business? Give reasons for your answer.
6. Explain why it was important for Kristen to plan a socially responsible business.
7. Explain the benefits and costs of corporate social responsibility management practices.

### APPLY your skills

8. (a) Find two businesses that you consider are known for their socially responsible actions. Name them and explain why you think they are socially responsible.  
(b) How might their actions in turn assist the business?
9. Working in a small group, copy the following table. In the first column, list examples of actions taken by businesses that you consider to be socially irresponsible. Complete the second column with a list of the affected stakeholders. In the third column list the possible consequences for that business. One example has been completed for you.

| Socially irresponsible action                                                              | Stakeholders                                                   | Effects                                                                                                                                                                                         |
|--------------------------------------------------------------------------------------------|----------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Soft drink manufacturer produces an energy drink with excessive sugar and caffeine content | Retail outlets<br>Consumers<br>Health authorities<br>Employees | Decreased orders for that manufacturer's products<br>Negative media image<br>Consumers will not buy products from that manufacturer<br>Loss of customers and profit<br>Employee dissatisfaction |

10. Choose one of the examples from your table for question 9. Form a small group to role-play what you imagine would happen if the business was considering taking the socially irresponsible action. Ensure that each of the stakeholders is represented by one or more members of your group.

## 2.12 Customers and competitors

### KEY CONCEPTS

- All business owners need to consider customer needs and expectations when planning a business.
- All business owners need to consider competitors' behaviour when planning a business.

### 2.12.1 Customers

**Customers** are the reason that businesses exist. They buy a business's goods or use its services, expecting high quality at competitive prices. Businesses must respond to the needs of customers, making sure that the right product is delivered at the right time. High levels of customer service result in improved customer satisfaction.

Many businesses are changing their operations in order to meet customer expectations and help protect the natural environment. As part of its corporate sustainability strategy, Virgin Australia minimises the environmental impact of its business by offering customers the opportunity to offset carbon emissions on their flight. Under this program, the customer's seat emissions are calculated and an equivalent amount of carbon offset credits are purchased, directly supporting the preservation of Tasmania's native forests.



Successful business owners are aware that the consumer is a powerful stakeholder in the external environment. They will take this into account when planning their business. Today's consumers are astute, better educated and informed. They are increasingly prepared to seek compensation if they believe they have either been unfairly treated or purchased a product that did not perform as promised. For these reasons, business owners need to plan to produce high quality products. Businesses that sell products that do not live up to customer expectations are not likely to continue running for long. To ensure its future viability and profitability, a business needs to recognise and assess changes in consumer tastes so it can constantly satisfy consumers' needs and wants.

Consumers are increasingly putting pressure on businesses (through their spending decisions) to be environmentally aware, demanding products that are 'clean, green and safe'. Examples include recycling, environmentally friendly packaging, reduced packaging and lower factory emissions. An example of consumer power was the pressure put on supermarkets to replace plastic bags with reusable bags. Consumer groups are also prepared to mount publicity campaigns aimed at embarrassing those businesses that do not act ethically or responsibly. One recent example was the consumer backlash against a manufacturer of sports shoes that was perceived to be exploiting cheap labour in a developing country.

Customers have become more health conscious and this has also forced some businesses to change their products or practices. Today, customers expect to be able to buy products that are low in salt and fat, are free of gluten, nuts, eggs, dairy and other allergens, are GMO free, and have no artificial colouring or flavours. For example, many restaurants and cafés today offer healthy food and provide options for people with a variety of dietary requirements. Because of customer pressure, fast-food restaurants such as McDonald's have been forced to offer customers healthier options. Many customers now demand fresh, natural and organic products. Oliver's Real Food is

a growing health food chain that was started by founder Jason Gun in response to not being able to find any healthy food to eat while driving. He thought that others, like him, might be wanting a healthy alternative, and located the first Oliver's store next to McDonald's in Wyong, New South Wales. There are now more than 20 stores located at highway roadhouse stops in New South Wales, Victoria and Queensland, with more under development.

Customers expect to be able to purchase healthier food options.



### DID YOU KNOW?

Unilever supported Greenpeace International's call to stop rainforest destruction caused by a global demand for palm oil by committing to buy palm oil from sources that are certified as sustainable. Unilever owns many well-known home and personal care product brands (e.g. Dove, Impulse and Omo) and food and beverage product brands (e.g. Flora, Lipton and Streets). Unilever is the largest single buyer of palm oil in the world, using it in many of its best-selling products, such as Dove body care products and Flora margarine. Launching their first Sustainable Palm Oil Sourcing Policy in 2013, and refreshing it in 2016, Unilever are planning to only source physically certified sustainable palm oil by 2019.



## 2.12.2 Competitors

**Competitors** are the businesses or individuals that offer rival goods or services. Not only do businesses need to be aware of existing competitors, but they also have to monitor the environment for potential newcomers. Businesses must respond to any change in the actions of competitors. For example, the launch of new airline Virgin Blue (now Virgin Australia) caused Qantas to significantly alter the operation of its business — new marketing approaches were adopted, discount airline Jetstar was established, cost-cutting measures were implemented, discount fares and travel packages were redesigned, and customer loyalty was rewarded with frequent flyer points. The actions of competitors have been crucial in driving change in the airline industry, as the newer airlines attempt to take a profitable market share from the existing airlines.

The free-to-air commercial television networks have also faced increasing competition from pay television, which took away some of the networks' market share. As a result, the networks' advertising revenue has fallen. In response, the networks needed to modify their business practices in relation to their clients: the advertisers. Now, providers of streaming movies and TV series, such as Netflix, threaten both the television networks and pay television companies. In response to this new threat, Foxtel launched online streaming company Presto, which is now jointly owned with Seven West Media, and Nine Entertainment Co. partnered with Fairfax Media to introduce Stan.

Netflix has disrupted the media industry, resulting in the demise of competitors such as Blockbuster. However, by providing customers with the convenience of a wide selection of high-quality streamed media at a low price, the company appealed to a mass market. Netflix now serves over 190 countries, with more than 125 million subscribers, and earns billions of dollars in revenue.



Occasionally, competition can be reduced through the takeover of a competitor. For example, Qantas bought rival airline Impulse in June 2001. FedEx acquired rival courier group TNT Express in 2016, allowing it to be more competitive globally against other logistics companies such as Deutsche Post, the US Postal Service

and UPS. However, this takeover creates new challenges for competitors in Australia, such as Australia Post and Toll Holdings.

From a planning point of view, the awareness of competition can stimulate the necessity for efficiency in production. To achieve a sustainable **competitive advantage** over competitors the business owner will need to plan to produce a high-quality good or service at the lowest cost.

### DID YOU KNOW?

Blockbuster was once offered the opportunity to buy Netflix, but blew it. Netflix was offered for acquisition to Blockbuster in 2000 for a mere \$50 million. Blockbuster CEO John Antioco, thinking that Netflix was a small niche business, declined the offer.

## study on

Unit 1

AOS 2

Topic 2

Concept 2

Competitor behaviour Summary screen and practice questions

## 2.12 Activities

### TEST your understanding

1. Distinguish between customers and competitors.
2. Outline the influence that customers have on a business.
3. In what ways do customers affect business planning?
4. Describe how a business can deal with the actions of competitors.
5. Why should businesses aim to achieve a sustainable competitive advantage over their competitors?
6. Suggest how competitors affect business planning.

### APPLY your understanding

7. (a) List the main competitors of the following well-known companies:
  - Coles
  - BHP Billiton
  - National Australia Bank
  - Qantas
  - Optus.(b) How will the competitors that you have listed affect the planning of the business?
8. Write a two-paragraph response to the following:  
'Businesses have no control over customers and competitors. They are at the mercy of these two operating factors.'
9. 'Competitors can be a threat to a business but they can also ultimately lead to business success.' Explain how competition may in fact be good for a business.

### EXAM practice

10. Provide a definition for 'customers' and 'competitors'. Explain which business environment (internal, operating or macro) these groups belong to and why they should be considered a part of that environment. **(4 marks)**
11. Define the term 'competitive advantage' and explain how a business may plan to develop a competitive advantage. **(4 marks)**



## 2.13 Suppliers and special interest groups

### KEY CONCEPTS

- All business owners need to consider suppliers and the supply chain when planning a business.
- All business owners need to consider special interest groups when planning a business.

### 2.13.1 Suppliers

A business's **suppliers** provide the resources that are needed for use in the production process. Examples of such resources are raw materials, equipment, machinery, finance and information. Suppliers may be individuals or other businesses. Good relations with suppliers are important to guarantee the efficient running of the business, so it is important for any business to develop a reliable supplier network. Having a number of suppliers means a business is less vulnerable to supply difficulties and the impact of price rises. For a business to rely on just one supplier puts it at a distinct disadvantage.

#### The supply chain

A **supply chain** is the network of suppliers from which the business purchases resources. It typically starts with the sourcing of natural resources, followed by manufacturing activities such as component construction and assembly. The supply chain moves on to storage facilities before finally reaching the consumer. The supply chain needs to be well managed because production of the business's good or service depends on resources. Supply chain management is critical for the following reasons:

- If resources required are not on hand, then nothing can be produced.
- If resources are of inferior quality, it is difficult or costly to produce quality products.
- If the right quantities of resources are not available, the business cannot meet demand for its products.

#### Sustainability and the supply chain

During the planning stage, a business must consider where the resources it obtains for production are sourced and how they reach the business. In doing so, the business owner must not only assess the location of the business in terms of distance to suppliers, but also consider the efficiency of delivery, the rate that stock is used, consistency in quality, and pricing and comparisons with other suppliers of similar products, to identify whether they can better meet the business's needs. In recent years, many businesses have had to come to terms with developing more sustainable supply chains or 'greener' supply chains. Businesses today expect their suppliers to behave in a socially responsible manner, and believe that their relationships with suppliers also need to meet corporate social responsibility considerations.

Gloria Jean's Coffees ensures that it purchases resources from suppliers that look after their employees and the environment. Its coffees contain a percentage of beans from farms that have been certified by the Rainforest Alliance. The company's coffee beans are sourced from all over the world and from farms of a variety of types and sizes — large plantations, cooperative groups and tiny family farms.



## DID YOU KNOW?

Many businesses today realise that their supply chain contributes to their social and environmental performance. Westpac asks its suppliers to comply with its Responsible Sourcing Code of Conduct.

## study on

Unit 1

AOS 2

Topic 2

Concept 3

Suppliers and the supply chain Summary screen and practice questions

### 2.13.2 Special interest groups

The operating environment is affected and influenced by a number of associations, organisations and interest groups. These **special interest groups** are groups of people who attempt to convince a business to change or adopt particular policies or procedures. Some common groups that attempt to influence business decision-making and planning are:

- **specific issue groups.** These are formed to focus on one specific area, such as youth unemployment, civil liberties, anti-globalisation or environmental protection. Miners such as Rio Tinto and BHP Billiton, for example, often receive criticism from **environmental lobby groups** over their mining activities. The companies respond by undertaking environmental impact studies and rehabilitation works, which affects their business planning.
- **business associations.** These are organisations that support businesses through the provision of training and education programs, advice and information. For example, the nation's largest and most representative business association, the Australian Chamber of Commerce and Industry (ACCI), speaks on behalf of Australian businesses at both national and international levels. The ACCI publishes and distributes research and reports on a range of issues that may be relevant to planning a business. Family Business Australia represents family businesses and the Small Business Association of Australia speaks for small businesses; both provide resources and professional development for member businesses.
- **unions.** Employees may choose to join a **union** in an attempt to improve their pay and working conditions. Unions represent employees in many workplaces in Australia. They will often be called to represent their members in the development of new or changed employee agreements, with the aim of getting the best possible deal for their employees. Unions work to prevent anything that diminishes employee rights, safety or conditions. Business planning may be affected by these considerations.
- **consumer groups.** These are lobby groups that monitor a business's performance in terms of its product safety, packaging, pricing and advertising. Australia's leading consumer advocacy group is CHOICE.

Special interest groups such as unions can force a business to change its operations or adjust its planning. This photograph shows protestors calling for building company Grocon to improve its safety standards.



## 2.13 Activities

### TEST your understanding

1. Explain why businesses need suppliers.
2. Define the term 'supply chain'.
3. Why is it vital that the supply chain is well coordinated?
4. Explain what a special interest group is.
5. Summarise the types of special interest groups and their influence on business planning by completing the table below.

| Special interest group                                    | Interest | Effect on business planning |
|-----------------------------------------------------------|----------|-----------------------------|
| Specific issue groups, such as environmental lobby groups |          |                             |
| Business associations                                     |          |                             |
| Unions                                                    |          |                             |
| Consumer groups                                           |          |                             |

### APPLY your understanding

6. Josie is planning a new business that will sell a range of clothing online as well as to several large retailers in Australia. She intends for the clothing to be manufactured in China. Make some suggestions regarding what she will need to consider in relation to her suppliers and the supply chain.
7. Use the **Woolworths supply chain** weblink in the Resources tab to find out how a large business deals with supply chain management and answer the following questions.
  - (a) From how many countries does Woolworths buy resources?
  - (b) How does the company ensure that its suppliers uphold human rights, labour standards, conservation of the environment and anti-corruption compliance?
8. Form a group and use the internet to research a special interest group of your choice. Find out who or what the group represents and how it influences business planning. Report your findings back to the class.

### EXAM practice

9. Explain what a union is and why unions play an important role in the workplace. **(3 marks)**
10. Describe how suppliers and the supply chain may affect business planning. **(3 marks)**

## on Resources

 **Weblink:** Woolworths supply chain

## 2.14 APPLY YOUR SKILLS Effect of factors from the external environment

### PRACTISE YOUR SKILLS

- Define, describe and apply relevant business management concepts and terms
- Acquire, record, interpret and share business information and ideas
- Research and analyse case studies and current examples of business management applicable to planning a business
- Apply business management knowledge to practical and/or simulated business situations

### CONSUMER POWER

Introducing a new product and then asking customers to choose its name must have sounded like a great idea at the time. It became a classic case of consumer power, however, and a marketing disaster for Kraft Foods in 2009. Kraft was preparing to launch its first new Vegemite product in 85 years, a 'smooth velvety version of the original'. Kraft decided to hold an Australia-wide competition to name the new product.

According to Kraft Foods Australia/New Zealand's Simon Talbot, 'The new Vegemite experience is based on learnings we gathered from more than 300 000 Australians'. These people were involved in a How Do You Like Your Vegemite census that was run by Kraft. 'They told us that they wanted a Vegemite that doesn't require combining it with butter, and one that's easier to spread,' he said.

Kraft claimed that the cheese-blend experiment was forced on them after sales of the original Vegemite dropped among new Australians. This was picked up by Kraft in 2006. Vegemite's makers knew that they could not modify their original product, as Coca-Cola did unsuccessfully in the 1980s with New Coke. With almost a quarter of the population comprising people born overseas, they knew that they would need to do something to halt these losses. After their online market research campaign, Kraft decided that customers wanted something that was easy to eat on the go and could also be used as a dip or spread straight from the jar and eaten on its own.

The new Vegemite arrived in stores across Australia in July 2009, and consumers were invited to name the product through a website. While they waited for the new name, the new jars of Vegemite were branded 'Name Me'.

By holding the national competition, Kraft had virtually tried to recreate the way in which Vegemite was originally named. A competition in the 1920s uncovered the name, which was later changed to Parwill. Poor sales led to the return of the original name, Vegemite.

The modern public relations campaign resulted in almost 50 000 suggestions being made by Vegemite fans. The announcement was made in September, at quarter time during the 2009 AFL Grand Final at the MCG. The new name was iSnack 2.0, chosen by a 27-year-old father of two from Western Australia.

As soon as Kraft announced the new name, it was met with widespread disapproval by customers. Video clips denouncing iSnack 2.0 on YouTube were viewed tens of thousands of times and Facebook groups, such as Australia Says No to iSnack 2.0, were formed specifically for the purpose of getting Kraft to abandon the name. Thousands of comments were posted on Twitter and a website, Names That Are Better Than iSnack 2.0, was also created.





While he acknowledged that the name was dividing Vegemite consumers, Simon Talbot said that it was generally older consumers who were feeling negative. 'Kraft has shipped its 3-millionth jar since the competition's launch in July', he said, 'so the product is proving more popular than the name'.

But he and Kraft were open to the possibility of changing the new name. 'I can't say that we are not changing it. All I can say is that we are listening to consumers and, yes, there are some strong feelings towards it. It has taken us by surprise.'

Nick Foley, managing director of brand consultancy Landor Associates, said the plan for asking customers to come up with a name was excellent, but at the end of the day the new name had failed. 'They are taking the "i" that is associated with the iPod and 2.0, which is a term for the web. So what does any of that have to do with a food product?'

Some claimed that the naming exercise was purely for publicity. Paul Harrison, a marketing lecturer at Deakin Business School, said the new Vegemite product was acquiring valuable awareness and a 'daggy name' hardly mattered if people liked the product. 'I remember people questioned what Tim Tam meant when that was launched . . . it takes time for a brand name to be accepted.'

It became abundantly clear to Kraft that Australian consumers did not like the new name. In October 2009, only days after it was launched, Kraft gave in to the public backlash. It announced that 'Vegemite Cheesybite' would take the place of iSnack 2.0 as the name for the new Vegemite product. This was in response to the votes of more than 30 000 Australians and New Zealanders who were polled online and by telephone. Customers had been asked to choose from the six most popular names from the original competition. Kraft also made it known that the original Vegemite would remain unchanged.

'We have been overwhelmed by the response of the Australian public; it has been an insightful debate,' said Simon Talbot. 'Australians have now selected a popular name for a successful product.'



## DID YOU KNOW?

Dr Cyril P Callister invented Vegemite in the 1920s, after he was employed by the Fred Walker Company and given the task of developing a yeast extract. The spreadable paste was called Vegemite after a national competition asked the Australian public to officially name the product. Poor sales and competition from Marmite, a thick, dark English spread, resulted in a name change to Parwill. The name did not take off and the original Vegemite name eventually returned. The Fred Walker Company later became the Kraft Food Company. The Vegemite brand was owned by US confectionery, food and beverage company Mondelez International until early in 2017, when it was acquired by Australian dairy company Bega Cheese Ltd.

## 2.14 Activities

### TEST your skills

1. Briefly outline the pressures that Kraft was responding to when they decided to develop a new Vegemite product.
2. How did Kraft find out what customers wanted in a new Vegemite product?
3. What was the connection between the naming of the new product and the original Vegemite?
4. Identify the market(s) that Vegemite was trying to tap into with the name iSnack 2.0.
5. How did Kraft find out about customer perceptions of the name iSnack 2.0?
6. Why do you think the name iSnack 2.0 failed?
7. After reading this article, what conclusions can you make about the importance of considering customer needs during the planning stage?



### APPLY your skills

8. Use the **Coca-Cola** weblink in the Resources tab to find out about New Coke, which Coca-Cola introduced in 1985. Answer the following questions.
  - (a) What was New Coke?
  - (b) In response to what pressure did Coca-Cola introduce New Coke?
  - (c) Outline why Coca-Cola thought New Coke would be successful.
  - (d) What did customers think about the new product when they heard about New Coke?
  - (e) Explain how Coca-Cola reacted to consumer pressure.
9. 'Customers are the most important external influence on a business'. What do you think? Discuss this statement, keeping in mind that there are other external factors, including competitors, suppliers, technology, legal, political and economic.

### Resources

 Weblink: Coca-Cola

## 2.15 Review

### 2.15.1 Summary

#### Factors within the external (macro and operating) environment and internal environment that affect business planning

- The external environment is made up of the macro environment and the operating environment.
- The macro environment consists of factors outside the business, over which the business has no control, such as legal, political, social, economic, technological, global and corporate social responsibility factors.
- The operating environment consists of factors outside the business, over which the business has little control, including customers, competitors, suppliers and special interest groups.
- The internal environment consists of factors inside the business such as employees and managers, location and legal business structures.
- The internal environment to some extent is influenced by the external environment. Both will have an effect on the decisions made when planning a business.

#### Macro factors affecting business planning

##### Key legal and government regulations

- There are many laws and regulations that, during the planning stage, business owners need to ensure their business will comply with. Some important ones include business name registration, company registration, local government regulations (including zoning and health regulations), employment regulations (including anti-discrimination regulations and work health and safety regulations), trade practices and consumer protection laws, and environmental protection regulations.

##### Societal attitudes and behaviour

- When planning a business, changing social values, beliefs and trends will need to be considered.
- Social values and beliefs are the shared principles and morals of a group of people or society, including the need to protect the environment and the expectation that businesses will contribute positively to society.
- A trend is the general direction in which people's attitudes or behaviour in society is developing or changing, including demographics and family-friendly workplaces.

### Economic conditions

- The state of the economy needs to be considered when planning a business.
- Economic factors such as interest rates, tax rates, business and consumer confidence levels all have an effect on decisions made by business owners during the planning stage.

### Technological issues

- Technological issues refer to the issues relating to the growing use of tools, techniques or systems by businesses to solve problems or serve a purpose.
- Technological issues, including changing markets and technological development, need to be considered when planning a business.

### Global issues

- Globalisation is the effect of hi-tech communications, lower transport costs and unrestricted trade and financial flows, which have transformed the world into a single market, producing a more integrated global economic system. Globalisation means businesses now operate in a worldwide market.
- During the planning stage of a business, global issues including overseas competitors and markets, off-shoring labour, exchange rates, protection of intellectual property (patenting, copyrights and trademarks) at a global level and online sales must be considered.

### Corporate social responsibility issues

- Corporate social responsibility refers to managing a business in such a way that the broader social welfare of the community, including its employees, customers, suppliers and the environment, is taken into consideration when making business decisions.
- When planning a business, corporate social responsibility issues will need to be considered. These issues include environmental considerations and planning the production of goods and services that are in society's best interests.
- Corporate social responsibility management practices have benefits and costs.

## Operating factors that affect business planning

### Customer needs and expectations

- Customers are the people who purchase goods and services from the business, expecting high quality at competitive prices.
- The needs and expectations of customers, including that businesses be socially responsible, must be considered when planning a business.

### Competitors' behaviour

- Competitors are other businesses or individuals that offer rival, or competing, goods or services to the ones offered by the business.
- During the planning stage, business owners need to be aware of existing competitors, and also monitor the environment for potential newcomers.

### Suppliers and the supply chain

- Suppliers are the businesses or individuals that provide the materials and other resources that the business needs to conduct its operations.
- A supply chain is the range of suppliers from which the business purchases materials and resources.
- During the planning stage, the resources required for a business, where these resources are sourced and how they reach the business need to be considered.

### Special interest groups

- Special interest groups attempt to directly influence or persuade a business to adopt particular policies or procedures.
- Special interest groups include specific issue groups (such as youth unemployment, civil liberties, anti-globalisation or environmental lobby groups), business associations, unions and consumer groups.

## 2.15.2 Key terms

**Business Activity Statement (BAS)** records a business's claims for input tax credits and accounts for GST payable

**business associations** organisations that support businesses through the provision of training and education programs, advice and information

**business environment** the surrounding conditions in which the business operates. It can be divided into two broad categories: internal and external.

**competitive advantage** the ability of a business to develop strategies that ensure it has an 'edge' over competitors

**competitors** other businesses or individuals who offer rival, or competing, goods or services to the ones offered by the business

**corporate social responsibility** managing a business in such a way that the broader social welfare of the community, including its employees, customers, suppliers and the environment, is taken into consideration when making business decisions

**customers** the people who purchase goods and services from a business, expecting high quality at competitive prices

**economic conditions** the set of influences that relate to economic activity, including interest rates, wages, unemployment, exchange rates and inflation

**environmental lobby groups** special interest groups that promote environmental issues to the public, government and businesses

**exchange rate** the price of one country's currency expressed in terms of another country's currency

**external environment** those factors over which the business has little control. It may be further divided into two categories: operating and macro.

**globalisation** the effect of hi-tech communications, lower transport costs and unrestricted trade and financial flows turning the whole world into a single market, producing a more integrated global economic system

**Goods and Services Tax (GST)** a broad-based tax of 10 per cent on the supply of most goods and services consumed in Australia

**interest rate** the price charged or paid for the use of money that has been deposited or borrowed

**internal environment**, sometimes called the micro environment, includes those factors over which the business has some degree of control

**macro environment** the broad conditions and trends in the economy and society within which a business operates

**offshoring** the practice of moving some of a business's processes or services to the same or another business located overseas

**operating environment**, sometimes called the task environment, refers to the specific outside stakeholders with whom the business interacts in conducting its business

**special interest groups** the groups of people who attempt to directly influence or persuade a business to adopt particular policies or procedures

**suppliers** those businesses or individuals that supply the materials and other resources that the business needs to conduct its operations

**supply chain** the range of suppliers from which the business purchases materials and resources

**tax rate** the percentage of income or the value of a good, service or asset paid as tax

**technological issues** refers to the issues relating to the growing use of tools, techniques or systems by businesses to solve problems or serve a purpose

**triple bottom line** the economic, environmental and social performance of a business

**unions** organisations formed by employees in an industry, trade or occupation to represent them in efforts to improve wages and working conditions

**Westpac Melbourne Institute Index of Consumer Sentiment** an index that measures changes in the level of consumer confidence in economic activity. It is based on consumers' responses to a survey regarding their sentiments about their own current and anticipated financial situation, anticipated economic conditions, buying conditions and other factors relating to their consumption.

**workplace diversity** the multitude of individual differences that exist among people in the workplace



## 2.15.3 Review questions

### TEST your understanding

1. What is meant by the term 'planning'?
2. Distinguish between the internal environment and the external environment.
3. Identify one similarity and one difference between the operating environment and the macro environment.
4. In what way does the external environment influence the internal environment?
5. Identify and explain three areas of legislation or government regulation that the business owner must consider when planning a business.
6. Why do businesses need to comply with legislation and government regulations?
7. Explain why businesses need to consider societal attitudes and behaviours during the planning stage.
8. Describe two societal attitudes or behaviours that have changed in recent times and affect business planning.
9. Outline how economic downturns and economic booms affect business planning.
10. Explain the difference between interest rates and tax rates.
11. Define the term 'technology'.
12. Identify two ways in which technology will change the market in the future.
13. Explain the influence of overseas competitors and overseas markets on business planning.
14. What is offshoring labour, and how does it affect business planning?
15. Why do business owners need to consider exchange rates when planning a business?
16. Describe the methods for protecting intellectual property at a global level.
17. Discuss the use of online sales by a business.
18. Explain why corporate social responsibility is an important consideration during the planning stage.
19. Outline the benefits and costs of managing a business in a socially responsible manner.
20. In regard to customers, what do businesses need to consider when planning?
21. Explain how competitors affect business planning.
22. Why is it important that the business owner be aware of where supplies are sourced and how they reach the business?
23. Identify and explain two special interest groups that must be considered by the business owner when planning a business.

### APPLY your understanding

24. A student has prepared the following notes on the internal and external environments. After reading the notes carefully, identify three errors. Rewrite the notes correctly.  
*The internal and operating environments are found inside the business and the macro environment is found outside the business. Operating factors include management, employees, customers and competitors, and the business has little control over these factors. Macro factors include suppliers, specific interest groups, societal attitudes, economic conditions, legal and government regulations, and technological issues. The business has no control over these factors.*

25. Complete the table below to compare the effects that each factor from the external environment has on decisions made when planning a business. The first answer has been completed for you.

| External factor                         | Effect on planning                                                                                                                                                                            | Business example                                                               |
|-----------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------|
| <b>Legal and government regulations</b> | Businesses must plan to comply with legislation and government regulations, otherwise they may lose customers and their reputation, they may be fined, or lose the right to continue trading. | A business must plan to meet local government zoning and building regulations. |
| <b>Societal attitudes and behaviour</b> |                                                                                                                                                                                               |                                                                                |
| <b>Economic conditions</b>              |                                                                                                                                                                                               |                                                                                |
| <b>Technological issues</b>             |                                                                                                                                                                                               |                                                                                |
| <b>Global issues</b>                    |                                                                                                                                                                                               |                                                                                |
| <b>Corporate social responsibility</b>  |                                                                                                                                                                                               |                                                                                |
| <b>Customers</b>                        |                                                                                                                                                                                               |                                                                                |
| <b>Competitors</b>                      |                                                                                                                                                                                               |                                                                                |
| <b>Suppliers</b>                        |                                                                                                                                                                                               |                                                                                |
| <b>Special interest groups</b>          |                                                                                                                                                                                               |                                                                                |

26. Analyse the key aspects of corporate social responsibility by completing the following table.

| Arguments for | Arguments against |
|---------------|-------------------|
|               |                   |
| Benefits      | Costs             |
|               |                   |

27. (a) Ritva and Lisa are interested in establishing a new horticulture business. Advise them on the macro factors that may affect their business planning.  
 (b) Ramanan is planning a business that will supply toy trains to retailers. Advise him on the operating factors that may affect the planning stages of his business.

### EXAM practice

28. Identify two factors from the macro environment and explain how they may affect the planning of a business. **(4 marks)**
29. Describe three legal and government regulations that a fast-food business would likely have to deal with in the planning stages. **(3 marks)**
30. Identify and explain how two changes in economic conditions would affect the planning of a business. **(4 marks)**
31. Identify the business environment to which technological advances belong and explain two effects that technological advances can have on the planning of a business. **(3 marks)**
32. Identify the business environment to which special interest groups belong and describe a specific special interest group's effect on the planning stages of a business **(3 marks)**
33. Describe the external environment of a business. **(2 marks)**



## on Resources



Digital doc: Missing word glossary quiz (doc-29413)



Digital doc: Crossword (doc-29414)

## study on

Unit 1

AOS 2

Topic 1

Macro environment factors Sit topic test

Unit 1

AOS 2

Topic 2

Operating environment factors Sit topic test

## 2.15.4 School-assessed coursework

### OUTCOME 2

**Describe the external environment of a business and explain how the macro and operating factors within it may affect business planning.**

### ASSESSMENT task — case study analysis

Read the following case study and then complete the questions below.

#### Shoes of prey

Jodie Fox loves shoes. However, she could never find the exact shoes that she wanted. Along with her ex-husband Michael and old workmate Michael Knapp, she created Shoes of Prey, an online store that allows customers to design their own shoes. Following its launch in 2009, Shoes of Prey has gone on to become a multimillion-dollar global business.

Shoes of Prey's online store uses a unique 3D design template that allows customers to create their own shoe. Starting with a style, the customer can then design the shoe, choosing heels, fabrics and textures, colours and height. The site shows the customer a 360-degree rotating sketch so that they can get a complete view during the design process. Once the shoes are designed, they are manufactured in China and then shipped to the customer. Any shoes that are returned are sent directly to Good 360, a not-for-profit that connects businesses who have brand new, unsold goods, with charities that support Australians in need.

The company has staff permanently located in an office in China to ensure that its quality standards are maintained. Shoes of Prey truly has a global focus as it offers worldwide shipping to its customers. It operates French, German, Spanish and Japanese language sites to serve all overseas customers. The website also has a facility for changing the currency at which prices are quoted.

When planning the business, the founders sought to establish a product that was different and something that people would want to talk about. In planning Shoes of Prey, they considered who they believed their customer

Shoes of Prey is an online shoe retailer that allows customers to design their own creations. Jodie Fox, Michael Fox and Michael Knapp founded the business.



was, the size of the market, who their competition was, their strengths, weaknesses, opportunities and threats. The founders met with potential suppliers, researched and developed concepts for the design of the website, and determined how they would market the website.

Before the business launched, a business blog, 22michaels.com, was maintained, directing potential customers to the forthcoming website. The blog is still going and now the company also has a Twitter account and a Facebook page. 'My favourite way of communicating with customers is on our Facebook page. We have a strong community there and it's such a nice way to get into a conversation about shoes while getting to know our customers,' Jodie Fox says.

Soon after the business launched, Shoes of Prey hired YouTube beauty guru Blair Flower to sample and review a pair of custom-made shoes. 'The first day the video went live we had 200 000 people visit our website,' says Michael Fox. The Shoes of Prey website received 500 000 hits and this translated into a 300 per cent increase in sales.

As the business has grown, Shoes of Prey has begun to focus on becoming a significant international retailer. The business has recently opened bricks and mortar stores due to customer demand. Customers wanted to see and feel the shoes in real life. The company now has one store in Sydney CBD's David Jones, and five shop-in-shops in Nordstrom department stores across the United States. The process has been challenging because Shoes of Prey does not have the same relationships with suppliers as it does in Australia. However, Shoes of Prey's business model has not changed. 'We're still doing everything on demand and we're still customised,' Jodie Fox says.

1. Explain the difference between the operating environment and the macro environment.
2. Describe two legal and government regulations that might affect Shoes of Prey's planning.
3. Outline what is meant by business and consumer confidence levels and how these affect planning.
4. Explain two technological developments that Shoes of Prey considered in its planning.
5. In what ways have overseas markets had an impact on Shoes of Prey's planning?
6. Describe the strategies that Shoes of Prey has used to ensure that its product is superior to those of its competitors.
7. Identify two ways in which corporate social responsibility issues have had an impact on the planning of Shoes of Prey.
8. Explain how Shoes of Prey has met the needs and expectations of its customers.
9. Outline the importance of Shoes of Prey considering suppliers and the supply chain in the planning stage.

## Resources

 Digital doc: School-assessed coursework (doc-29415)

# CHAPTER 3

## Planning a business — internal environment

---

### 3.1 Overview

#### 3.1.1 Why it is important

There are many factors within a business that affect how it operates. It is these factors that make up the internal environment of the business. A business must plan and manage its internal environment well, as it can make or break the business. **Planning** allows a business to carefully consider any factors that may affect it. This helps to avoid problems and allows opportunities for growth to be seized.



#### TRUDY CROAD — LOVEBIRD WEDDINGS

'I looked at the existing competitors and their activity, unique selling points, relationships within the industry, marketing techniques, and used this to create an exclusive offering with a unique look and feel,' Trudy Croad says.

Croad decided to enter the wedding industry after working in events most of her life, including as the marketing director of Australia's leading bridal magazine *Bride to Be*. Her sister's wedding provided the inspiration to set up her own business, offering brides-to-be wedding planning, styling and fashion advice. But it was her experience in the market that really drove her business plan.

She completed extensive market research. Using her knowledge of creating business plans, and her marketing background, in 2007 Trudy started a new business called Events By Design, with an outlay of \$20 000. She established the business with a virtual office in Noosa.

In 2010, Croad purchased another business called Maleny Weddings, merging this with Events By Design to form Lovebird Weddings. In this way, she has expanded her business from Noosa into the hinterland of the Sunshine Coast, Brisbane, the Gold Coast and Byron Bay. Croad has clearly planned the business effectively, as Lovebird Weddings has won a number of awards, including Wedding Expert of the Year (Australia) at the 2017 Luxury Travel Awards.

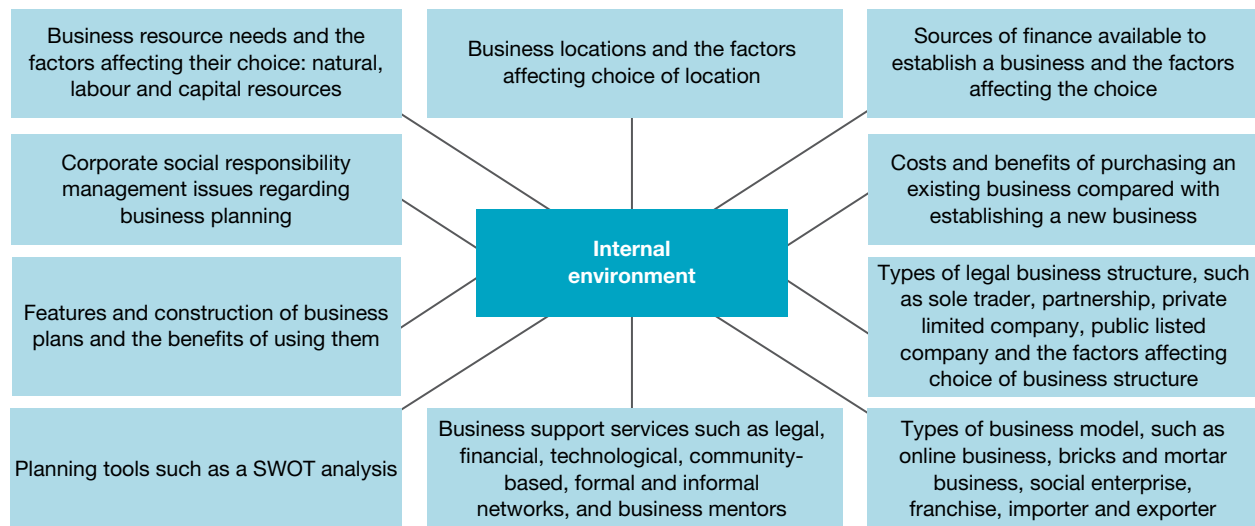
Trudy Croad established her wedding planning and styling business after extensive market research and completing a business plan.



## 3.1.2 What you will learn

### Key knowledge

Use each of the points from the VCE Business Management Study Design below as a heading in your summary notes.



### Key skills

These are the skills you need to demonstrate. Can you demonstrate these skills?

- Define, describe and apply relevant business management concepts and terms
- Acquire, record, interpret and share business information and ideas
- Research and analyse case studies and current examples of business management applicable to planning a business
- Apply business management knowledge to practical and/or simulated business situations
- Develop and construct business plans
- Use a planning tool to analyse a business's current situation and interpret the information
- Discuss the decisions made in response to the internal factors that affect a business

**Source:** VCE Business Management Study Design (2017–2021) extracts © VCAA; reproduced by permission.



### Resources



Digital doc: Key terms glossary (doc-29416)

## 3.2 Internal factors affecting business planning: resource needs

**KEY CONCEPT** There are three categories of resources that a business needs to plan for: natural, labour and capital.

When starting up a business or planning for its future, the owner must work out what they will need to run the business. **Resources** are all those people and objects needed for the business to function properly. There are three main categories of resources: natural, labour and capital.





### 3.2.1 Natural

**Natural resources** are items used by the business that come from the natural environment. These include, for example, land, water and raw materials. A business must ensure that it uses natural resources wisely and does not harm the natural environment in its operations. Failing to do so will make it more difficult to attract and retain customers as well as employees.

Businesses should consider the following factors when planning for their natural resource needs:

- Are their products environmentally friendly, and how can they minimise the negative effect of their products on the environment?
- How can they reduce wastage and environmental damage during the production process?
- Are the raw materials that they plan to use in production sustainable, accessible and reasonably priced?
- Are the shops, offices and/or factories of the business designed in a sustainable way that minimises energy usage?
- Where will they source their natural resources from?

The rapid destruction of our natural environment is considered by many as the biggest problem faced by humanity in modern times.



#### DID YOU KNOW?

If everybody in the world lived like the average Australian, 4.7 Earths would be needed to sustain them.

### 3.2.2 Labour

**Labour resources** refer to the people that provide their skills, effort and knowledge to the business. The main source of labour for a business is its employees as well as the owner. A business can also hire **subcontractors** to provide labour if it is not practical or possible for the people who own or are employed by the business to do the work themselves. While businesses are increasingly becoming automated and less reliant on labour in some areas of their operations, countless jobs are being created that never existed previously. Labour continues to be an important part of how businesses operate.

Unlike natural and capital resources, labour is a human resource. This means that any decision that a business makes can have a dramatic effect on the lives of the people working for that business. A business must ensure that it treats its workers with respect, and not as just another resource that contributes to the profitability of the business.

Workers who are happy in their jobs are often more productive and loyal to the business that employs them.





Businesses should consider the following factors when planning for their labour resource needs:

- How many workers will be needed and what kind of skills will they need?
- How will the business attract and retain these workers?
- What kind of training should the business offer to its workers to help them grow and benefit the business?
- How will the business provide fair pay and healthy working conditions for its employees?
- What are the legal responsibilities of the business towards its employees?
- How will the business resolve any disputes that arise with employees?
- Does the location of the business allow access to the types of workers that it needs?

### 3.2.3 Capital

**Capital resources** refer to the tools and machinery that are used to produce goods or perform services. Capital resources are important as they maximise the efficiency of labour. Businesses should consider the following factors when planning for their capital resource needs:

- What kind of tools and machinery will be needed?
- How will the business repair, maintain and replace its capital equipment when needed?
- Does the business have the right workers with the right skills to operate the machinery they need?

Capital equipment such as this harvester can complete the work that once required hundreds of workers.



#### study on

Unit 1 > AOS 3 > Topic 1 > Concept 1 > **Natural resources** Summary screen and practice questions

Unit 1 > AOS 3 > Topic 1 > Concept 2 > **Labour resources** Summary screen and practice questions

Unit 1 > AOS 3 > Topic 1 > Concept 3 > **Capital resources** Summary screen and practice questions

## 3.2 Activities

### TEST your understanding

1. What are resources?
2. Explain the three types of resources available to a business and give an example of each.
3. What is unique about labour when compared with natural and capital resources?
4. Identify three factors that a business must consider when planning for their natural resource needs.
5. List three factors that a business must consider when planning for their labour resource needs.
6. Identify three factors that a business must consider when planning for their capital resource needs.

### APPLY your understanding

7. List resources that would be used by the following businesses:
  - beauty salon
  - fast-food restaurant
  - veterinary clinic
  - plumbing business
  - wedding reception business.

8. Label the following resources as natural, labour or capital:
- a tractor on a small commercial farm
  - the raw fish used by a fish and chip shop
  - a drill press in a cabinet-making factory
  - a delivery driver for a pizza shop
  - a lawyer who runs his own legal practice
  - a computer used at a medical clinic
  - a worker in a factory
  - the land on which a new office will be built
  - a boat used by a commercial fishing business
  - a computer program used by an accountant.
9. Research a business of your choice via the internet or by interviewing the manager. Answer the following questions:
- (a) Suggest as many resources as you can that might be used by the business and classify them as natural, labour or capital.
  - (b) List four factors relating to each resource that the business would have to consider when planning.
  - (c) Identify one difficulty that the business might encounter when planning for each resource.
  - (d) How might the business overcome these difficulties?

### EXAM practice

10. Distinguish between natural resources and capital resources. **(2 marks)**
11. Talia is planning the resource needs for her new business. Explain the factors affecting the choice of labour resources and capital resources. **(4 marks)**

## 3.3 Business locations

**OK KEY CONCEPT** The location of the business will determine whether or not the business is known and accessible to potential customers.

Location, location, location! Perhaps the most important aspect of planning for a business is deciding on its location. The physical location of a business can determine whether or not it will ultimately succeed. It is therefore crucial for the business owner to invest time and effort into finding the ideal location for the business. To do so, they must consider all the factors that will be affected by the location of the business.

### 3.3.1 Different types of business location

Different types of business will be suited to different locations, and the business owner must consider a number of factors when determining the most appropriate location for their particular business. A suitable location might be a shopping centre or retail shopping strip. Alternatively, the business owner may choose an online or a home-based business.

Local government **zoning** determines where some types of businesses can operate. Zoning is designed to keep business activities separate from residential areas and prevent householders being disturbed by businesses operating late at night. The process sets aside commercial and industrial zones and it is in these areas that most businesses will operate.

### study on

Unit 1 > AOS 3 > Topic 1 > Concept 4 > **Business locations** Summary screen and practice questions

## Shopping centres

The suburban shopping centre has been in existence in Australia for less than 50 years. Typical suburban shopping centres have one or more supermarkets and a number of small specialist stores such as hairdressers, clothing stores, pharmacies, cafés, newsagents, and often a post office and bank branches. They have parking for several hundred cars, access to public transport and most of the shops are undercover, facing internal walkways. Larger regional shopping centres, such as Chadstone, Northland, Doncaster, Highpoint and Eastland, often include major department stores and cinemas, as well as the full range of specialist retail outlets all in the one place.

A well-established business in a busy shopping centre is an excellent option for a prospective business owner wishing to purchase an existing business. A new business in an established shopping centre is most likely to be successful if there are no existing competitors.

However, this location option may not suit every business. Leasing a store in a shopping centre can be expensive, particularly in larger centres. A business may need to remain open during the shopping centre's hours, which may be seven days a week. A business may also need to rely on the centre renewing its lease. If this does not occur, the business will be forced to move elsewhere.

Shopping centres provide an ideal location for a wide variety of retail businesses.



### DID YOU KNOW?

The first stand-alone shopping centre in Victoria was at Chadstone, and it opened in 1960. Chadstone is now the largest shopping centre in Australia, with more than 550 retail outlets and parking for 10 000 cars.

## Retail shopping strips

In metropolitan Melbourne, shopping strips developed along major arterial roads during the second half of the 19th century. The busiest shopping strips were located near public transport, such as tram routes, and near suburban railway stations. Sydney Road, Glenferrie Road and Chapel Street are all examples of major roads in Melbourne with extended shopping strips.

Many shopping strips in the metropolitan area have struggled to compete with the growth of shopping centres offering off-street parking and an air-conditioned environment. Retail shopping strips offer the advantage of high visibility for passing traffic. The costs of locating in a retail shopping strip are less than those of a shopping centre. The people who work or live in the local area should provide a strong source of customers for a business located in a shopping strip. However, many shopping strips suffer from a lack of parking, particularly those located on major arterial roads as they are clearways during peak hours. Moreover, shopping strips offer customers limited protection from the weather, which can reduce foot traffic. Because many shopping centres close in the evenings, shopping strips have become popular locations for restaurants and 'after hours' entertainment. Lygon Street in Carlton is a good example of this.

Retail shopping strips have developed along major arterial roads.



## Online presence

Businesses are increasingly seeing the need to expand through the use of the internet. Many businesses establish themselves as an online-only presence, forgoing the need for a physical store and thereby avoiding many associated expenses, such as rent. Others have added this component to their business to ensure they keep up with the competition, while retaining their physical stores.

Aside from using the internet for simple administrative tasks such as contacting customers and suppliers via email, businesses with an online presence often undertake the following:

- setting up and maintaining a website to provide information about available goods and services, or as a means by which customers can order goods online
- using online sales platforms such as eBay
- accepting online payments through PayPal or secure online credit card payments systems
- ensuring that potential customers can easily find their website through paid online advertising and **search engine optimisation (SEO)** tools.

Warning! Although buying goods and services online can be very convenient, it is also a convenient way for cyber criminals to scam people out of their money. Both customers and business owners need to be extra cautious when making online purchases or revealing personal information. The costs of planning, designing and maintaining an online presence can also be a disadvantage. Many business owners decide that an online presence is not necessary. They establish a positive reputation through face-to-face interaction with customers.

## Home-based businesses

Many tradespeople and other service providers have traditionally run their businesses from home. Plumbers, electricians, painters and various other home-service providers do not need a dedicated business location as they provide services in the customer's own home or business premises. Increasingly, the development of information and communication technologies has allowed home-based businesses to use mobile phones, the internet and computer applications. While home-based businesses have traditionally been service providers rather than goods retailers, online ordering and payment has allowed for the expansion of home-based retail businesses.

Locating a business at home means that the business owner does not face any substantial expenditure on renting or purchasing premises. This means that risk is reduced if the owner is starting a new business. Locating a business at home also provides flexibility around when the owner works and can reduce commuting time. However, it can be difficult for the owner to keep work and home life separate. The owner may also feel isolated from other people and miss social interaction.



### Resources



Weblink: Scamwatch

## 3.3.2 Factors affecting choice of business location

When planning a business, a business owner will make different types of location decisions according to the nature of the business. For example, the factors influencing a retail business (such as a clothing store or café) are quite different from those influencing a non-retail business (such as manufacturing or wholesaling).

### Visibility

Visibility is one of the most important factors for successful retail and service-based businesses, such as clothing stores and hairdressers. A business wanting high visibility would locate in a prime shopping area, such as a shopping centre or main street. Whereas manufacturing businesses, which arrange to transport their goods to various retail outlets, do not need a highly visible location to attract customers.



## Cost

Cost is another factor to consider when determining the location of a business. Leasing or purchasing a central location in a busy shopping centre will be far more expensive than a location with lower levels of passing customer traffic. The business owner will need to be confident of generating sufficient business to justify the higher cost. If the business is a café or food outlet, passing traffic is a major source of customers, so cutting costs by selecting a less visible location may be counterproductive.

## Proximity to customers and suppliers

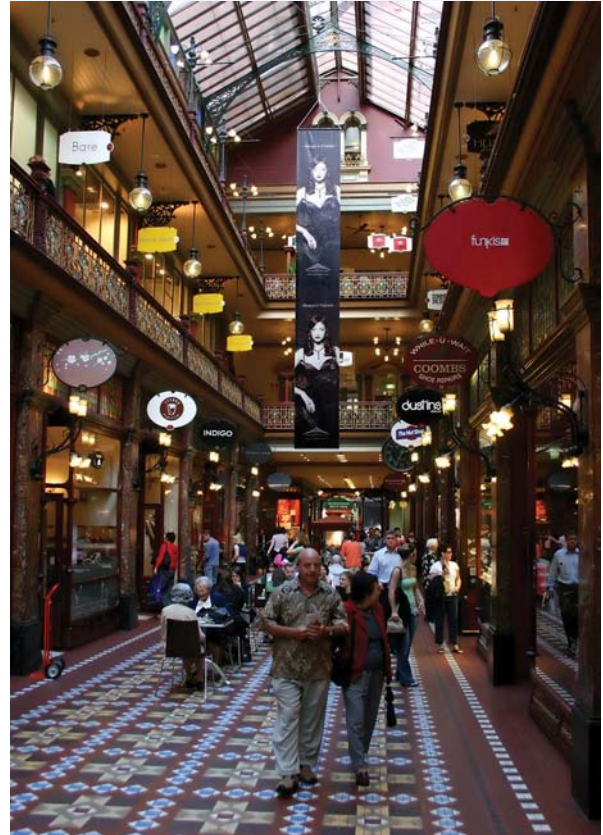
Ideally, all businesses would choose to locate close to customers *and* suppliers, both for customer convenience and to minimise the costs of transportation from suppliers. In reality such an ideal is rarely possible, so this decision usually depends on the nature of the business.

Retail businesses must be convenient for their customers, so shopping centres or shopping strips with off-street parking will be the primary choice for businesses such as butchers, florists, bakeries and gift stores. Unless the business has to transport bulky goods, proximity to suppliers is not an issue.

On the other hand, proximity to customers is generally not an issue for a manufacturing business. Access to transport networks is more important — for the movement of raw materials from suppliers, as well as to allow for distribution of completed goods to retailers.

Industrial parks established in outer suburban areas such as Somerton, Dandenong South or Laverton North are zoned to provide convenient locations for manufacturing, transport and warehousing businesses. These industrial parks are close to major freeways and roads leading to interstate or provincial centres.

When choosing a location, the two most important considerations are customer convenience and visibility, which can be summarised in the following equation: **Prime location = Customer convenience + Visibility.**



### DID YOU KNOW?

There are over 26 000 hectares of zoned industrial land across metropolitan Melbourne (although 6669 hectares of this land is vacant). That's over 5000 times the area of the MCG (the MCG, including the stands, is about 5 hectares). For comparison, in Sydney there are approximately 20 000 hectares of industrial land. Adelaide has 12 700 hectares, of which 1300 hectares are vacant.

## Proximity to competitors

Proximity to competitors is primarily an issue for retailers and service providers. It would be unwise to establish a new business in a shopping centre that already has one or more businesses of that type, unless existing businesses are not satisfying the level of demand. Being the first to establish a particular type of business in a shopping precinct, or otherwise ensuring there are no local competitors, is likely to increase the chances of success.



## Complementary businesses

The proximity of **complementary businesses** can assist in bringing customers to a new business. Complementary businesses offer goods or services aimed at the same customers. For example, an electrical store and a furniture store will both be selling to householders. Many shopping centres in new suburbs contain homemaker centres with businesses such as electrical and furniture stores, bedding stores, hardware, gardening and barbecue stores — all aimed at people building new homes. A pharmacy and a doctor's surgery are other examples of complementary businesses.

Many homemaker centres contain complementary businesses, such as furniture stores.



### EXAM TIP

The **Unit 1, Area of Study 3** outcome states that you need to 'analyse how factors from within it (the internal environment) may affect business planning'. This suggests that you should know the advantages and disadvantages of each business location, as well as the factors that affect the choice of location. You should aim to understand that a business owner will need to consider the advantages and disadvantages of each location according to the needs of the business when planning.

## study on

Unit 1

AOS 3

Topic 1

Concept 5

**Choice of business location** Summary screen and practice questions

## 3.3 Activities

### TEST your understanding

1. In what ways do local council decisions affect the location of different types of business?
2. What advantages do shopping centres have over traditional 'main street' shopping strips?
3. Outline the main activities of an online store.
4. What is search engine optimisation and how does it help an online store achieve more visibility?
5. How can an online presence assist a business owner to operate from home?
6. Explain how each of the factors listed below can influence the location of:
  - (a) a retail business
  - (b) a manufacturing business.
    - Visibility
    - Cost of rent or purchase
    - Proximity to customers and suppliers
    - Proximity to competitors
    - Complementary businesses

### APPLY your understanding

7. Choose a business with which you are familiar. Describe the ways in which this business has advantages or disadvantages in relation to:
  - (a) visibility
  - (b) cost (in terms of likely premises expenses and transport costs)

- (c) proximity to customers
  - (d) proximity to suppliers
  - (e) proximity to any complementary businesses.
8. In groups of two or three, discuss what factors need to be considered when choosing a location for the following businesses:
- (a) fast-food outlet
  - (b) dentist's surgery
  - (c) agricultural machinery supplier
  - (d) VCE coaching college
  - (e) hair salon
  - (f) panel beater.
- Choose a spokesperson to share the group's comments with the rest of the class.

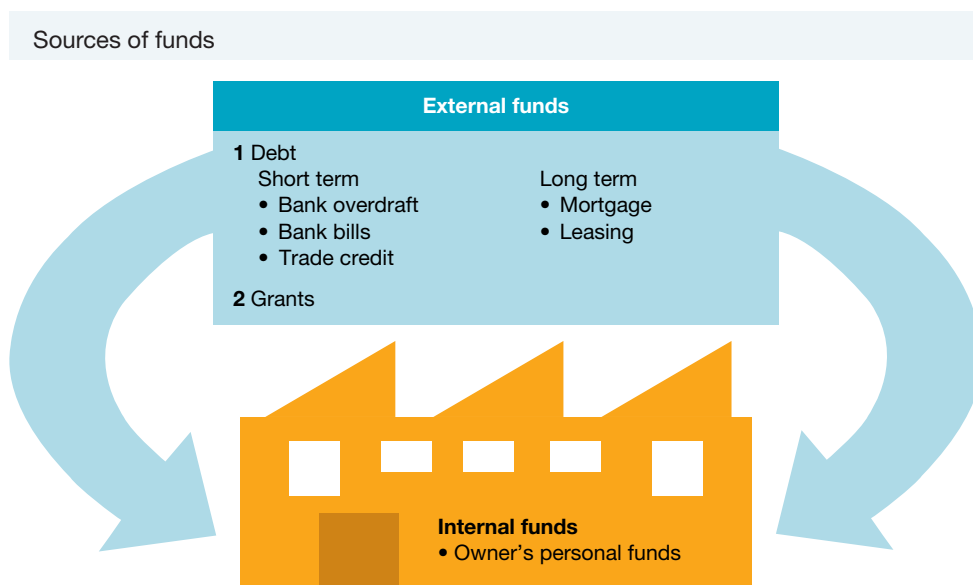
### EXAM practice

9. Explain two factors that a business must consider when selecting an appropriate location. **(4 marks)**
10. Lorenzo and Jamal have decided to locate their fruit and vegetable business in a shopping centre. Discuss their decision. **(4 marks)**
11. Analyse how decisions about location affect business planning. **(4 marks)**

## 3.4 Sources of finance

**KEY CONCEPT** Businesses can obtain finance from a range of internal or external sources. A business owner needs to consider a number of factors related to the option that is best suited to the business.

A business cannot start without funds. Effective business planning requires the owner to know where to obtain finance as well as decide on the option that is best suited to the business. The funds that a business requires



come from a variety of people and/or institutions. These groups or institutions can be classified as one of two sources. The business owner can contribute their own funds (equity or capital), which is an internal source of funds. The business can also obtain finance from external sources. There are advantages and disadvantages associated with each source of finance.

### 3.4.1 Equity finance

**Equity** refers to the funds contributed by the business owners to start and then expand the business. If the business is a company, then this contribution is referred to as shareholder's equity. Equity has an advantage over other sources of finance because it does not have to be repaid unless the owners leave the business. It is cheaper than other sources of finance because there are no interest payments for the business. An owner who contributes the equity to a business retains control over how that finance is used. A disadvantage is that the owner may expect a good return on their investment, but the small amount of finance may only generate low profits and low returns.

Equity finance can also be raised in other ways — for example, by taking on a partner, by seeking funds from another investor (who then becomes an owner or shareholder) or by selling off any unproductive asset. Let's have a closer look at some of the common sources of equity finance.

#### Self-funding

Self-funding is when the owner of the business uses their personal finance to fund the business. A self-funded business means that the owner will not need to share ownership with anyone else. However, there is a risk that the owner will lose all of their investment should the business fail.

This source of finance is often referred to as **bootstrapping**. This involves the business financing the operations without borrowing from external sources. In this situation, the business is funded purely from personal finances and any revenue that the business makes. A business owner using bootstrapping will be need to be very cautious with their expenses.

#### Family or friends

Family or friends can provide finance for a business. In some cases, they may expect a share of the profit in return. This can be an easy and quick way to obtain extra finance. However, this source of finance should be considered carefully, as there is a danger that relationships could be adversely affected. Business owners using this source of finance should put the details of the arrangement in writing.

#### Private investors

A prospective business owner may be able to find private investors for their business if an attractive idea and strong business plan can be presented. The investors may contribute funds to the business in return for a share in the business's profit and equity. Investors such as business angels, sometimes called '**angel investors**', can provide the business with finance. These individuals or businesses are often willing to provide support and advice to the business owner, as well as receive a return on their investment. While this source of finance may benefit the business, taking on investors means that the owner will lose complete control of the business — as part-owners, investors will have a say in how the business operates.

#### Shares

A business may raise funds by offering shares in the business. However, only companies can make use of this source of finance. As we will see later in the chapter, public listed companies can access more capital than private limited companies, because they are able to issue shares to the public. This option is also known as an initial public offering (IPO). This involves listing on the stock exchange so that members of the public can freely trade the shares. It can be an expensive and complex option.

## Crowdfunding

**Crowdfunding** is a method of raising finance by using online and social media networks. A business might, for example, appeal to a large group of people to provide funding for the launch of a new product using a crowdfunding platform. This may involve setting a goal for the project, providing the details of the project and inviting people to contribute finance. GoFundMe, one of the largest crowdfunding platforms, provides business owners and entrepreneurs with the opportunity to raise money to start or improve a business.

This can be a quick way to raise finance with few fees, allows the business owner to connect to potential customers and receive feedback, as well as gain some guidance on how to improve the business or product. However, generating interest in the project requires a great deal of work, and there is no guarantee that the owner will reach their funding target. A failed project may result in damage to the business's reputation.

The Australian Securities and Investments Commission recently granted licences to a number of Australian crowdfunding platforms, allowing local start-ups and small businesses to raise money from the general public in exchange for a stake in a company.



### study on

Unit 1

AOS 3

Topic 1

Concept 8

Sources of finance Summary screen and practice questions

### 3.4.2 External sources of finance: debt finance

Most external sources of finance are in the form of **debt**, which refers to the funds provided by banks, other financial institutions, government and suppliers. Debt must be paid back over time, with interest.

Sourcing funds from outside the business should result in increased earnings and profits. Regular repayments on the borrowings must be made, so the business must generate sufficient earnings to make these payments. There is higher risk for businesses using debt for finance, as the interest and government charges have to be paid on top of the principal amount borrowed. Australia's tax system, however, has promoted debt financing for businesses by providing generous tax deductions for interest payments.

#### Short-term borrowing

Short-term borrowing is provided by financial institutions through bank overdrafts, bank (commercial) bills and bank loans. This type of borrowing is used to finance temporary shortages in cash flow or finance **working capital**. Short-term borrowing generally needs to be repaid within one or two years.

#### Bank overdraft

A **bank overdraft** is one of the most common types of short-term borrowing. A bank allows a business to overdraw its account to an agreed limit. Bank overdrafts assist businesses with short-term liquidity problems—for example, a seasonal decrease in sales. The costs for bank overdrafts are minimal and interest rates are normally lower than on other forms of borrowing. Given that interest rates are usually variable, interest is paid on the daily outstanding balance of the account. The variable interest rates allow businesses flexibility in managing their finances. Banks usually require the agreed limits of the overdraft to be maintained at a high level and require some security. Bank overdrafts are repayable on demand, although this is not common.

## Bank bills

Bank bills are basically short-term securities issued by a business and bought by a bank. They are a type of bill of exchange and are given for larger amounts, usually over \$100 000, for a period of 90–180 days. The borrower receives the money immediately and promises to pay the sum of money and interest at a future time. The bank acting as agent guarantees that the money will be repaid when it is due.

## Trade credit

Trade credit exists when a supplier provides products to a business with an agreement to charge for the goods or services later. It is an important source of short-term funds because businesses are granted a period of time, from 30 days to 90 days, before payment is required. Trade credit is attractive for businesses because there is no interest charge and it is easy to obtain. If a business has a good credit record, as the business grows purchases increase and trade credit becomes even easier to obtain.

## Long-term borrowing

Long-term borrowing relates to funds borrowed for periods longer than two years. This type of borrowing can be secured or unsecured, and interest rates are usually variable. This borrowing is used to finance real estate, plant and equipment. The most common long-term borrowing is a mortgage.

## Loan

A business loan is a loan intended for business purposes. The owner may use a business loan to start their business. It may be taken out as a secured or unsecured loan. A secured loan might come with a lower interest rate, but the owner will need to offer up another asset (such as their home or another business) as security against the loan. An unsecured loan does not require any collateral, but it might have a higher interest rate.

A **mortgage** is a loan secured by the property of the borrower (the business). The property that is mortgaged cannot be sold or used as security for further borrowing until the mortgage is repaid. Mortgage loans are used to finance property purchases, such as new premises, a factory or an office. These loans are repaid, usually through regular repayments, over an agreed period, such as 15 years.

Before approaching a lender, a business will need to consider how much finance needs to be borrowed, the type of loan that is needed, for how long the finance is needed, and whether or not the loan, the interest payments and any fees are affordable.

## Leasing

**Leasing** is a long-term source of borrowing for businesses. It involves paying money to use equipment that is owned by another party. Leasing enables a business to borrow funds and use the equipment without the large capital outlay required. The **lessee** uses the equipment, and the **lessor** owns and leases the equipment for an agreed period.

Leasing of machinery and motor vehicles is common in business. A lease cannot usually be cancelled without incurring a financial penalty.

Some of the advantages of leasing as a source of finance are:

- It provides long-term financing without reducing control of ownership.
- It permits 100 per cent financing of assets.
- Lease payments are a tax deduction.
- Repayments of the lease are fixed for a specific period so cash flow can more easily be monitored.

However, a disadvantage of leasing is that interest charges may be higher than other forms of borrowing. The business must have a regular cash flow to make the repayments for the lease.



### DID YOU KNOW?

Expensive items such as land and buildings, new technology, industrial and office equipment are often leased. Leasing is especially recommended for equipment that becomes obsolete very quickly, such as computers.

## study on

Unit 1 > AOS 3 > Topic 1 > Concept 6

**Debt — an external source of finance** Summary screen and practice questions

Unit 1 > AOS 3 > Topic 1 > Concept 7

**Debt vs. equity** Summary screen and practice questions

### 3.4.3 External sources of finance: grants

Governments can also provide finance to businesses in the form of grants for business development, especially to promote exports. Funds can be obtained to start a business through both federal and state governments, such as the Victorian Government's 'Grow Your Business' grants program. Grants are administered through business development departments or small business development centres, which advise individuals on setting up and administering a business. Federal and state government grants must meet the conditions imposed and be used for a specific purpose.

Melbourne City Rooftop Honey aims to help save honey bees by encouraging them into the city and suburbs through the deployment of hives on the roof spaces of cafés, restaurants and hotels in and around Melbourne. The business received grants to assist with starting up and for purchasing materials and equipment, including a \$1000 grant from the Awesome Foundation and a \$28 000 City of Melbourne grant.



### 3.4.4 Factors affecting the choice of finance

As you have seen, there are many different sources of finance available to a business owner when planning a business. Deciding which option is best suited for the business requires the owner to consider a range of factors relating to both the sources of finance, and the purpose for which the finances will be used.

#### Terms of finance

The **terms of finance** need to suit the purpose for which the funds are required. Using short-term finance to fund long-term assets, for example, may cause financial problems. The amount borrowed will be repaid before the long-term assets have had time to generate cash flow. Using long-term finance to fund short-term assets means the business may be paying the mortgage long after the asset has ceased generating cash flow, and profits will be reduced.

#### The business structure

The business structure can also influence financial decisions. Large businesses have more opportunities for equity capital than small businesses. Most small businesses have to raise equity from private sources or by taking on a partner.

## Overall cost

As is the case with all business decisions, the overall cost of each alternative source of finance will be the most important factor. The business needs to calculate the projected costs of each source of finance in order to make a well-informed decision when planning for its financial needs. This can be relatively easy to do when comparing sources of finance that have clearly defined rates of interest and terms. It can be far more difficult when taking on an investor or partner who will receive a share in the profits from business. An owner must project the future profits and value of the business in order to determine what a share of the business is worth. Undoubtedly, the investor would do the same before considering to buy into the business.

It is important to calculate the overall cost of each source of finance when comparing the available options.



## Flexibility

A business's circumstances can change quite rapidly, and these changes may often be completely outside of its control. As circumstances change, the way in which the business has sourced its finance previously may no longer be suited to its needs. In such instances a business would benefit from having the flexibility to adjust the terms of the financial agreement or having the option of exiting the agreement entirely. A business that enters into a lengthy agreement without this kind of flexibility runs the risk of paying unfavorable expenses, such as interest on a loan that is no longer needed.

These days, financial institutions recognise the need for flexibility and offer a variety of flexible options to businesses seeking finance. A business owner must do their due diligence and read the fine print of any contract they sign to ensure they are not locking themselves into a financial agreement that will incur hefty fees if they choose to exit the contract.

## Level of control

Business owners dedicate a great deal of time, effort and money into their businesses. Businesses are often a reflection of the owner's character and personality and, as such, most owners wish to retain as much control over their business as possible. This level of control can often be undermined if the business sources its finances externally. Partners and investors who wish to see a greater return on their investment may have other ideas about how the business should run, and this can be a source of conflict that can undermine the owner's level of control over the business.

### 3.4 Activities

#### TEST your understanding

1. What is the difference between equity and debt?
2. Prepare a table using two columns to list the advantages and disadvantages of using equity to finance a business.
3. Prepare a table using two columns to list the advantages and disadvantages of using debt to finance a business.
4. Compare the main forms of debt by completing the following table.

| Form of debt   | Main features | Advantages/disadvantages |
|----------------|---------------|--------------------------|
| Bank overdraft |               |                          |
| Bank bills     |               |                          |
| Leasing        |               |                          |
| Trade credit   |               |                          |
| Loan           |               |                          |

- Why is it important to match the term of a loan to the life of the asset for which the loan was obtained?
- Briefly describe five factors that a business should consider when deciding on a source of finance.

### APPLY your understanding

- In groups of three or four, collect five advertisements offering different types of finance funding for businesses. Use information from magazines, banks and internet sites. Compare the offers under the headings in the following table. Display your findings in the classroom.

| Source | Interest rate | Borrowing limit | Terms | Main advantage |
|--------|---------------|-----------------|-------|----------------|
|        |               |                 |       |                |
|        |               |                 |       |                |
|        |               |                 |       |                |

- Use the **Business Victoria Grants and Assistance** weblink in the Resources tab to outline one grant available for business owners.
- Use the **Austrade** weblink in the Resources tab to evaluate the benefits of Austrade's Export Market Development Grants to businesses.

### EXAM practice

- Jordy is planning to finance his new business using funds provided by his family. Outline one other source of finance that Jordy might use to start his business. **(2 marks)**
- Polly is hoping to finance her business using crowdfunding. Discuss Polly's decision to use crowdfunding as a source of finance. **(4 marks)**
- Analyse how decisions about finance will affect business planning. **(4 marks)**



#### Resources



Weblink: Business Victoria Grants and Assistance



Weblink: Austrade

## 3.5 Purchasing an existing business or establishing a new business

**KEY CONCEPT** When going into business, it is very important to carefully consider the costs and benefits of purchasing an existing business as opposed to establishing a new business.

When planning a business, a prospective business owner will need to consider whether to purchase an existing business or to establish a new business. This decision will affect business planning, and ultimately the success of the business, because each option has a number of advantages and disadvantages.

### 3.5.1 Purchasing an established business

When an established business is purchased, the business is already operating and everything associated with the business is included in the purchase — that is, the stock and equipment, business premises, employees, an existing customer base, and reputation and **goodwill**.

When purchasing an existing business it is essential for the potential purchaser to know why the business is for sale. If the business has been struggling, it may not be a good purchase. Not only should the prospective owner find out why the current owner is selling, but also they should examine detailed accounts for at least the previous three years to determine the financial health of the business. One aspect of the financial statements that is often hard to estimate is the true value of goodwill. The seller of the business may overestimate the value of the reputation of the business, so consultation with an accountant is important to confirm the accuracy of the value placed on goodwill by the seller.

#### The costs and benefits of purchasing an existing business

| Benefits                                                                                                                                                                                                                                                                                                                                                                                                                                                                                         | Costs                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                     |
|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <ul style="list-style-type: none"><li>• Sales to existing customers generate instant income.</li><li>• A good business history increases the likelihood of business success.</li><li>• A proven track record makes it easier to obtain finance.</li><li>• Stock has already been acquired and is ready for sale.</li><li>• The seller may offer advice and training.</li><li>• Equipment is available for immediate use.</li><li>• Existing employees can provide valuable assistance.</li></ul> | <ul style="list-style-type: none"><li>• The existing image and policies of the business may be difficult to change, especially if the business has a poor reputation.</li><li>• The success of the business may have been due to the previous owner's personality and contacts, so may be lost when the business is sold.</li><li>• It may be difficult to assess the value of goodwill, with the likelihood of the new owner paying more than the goodwill is worth.</li><li>• Some employees may resent any change to the business operation.</li></ul> |

#### study on

Unit 1 > AOS 3 > Topic 2 > Concept 1

**Purchasing an existing business** Summary screen and practice questions

### 3.5.2 Starting a new business from scratch

The most common reason for setting up a new business is the recognition of a gap in the market — where it is clear that existing providers are not catering to the demand for particular goods or services. Another reason for setting up a new business is the development of new goods or services — when a person who has created something unique chooses to go into business to market their innovation or invention. Attempting to enter a market that is already well served by existing businesses involves having to attract customers away from competitors.

#### The costs and benefits of setting up a new business

| Benefits                                                                                                                                                                                                                                                                                                                                    | Costs                                                                                                                                                                                                                                                                                                                                                                                                     |
|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <ul style="list-style-type: none"><li>• The owner has the freedom to set up the business exactly as he or she wishes.</li><li>• The owner can determine the pace of growth and change.</li><li>• There is no goodwill for which the owner has to pay.</li><li>• If funds are limited, it is possible to begin on a smaller scale.</li></ul> | <ul style="list-style-type: none"><li>• There is a high risk and a measure of uncertainty.</li><li>• Without a previous business reputation, it may prove difficult to secure finance.</li><li>• Time is needed to develop a customer base, employ staff and develop lines of credit from suppliers.</li><li>• If the start-up period is slow, then profits may not be generated for some time.</li></ul> |

### DID YOU KNOW?

A business can choose to avoid many of the problems of starting up a business from scratch by entering into a **franchise** agreement. Under a franchise agreement a person buys the rights to use the business name and distribute the goods or services of an existing business. We will look more closely at franchises when we examine business models later in the chapter.

### on Resources

 **Weblink:** Steps for starting up

## 3.5 Activities

### TEST your understanding

1. Identify and explain the two most significant benefits and costs of buying an existing business.
2. In what circumstances might someone choose to start a business from scratch?
3. Identify and explain the two most significant benefits and costs of starting a new business from scratch.
4. What is a franchise agreement?
5. How might operating as a franchise address some of the problems associated with starting a business from scratch?

### APPLY your understanding

6. Bianca was tired of working for someone else and decided to start her own business. She lives in a small Victorian country town with a population of approximately 2500. The town has no major shopping centre and no established franchises. Bianca decided to open a café in the town. Her mother provided the funding for the business and gave her what little advice she could. After only six months, Bianca realised that the business was not profitable. Her debts were increasing and she could see no way out of her problems. She wanted to sell the business but could not find a buyer.
  - (a) Would it have been wiser for Bianca to purchase an established business rather than starting from scratch? Give reasons for your answer.
  - (b) What advice would you give to Bianca?
7. Select a business that you buy from regularly and answer the following questions:
  - (a) Why do you use this particular business?
  - (b) What are the strengths and weaknesses of this business?
  - (c) If this business were for sale, would you consider purchasing it? Give reasons for your answer.

### EXAM practice

8. Tori is trying to choose between purchasing an existing business and establishing a new business. She has never owned a business before, but she does have experience working in a number of retail stores. Tori has been offered the opportunity to purchase the business for which she currently works; however, she is wondering if it might be better to start a totally new business from scratch. Identify an appropriate option for Tori and justify your response. **(3 marks)**
9. Distinguish between the costs and benefits of purchasing an existing business and the costs and benefits of establishing a new business. **(4 marks)**
10. Explain how the decision whether or not to purchase an established business will affect business planning and ultimately the success of the business. **(2 marks)**



## 3.6 Types of legal business structure: sole traders and partnerships

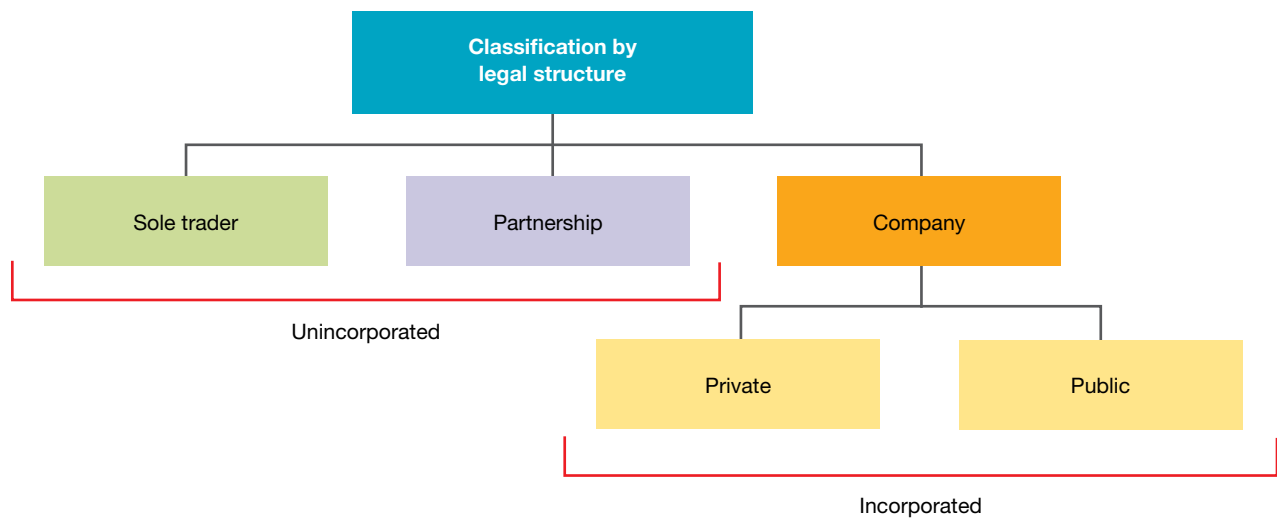
**KEY CONCEPT** A number of different legal ownership structures are available to a person wishing to establish a business. Each structure carries particular legal requirements and responsibilities, and must be carefully chosen to suit the needs of the business. Two types of legal business structure are sole trader and partnership.

### 3.6.1 Different types of legal structure

A number of different legal structures are possible when deciding how to own and operate a business. The three main types of privately owned **business entity** are shown in the following figure, and they can be further divided into:

- unincorporated business entities: sole traders and partnerships
- incorporated business entities: privately and publicly owned companies.

The three main types of privately owned business entity



Incorporation refers to the process that companies go through to become a separate legal entity from the owner/s. An **incorporated** business has its own separate legal existence. Regardless of what happens to individual owners (shareholders) of the company, the business can continue to operate.

An unincorporated business has no separate legal existence from its owner(s), and will be either a **sole trader** or partnership. The most common legal structure for businesses in Australia is the unincorporated enterprise, because this structure is the easiest and cheapest to establish.

#### study on

Unit 1 > AOS 3 > Topic 2 > Concept 3

**Incorporated vs. unincorporated** Summary screen and practice questions

### 3.6.2 Sole trader business

A sole trader (proprietor) business has one person who owns and runs the business. The owner may employ other people to work in the business, but the owner or sole trader is the person who provides all the finance, makes all the decisions and takes all the responsibility for the operation of the business.

This type of business is easy to establish, as the only legal requirement for a sole trader is that the name of the business be registered with the Australian Securities and Investments Commission (ASIC) — but this is only if the business name is different from the name of the owner.

A sole trader is not regarded as a separate legal entity — that is, the owner and the business are regarded as the same. This means that if the business is sued, then the owner is sued. Also, if the business enters a legal contract, then the owner is the one entering the contract. If the business runs into financial difficulties, the owner has the financial problem and is personally responsible for any business debts. This responsibility is known as **unlimited liability**, and may involve the owner having to sell personal assets, such as property or motor vehicles, to pay for the liabilities of the business.

The advantages and disadvantages of being a sole trader



#### Factors to consider

When planning, and deciding on the legal structure of a business, a prospective business owner should carefully evaluate the advantages and disadvantages of operating as a sole trader. Some key factors for consideration include the following:

- Is the owner prepared to risk the unlimited liability of operating their business?
- Will the owner have enough finances, skills and expertise to establish and grow the business?
- Is the owner prepared to take complete responsibility of the business in exchange for complete control and the right to keep all profits?
- Does the lower cost of establishing and maintaining a business as a sole trader outweigh the benefits of incorporation?

### 3.6.3 Partnership

A **partnership** is also an unincorporated business ownership structure. Most partnerships require a minimum of 2 and a maximum of 20 partners. There are exceptions to this rule, including medical practitioners and stockbrokers (allowed up to 50 partners); veterinarians, architects and chemists (allowed up to 100 partners); and solicitors and accountants (allowed up to 400 partners). A partnership is similar to a sole trader in that the owners and the business are regarded as the same — that is, there is no separate legal entity. Like sole traders, the partners in a business are also subject to unlimited liability, and so may be personally responsible for the debts of the business.

A partnership can be made verbally or in writing, or by implication (that is, if two people set up a business together *without* a legally binding partnership agreement). A written partnership agreement is not compulsory, but it is certainly worthwhile if disputes arise. A partnership agreement usually has a standard set of conditions.

Limited partnerships were introduced to allow one or more partners to contribute financially to the business but take no part in running the partnership. In this case, the partner is referred to as a **silent** or **sleeping partner**. The main reason for their investment is to add more capital or finance to an existing partnership.



### Factors to consider

When planning, and deciding on the legal structure of a business, a business owner or owners should carefully evaluate the advantages and disadvantages of operating as a partnership. Some key factors for consideration include the following:

- Are the owners prepared to risk the unlimited liability of operating their business?
- Will the prospective partners have enough finances, skills and expertise to establish and grow the business?
- Do the individuals believe that their prospective partners will act in the best interests of the business?
- Is each individual certain that their prospective partners will not expose them to personal debts?
- Can the prospective partners foresee disputes arising due to a clash of personalities or opinions?

### DID YOU KNOW?

A partnership agreement contains many points including:

- how long the partnership will exist
- the amount of money that each partner contributes
- how the profits and losses will be shared
- the duties of each partner
- limitations on the authority of the partners
- how the partnership may be dissolved
- methods of resolving disputes.

### EXAM TIP

One of the **Unit 1, Area of Study 3** key skills states that you need to be able to 'discuss the decisions made in response to the internal factors that affect a business'. This suggests that you should know the advantages and disadvantages of each type of legal business structure.

## 3.6 Activities

### TEST your understanding

1. Distinguish between an incorporated business and an unincorporated business.
2. Suggest why unincorporated businesses are the most common form of legal business structure.
3. Under what circumstances will a sole trader not need to register a business name?
4. Identify what you believe to be the three main advantages and three main disadvantages of a sole trader form of business ownership. Explain each selection.
5. Outline the factors that a prospective business owner should consider when evaluating sole trader as a possible legal structure.
6. Explain the difference between a sole trader and a partnership.
7. What factors should a prospective business owner consider when evaluating a partnership as a possible legal structure?

### APPLY your understanding

8. Using a telephone directory, such as the Yellow Pages, find:
  - (a) five examples of sole traders or partnerships that would not have to register their business name
  - (b) five examples of businesses that would have to register their name.
9. Adam operates a pizza and pasta shop as a sole trader and he employs two cooks, one full time and one part time. He decides to offer the full-time cook a 40 per cent partnership in the business.
  - (a) What advantages will the owner gain from this arrangement that he does not have as a sole trader?
  - (b) What disadvantages could the owner experience from the partnership arrangement?
  - (c) Explain the advantages and disadvantages to the cook of entering into the partnership.
  - (d) Prepare a list of questions the cook should ask the owner before entering into the partnership

### EXAM practice

10. Outline the similarities and differences between a sole trader and a partnership. **(4 marks)**
11. Discuss partnership as a type of legal business structure. **(4 marks)**
12. Analyse how a business owner's decision to operate as a sole trader may affect the planning for their business. **(4 marks)**

## 3.7 Types of legal business structure: companies

**KEY CONCEPT** Incorporation allows a business to become a company, which is a legal entity separate from its owners, and which provides the benefits of limited liability to those owners. Two types of company are private limited companies and public listed companies.

### 3.7.1 Incorporation

Many businesses which have begun as sole traders or partnerships may find that, as their business grows, there are advantages to changing the ownership structure to that of a company. This process is known as **incorporation**. Once incorporated, the company has a separate legal identity to its owners, who are now known as **shareholders**.

Incorporation also brings to the shareholders the benefits of **limited liability**. In limited liability companies, the most money that a shareholder can lose is the amount that he or she paid for their shares. If the company goes into liquidation, the shareholders cannot be forced to sell their personal assets to pay for the debts of the business. This same protection does not extend to the directors of a company, as they have an obligation to ensure the company obeys the law and acts in the interests of the shareholders.

The letters 'Ltd' signify that a business is a company that has limited liability. A company can be organised as either a proprietary (private) or public company.

### 3.7.2 Proprietary (private) companies

A **proprietary** (or private) **company** is the most common type of company structure in Australia, and must have at least 1 shareholder and a maximum of 50 non-employee shareholders (shareholders who aren't employees of the company). A private company must also have at least one director. Therefore, it is quite possible for a private limited company to be owned by a single shareholder, who is also the director of the company. Proprietary companies tend to be small to medium-sized, family-owned businesses. In many cases, one family owns most of the shares in a proprietary company.

Shares in a proprietary company are offered only to those people whom the business wishes to have as part owners (or members). Shareholders can sell their shares only to people who are approved by the other directors. This is why it is called a 'private' company. It is not listed on, and its shares are not sold through, a stock exchange. A private company must have the words 'Proprietary Limited', abbreviated to 'Pty Ltd', after its name.

There are over 2000 public companies listed on the Australian Securities Exchange. The ASX is Australia's share market but is open to overseas investors. Investors may buy shares in a company if they feel it is undervalued, driving up the price of its shares. Rising share prices will show the company as green. If the share price of a company falls because of a lack of confidence from investors, it will be displayed as red.

### 3.7.3 Public listed companies

The shares for public companies are listed on the Australian Securities Exchange (ASX), and the general public may buy and sell shares in those companies. Whereas private companies tend to be small or medium-sized businesses, most public companies are large in size and market a large range of products — for example, Telstra, BHP Billiton, Woolworths, Virgin Australia and Westpac.



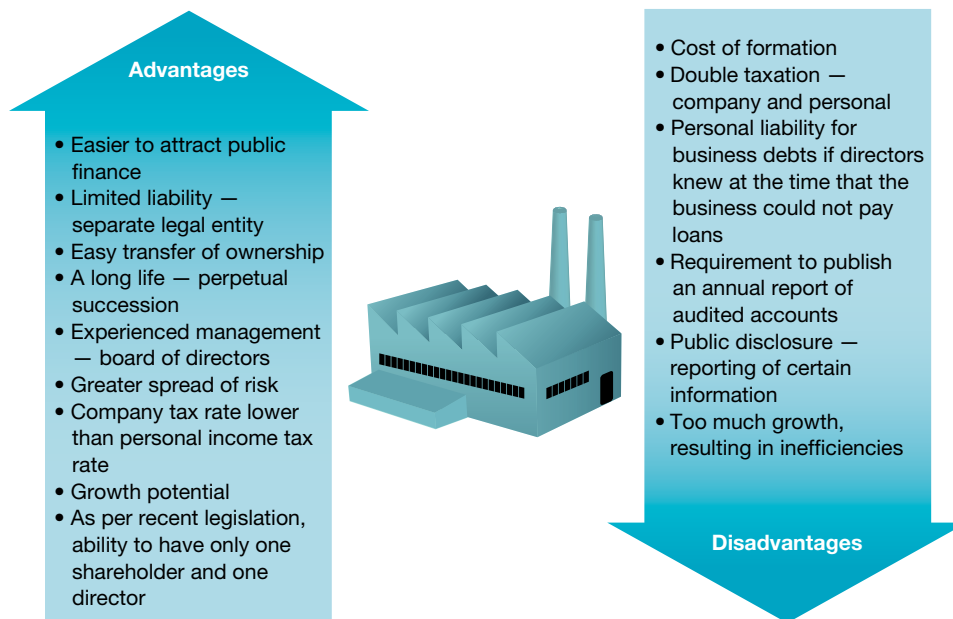
| STOCK     | BID   | OFFER | LAST  | VOL | STOCK          | BID   | OFFER |
|-----------|-------|-------|-------|-----|----------------|-------|-------|
| ELI GROUP | 0.060 | 0.070 | 0.000 | 0   | FARM PRIDE     | 0.100 | 0.140 |
| ELI HOLD  | 0.038 | 0.140 | 0.000 | 0   | FE LIMITED     | 0.026 | 0.030 |
| ELIOP GAS | 0.325 | 0.335 | 0.335 | 777 | FEDAX          | 0.120 | 0.130 |
| ELIOP     | 1.000 | 1.020 | 1.000 | 47  | FERROWEST      | 0.024 | 0.033 |
| EVOLUTION | 1.935 | 1.940 | 1.935 | 2M  | FERRUM         | 0.052 | 0.057 |
| EVOLUTD   | 0.041 | 0.050 | 0.050 | 57  | FIDUCIAN       | 0.800 | 0.810 |
| EXAT RES  | 0.000 | 0.000 | 0.000 | 0   | FEAX           | 0.110 | 0.125 |
| EXAR      | 0.040 | 0.049 | 0.040 | 507 | FENAR          | 1.075 | 1.080 |
| EXCALBUR  | 0.001 | 0.002 | 0.000 | 0   | FINDERS        | 0.200 | 0.220 |
| EXOLA     | 0.010 | 0.020 | 0.000 | 0   | FIRESTONE      | 0.008 | 0.009 |
| EXOLSON   | 0.180 | 0.185 | 0.180 | 307 | FIRSTFOLD      | 0.014 | 0.015 |
| EXOL RES  | 0.280 | 0.285 | 0.280 | 5H7 | FISSEIN EN     | 0.020 | 0.035 |
| EXOMA ENR | 0.072 | 0.075 | 0.072 | 357 | FITZROYRES     | 0.049 | 0.068 |
| EXULAX    | 0.430 | 0.480 | 0.000 | 0   | FLATGLASS      | 0.225 | 0.230 |
| EXULFO    | 3.380 | 3.500 | 0.000 | 0   | FLATGLASS STAF | 0.050 | 0.190 |
| EXULURE   | 0.020 | 0.033 | 0.000 | 0   | FLEETWOOD      | 10.21 | 10.23 |
| EXULR     | 0.395 | 0.400 | 0.395 | 18M | FLEXIGROUP     | 3.360 | 3.370 |
| EXULMIN   | 0.009 | 0.010 | 0.009 | 3M  | FLIGHT CTR     | 24.89 | 24.90 |
| EXULR CO1 | 0.025 | 0.028 | 0.000 | 0   |                |       |       |
| EXULR     | 0.007 | 0.008 | 0.000 | 0   |                |       |       |
| EXULR     | 2.830 | 2.840 | 2.830 | 2H7 |                |       |       |
| EXULR     | 0.034 | 0.035 | 0.034 | 0   |                |       |       |



A public company has:

- a minimum of one shareholder, with no maximum number
- no restrictions on the transfer of shares or raising of money from the public via share offers
- a requirement to issue a **prospectus** when selling its shares for the first time
- a minimum requirement of three directors (of whom two must live in Australia)
- the word 'Limited' or 'Ltd' in its name
- a requirement to publish its audited financial accounts each year — the annual report.

#### The advantages and disadvantages of the company form of business ownership



### Factors to consider

When planning, and deciding on the legal structure of a business, a business owner should carefully evaluate the advantages and disadvantages of incorporation before choosing to operate as a private or public company. Some key factors for consideration include the following:

- Does the owner need the extra legal security offered by limited liability?
- Will the business need public finance, as is possible with a public company?
- Will the owners be willing to relinquish control of the company to unknown investors by going public?
- Is it worth the extra costs associated with establishing a company and preparing separate yearly tax returns?

### DID YOU KNOW?

The majority of registered companies in Australia are private limited. In 2016, ASIC reported that there were 2 349 382 private limited companies, representing 99 per cent of all registered companies.

### study on

Unit 1 > AOS 3 > Topic 2 > Concept 5

**Private and public companies** Summary screen and practice questions

## 3.7 Activities

### TEST your understanding

1. Why might a business choose to become incorporated as it grows?
2. Who are the owners of a company and what are they entitled to?
3. Explain the significance of limited liability for shareholders in a company.
4. Identify what you believe to be the three main advantages and three main disadvantages of a company form of business ownership. Explain each selection.
5. Explain the key differences between a proprietary company and a public company.
6. Outline the factors that a prospective business owner should consider when evaluating the possibility of an incorporated legal business structure.

### APPLY your understanding

7. You are planning to establish the following types of business. What form of business ownership would you prefer? In each case, explain why you would choose that form of ownership.
  - (a) A bicycle shop offering professional and personal advice
  - (b) A cattle stud specialising in a large-scale breeding program
  - (c) A wheat farm, with a flour mill operated by you and eight other farmers
  - (d) A travel agency that you wish to expand to five outlets within two years
  - (e) A national retailer that would require \$467 million to establish
  - (f) A solicitor's practice offering a range of legal services
8. Construct a table with four columns labelled like the example below. From the list of businesses provided, write each name in the correct column for its particular legal structure/entity. An example has been completed for you.

- |                        |                       |                            |
|------------------------|-----------------------|----------------------------|
| • Fairfax Limited      | • M&M Communications  | • Tip Top Bakeries Pty Ltd |
| • Management Trustees  | • Paul Banwell Motors | • Ozemail Limited          |
| • David Tyler & Sons   | • Perpetual Trustees  | • Tynan Motors Pty Ltd     |
| • Jacinta's Newsagency | • Newcrest Mining Ltd | • Sue King Plumbing        |
| • R&R Antiques Pty Ltd |                       |                            |

| Sole trader              | Partnership | Private company | Public company |
|--------------------------|-------------|-----------------|----------------|
| Ray Coulton<br>Carpentry |             |                 |                |

### EXAM practice

9. Explain the difference between the liability of a sole trader and the liability of a public limited company. **(2 marks)**
10. Discuss the use of a private limited company as a type of legal business structure. **(4 marks)**
11. Analyse how a business owner's decision to use an incorporated business structure may affect the planning for their business. **(4 marks)**

## 3.8 EXTEND YOUR KNOWLEDGE The right legal structure for the business

**KEY CONCEPT** Choosing the most appropriate type of legal structure for the business is an important planning decision. Whether the business takes on a sole trader, partnership, private limited company or public listed company structure depends on the requirements of the business and its owner.

When planning for a business, the owner or owners will need to consider what type of legal business structure is most suitable. Many businesses have started small, experienced growth and have then gone on to become large

private limited companies or public listed companies. However, many businesses operating as sole traders or partnerships decide to remain with these business structures. They may do this for reasons such as maintaining control over the business, remaining flexible and sensitive to the needs of customers, minimising costs, and keeping simple accounting processes and legal responsibilities.

Choosing the right legal structure for the business when planning is very important. The legal business structure will affect the owner's responsibility, their possible personal liability and the amount of ongoing costs and administrative work.

## SOLE TRADERS DOING IT ALL BY THEMSELVES

The sole proprietor is often seen as a lonely figure battling against the elements, doing it all on their own.

But what might surprise you is that many sole proprietors — and small business owners with less than four employees — prefer it that way because of a combination of factors, such as control, expense and seeking value for dollar.

'I have seen many friends and associates having spent thousands and being left high and dry without the outcomes the service provider promised,' Helen D'Silva, a private practising psychologist says.

'They are struggling to pay for their own mortgage, rent, food and bills are constantly behind and not paid. For me, that stress is not worth it and it inspires me to find better ways.

'I am also mindful of how my money is spent and feel it's important to be able to have educated conversations with service providers when the time comes to be able to start paying people to do work for me.'

D'Silva has been in private practice since 2012 when she quit her job due to burnout.

'Working independently has its pluses and minuses,' she says. 'I am and feel in control.'

### Soaring number of sole traders

D'Silva is far from on her own when it comes to being a sole proprietor.

According to the Australian Bureau of Statistics, between June 2015 and June 2016 the highest number of business entry rates was for sole proprietors — at 18.6 per cent.

As of June 2016, 60.7 per cent of actively trading businesses in Australia had no employees, while 27.6 per cent had one to four employees, which comprises 88.3 per cent of the employment market.

'Time management is difficult,'

D'Silva says. 'I get distracted easily.

I get caught in the love of learning about

marketing and digital marketing specifically. I co-work which makes me accountable to turn up and be there to do work. Being an extrovert, I go crazy if I'm not around people for a long time.'

D'Silva is confident her business will grow substantially in future years despite a slow start. 'Sadly, my income is under \$100 000 but I have committed that this is the last year I will ever earn under that amount.'

**Source:** Extracts from L White 'Sole traders doing it all by themselves', *The Age*, 11 May 2017.

Many sole traders such as Helen D'Silva make the decision to stay small.



Many business owners find themselves in the position where they need to consider incorporation when undertaking business planning. The main difference between a private limited company and a public listed company is that a public listed company has shares that can be traded publicly on the Australian Securities Exchange (ASX). A private limited company might become a public listed company by offering shares of the company to the public. This is called an initial public offering (IPO) and is sometimes referred to as a 'float'. However, there are other differences between the two legal business structures and many other factors to consider before making a final decision. The management of a public company is much more focused on meeting the expectations of shareholders and increasing the value of the company than a private limited

company. There is also greater public scrutiny of public companies. Because public listed companies are partially owned by the public, they are obliged to disclose corporate financial information. They must also observe stringent compliance rules.

On the other hand, a public listed company can access more funds by issuing shares to the public. A private limited company can only have a minimum of 1 and up to a maximum of 50 shareholders who are not employees of the company. A private limited company may only offer shares to shareholders of the company or employees/subsidiaries of the company. This limits the amount of capital the company will have access to, and therefore also limits the growth potential of the business.

## MYER'S STRUGGLE

Myer is Australia's largest and perhaps its best-known department store group. Today, Myer has more than 60 stores across Australia, employs 12 500 staff and has 50 000 shareholders. Myer's merchandise includes womenswear; menswear; Miss Shop (Youth); childrenswear; intimate apparel; beauty, fragrance and cosmetics; homewares; electrical goods; toys; footwear, handbags and accessories; and general merchandise. The business has fluctuated between being a private limited company and a public listed company.

Sidney Myer and his elder brother opened the first Myer store in Bendigo in 1900. A few years later, Sidney established a department store that later became the Myer Emporium in Bourke St, Melbourne. This store is still trading and is considered to be the flagship in the Myer department store chain.

Over the course of its history, Myer has alternated between being a private limited company and a public listed company.



## Growth of the business

The Myer business grew, and in 1925 Myer Emporium Ltd was incorporated and listed on the Melbourne Stock Exchange. The business continued to expand. Myer led the way in the development of regional shopping centres, including Chadstone Shopping Centre. Following a number of acquisitions, Myer merged with Coles in 1985 and became Coles Myer Limited — Australia's largest retailer at the time and one of the largest in the world. Following a period during which Myer department stores under-performed, Coles Myer sold Myer to a consortium (a group of individuals or businesses that pool finances to achieve a common goal) led by US private equity group Newbridge Capital, part of the Texas Pacific Group. The consortium included members of the Myer family, who retained a 5 per cent stake in the company. Myer was therefore de-listed from the Australian Securities Exchange (ASX) and became a private limited company (Myer Pty Ltd).

Myer stores returned to profitability. In 2009, Myer announced that it would be floating the business on the sharemarket; it was listed on the ASX in November that year. The final issue price was \$4.10, and Myer's market capitalisation (the total value of its shares) was approximately \$2.4 billion. Once again, Myer had become a public listed company.

Myer implemented a turnaround plan in 2015 for the company following a decline in net profit. The plan, known as 'New Myer', involved online ordering and 'click and collect' hubs in stores, the removal of a large number of brands to make way for new brands, a greater focus on 'high value' customers wanting to stay up to date with fashion and job cuts. Following implementation of the turnaround plan, there was some improvement in Myer's financial performance. However, in late 2017, Myer announced that sales had continued to fall, sales revenue had fallen and that its full-year profit was only \$11.9 million (80 per cent less than the previous year's profit). Myer's share price reached a historic low of 34.5 cents in April 2018.



## THE GROWTH OF JB HI-FI

JB Hi-Fi is a popular Australian-based electronics and home goods retailer. John Barbuto established the business as a single store in Keilor East in 1974. His vision was to deliver a specialist range of Hi-Fi and recorded music to customers at the lowest prices.

Barbuto sold the business in 1983; by 1999 the new owners had expanded JB Hi-Fi by opening another nine stores in Melbourne and Sydney. In July 2000, the majority of JB Hi-Fi was sold to private equity bankers and senior management. Their plan was to grow the business throughout Australia.

In October 2003, JB Hi-Fi was floated on the ASX, thereby becoming a public listed company. Its shares listed at \$2.20. The chairman at the time, Patrick Elliott, said that while it was pleasing to

see JB Hi-Fi trading strongly, the company was focused on ensuring its core business remained strong, so that its stores would continue to trade well and that new stores could open according to plan.

When it first opened, JB Hi-Fi specialised in Hi-Fi equipment. It has diversified to focus on consumer electronics, including televisions, audio/visual, digital camera photography, portable audio and in-car entertainment, software (including music, games and movies), whitegoods and appliances. In 2016, JB Hi-Fi took over one of its competitors, The Good Guys. The acquisition accelerated the company's plans to grow by building market share in the whitegoods, kitchenware and general home appliances sectors. The business now has more than 400 stores across Australia and New Zealand, including more than 300 JB Hi-Fi stores and more than 100 The Good Guys stores. The business employs more than 11 000 staff.

In 2016, JB Hi-Fi's share price reached a historic high of \$31.20. In 2017, JB Hi-Fi announced a record full-year profit of \$172 million (13 per cent higher than the previous year's profit).

JB Hi-Fi became a public listed company after it floated on the ASX in 2003.



## RIP CURL STAYS PRIVATE

Rip Curl has always resisted the temptation to become a public listed company. Doug 'Claw' Warbrick and Brian 'Sing Ding' Singer founded the business in 1969 when they began manufacturing surfboards in a garage in the coastal town of Torquay. Rip Curl has grown to become one of the largest designers, manufacturers, and retailers of board wear in Australia, New Zealand, Europe, North and South America, and South Africa. Rip Curl employs more than 2000 people.

Rip Curl's global head office is still located in Torquay. The business also continues to be controlled by its founders, who jointly own 72 per cent of the company. Despite moments when

Rip Curl has chosen to remain a private limited company.





they considered an initial public offer or a trade sale, the business has remained in the hands of its original owners. Warbrick and Singer have said that they intend to leave the company at some point. In late 2017, for example, Rip Curl management was understood to be negotiating a sale, with Warbrick and Singer planning to sell their entire interest. However, no such sale eventuated.

Rival businesses Quiksilver and Billabong have pursued different paths. Quiksilver listed on the New York Stock Exchange in 1998 and Billabong listed on the ASX in 2000. After financial troubles and a series of failed acquisitions, Quiksilver filed for bankruptcy in 2015. It became privately owned after Oaktree Capital Management (an American global investment management business) became the majority shareholder. The name of the company was changed to Boardriders in 2017. Following a string of losses, including a net loss of nearly \$300 million in 2012 and an even bigger loss of \$860 million in 2013, Billabong's shares were purchased by Boardriders in 2018. Quiksilver and Billabong now share the same parent company. Billabong became a private company, which meant it was taken off the Australian share market.

Rather than seeking growth through going public, Rip Curl has used a licence system whereby it sells its technology, designs and ideas to enable it to expand globally. Rip Curl products are now made and sold by nine corporate licensees around the world. The company has found that by staying private, it can focus on its core business (selling surfwear products). Unlike its competitors, which grew by moving into other markets, Rip Curl has been able to remain a surfing business providing surfing-related products that its customers want. Rip Curl's annual profit in 2017 was \$18.4 million, an improvement from the previous year's \$10.06 million.

## 3.8 Activities

### TEST your understanding

1. Explain why a business owner might decide to adopt a sole trader structure, rather than any other legal business structure, when planning their business.
2. Read the case study 'Sole traders doing it all by themselves'. Outline the reasons that Helen D'Silva gives for continuing to own and operate her business independently.
3. Under what circumstances might it be beneficial for a business owner to plan for a private limited company structure rather than a public listed company structure?
4. Explain why it might be beneficial for a business owner to plan for a public listed company structure rather than a private limited company structure.
5. Read 'Myer's struggle'. Describe Myer's experience as a private limited company and as a public listed company.
6. Myer seems to have struggled financially when operating under a public listed company structure. Why do you think this might be the case?
7. Read 'The growth of JB Hi-Fi'. Describe JB Hi-Fi's experience as a private limited company and as a public listed company.
8. In what ways has JB Hi-Fi taken advantage of the public listed company structure?
9. Read 'Rip Curl stays private'. Why has Rip Curl maintained a private limited company structure?

### EXTEND your understanding

10. Explain what a business owner needs to consider when planning and deciding on the legal structure of a business.
11. If you were planning a new business, which legal business structure would be most appropriate for you? Explain your response.
12. Effective planning should contribute to a business achieving its goals (i.e. for a company, profit). Shareholders benefit from this by being paid dividends (part of the company's profits), and if the company's share price rises they can make a capital gain (if they sell their shares). Good company performance, including making a profit, is just one factor in a company's share price performance, but it is an important one. The table on the following page lists the closing share price (closing means the last price the shares sold for at end of the day's trading) for Myer and JB Hi-Fi shares on 30 June since 2014.

- (a) Using online sources, find the most recent closing share price for Myer and JB Hi-Fi, and draw a line chart of Myer and JB Hi-Fi's performance.
- (b) Imagine you had purchased shares in both companies in 2014. Do you think your investment has performed well? If you cannot find a recent share price for either company, explain why this is the case.

| Date         | Closing share price for Myer (code MYR) | Closing share price for JB Hi-Fi (code JBH) |
|--------------|-----------------------------------------|---------------------------------------------|
| 30 June 2014 | \$1.98                                  | \$18.08                                     |
| 30 June 2015 | \$1.15                                  | \$19.24                                     |
| 30 June 2016 | \$1.12                                  | \$23.81                                     |
| 30 June 2017 | \$0.84                                  | \$23.37                                     |

13. Use the internet to research another business that makes use of an incorporated legal business structure. You could search for either a private limited company or a public listed company. Prepare a report that covers:
- the full name of the company
  - a brief history of the business
  - a description of the company's product/s
  - why the business became a company
  - the long-term plans for the company.

## 3.9 Types of business model

**KEY CONCEPT** There are a variety of different business models to consider when planning to establish a business. These models include online business, bricks and mortar business, social enterprise, franchise, importer and exporter.

### 3.9.1 The business model

A **business model** is the way in which the business will run its operations to generate a profit. It acts as a general framework for how the business will earn its income and function on a day-to-day basis. In many instances the business model arises in the earliest stages of planning for a business. When an entrepreneur with a business idea begins to develop plans as to how they might realise that idea, the core concepts of the business model begin to take shape. As circumstances change the business model may need to be adapted to reflect any changes in the way the business operates.

The following key elements may be considered as part of planning a business model:

- What is the main goal of the business?
- What type of goods or services will the business offer?
- How will the business sell these goods/services?
- Who are the target customers?
- What types of costs will the business expect to incur?
- Will a new business be established or will a franchise agreement be entered into?

There are countless different types of business model in operation today, reflecting the diverse nature of business in the twenty-first century. Some business models are based on traditional ways of doing business that have been in operation for centuries, while others are completely new. Let's look at a few different types of business model that a business may opt for as part of its planning.

## study on

Unit 1

AOS 3

Topic 2

Concept 6

**Business models** Summary screen and practice questions

### 3.9.2 Online business

Since the rapid growth of the internet in recent decades, the world of business has changed dramatically. Some of the fastest growing and most successful businesses of the twenty-first century have no factories, warehouses, shops, or any face-to-face customer contact. They exist solely on the internet, as well as having a small number of offices to support their online presence. Facebook, Google and YouTube are just some examples of small web-based business models that have grown to become some of the most successful around the world.

The rapid advancement of smartphone and internet-based technology has allowed online businesses to reach customers around the world like never before.



The increased accessibility of the internet through the use of smartphones has also opened the door to entrepreneurs who are able to take advantage of new business opportunities through products such as smartphone applications.

Online businesses have a distinct advantage over physical **bricks and mortar** stores because they are able to reach customers across the globe via the internet. They also avoid many of the expenses associated with having a physical store, such as rent and wages for shop staff.

The disadvantage of online businesses is that they expose the customer to the risk of theft when making payments online, as well as a greater risk of having unsatisfied customers who were not able to physically inspect an item prior to purchasing it.

Within the broad category of online businesses there are many different types of model under which businesses operate. What is common among them is that they often rely on a relatively small number of highly skilled workers to run their technical operations.

#### Advertising-based websites

Many websites offer free access to people on the internet and generate revenue through advertising. Other businesses will pay the website to feature their advertisements because it reaches their target markets. This is how many blogs have grown into successful businesses. After attracting enough followers a blog becomes an attractive space for advertisers.

#### Freemium

Some websites or applications, such as Spotify, attract a large customer base with their free service offers. They generate income through advertisements or the offer of a subscription premium service option.

## Brokerage

Websites such as eBay bring buyers and sellers together in exchange for a brokerage fee when sales are made.

## Merchant

Merchants are online sellers who operate through their own independent website or through the use of platforms such as eBay. These online retailers generally buy in bulk directly from manufacturers or wholesalers and sell the products to customers for a profit.

### 3.9.3 Bricks and mortar

Bricks and mortar is a term that refers to businesses that have a physical location such as a store in a shopping centre. Bricks and mortar business models have been around for many years and are the chosen business model for many of the biggest **retail**, **manufacturing** and **wholesale** businesses in the world.

Bricks and mortar retailers offer face-to-face customer interaction as well as the security that comes with being able to physically inspect or test a good prior to purchase. Despite this, bricks and mortar businesses are far more expensive to establish and maintain than their online counterparts and this can make it difficult for them to remain competitive on price.

It is important to note that many traditional bricks and mortar businesses have had to adapt their business model and establish an online presence to complement their physical stores. Such models are sometimes referred to as **‘bricks and clicks’**.

Traditional bricks and mortar businesses like Woolworths have also adapted to offer consumers the option of grocery shopping online with home delivery.



### 3.9.4 Social enterprise

While many people enter the business world solely to make a profit, there are some businesses that are dedicated to improving the world we live in. **Social enterprise** is a business model that aims to improve the wellbeing of others through its business activities. A social enterprise will often concentrate on a community or environmental need.

While profit is not the main objective of a social enterprise, a prospective business owner using this model must ensure that the business will be able to earn enough money to fund its continued operations. Any surplus or profit that the social enterprise makes will be reinvested back into the business so that it can continue to fulfil the social need.

In Australia, a social enterprise can operate in many ways — it can take the form of a charity, a cooperative (a business that is owned and operated by the group of members), or a privately owned business. A social enterprise will often run just like a commercial business. Unlike charities, social enterprises do not rely on donations as their main source of income. Some social enterprises will obtain funding from the government and/or assistance from the local community to support their social goal. A rapidly growing method of raising money for social enterprises is crowdfunding, whereby the enterprise appeals for small donations from a large number of people through social media and the internet.

The social enterprise business model does have a number of disadvantages. It can be difficult for a prospective business owner to obtain the finance necessary to start a social enterprise. Social enterprises can face significant operating costs — a business using this model will often take on costs that conventional businesses would not. For the business owner, it may be difficult to focus on both social and financial objectives at the same time.

## THANKYOU GROUP

In 2008 a group of young and enthusiastic Australian university students made a commitment to change the world. With a profound awareness of both business opportunities and the tragic plight of 900 million people who did not have access to safe drinking water, they developed a business idea that would save lives. 'Thankyou Water' began as a bottled water company that would exist for the sole purpose of funding safe water projects in developing nations. It took nearly three years for its product to gain traction in the highly competitive fast-moving consumer goods (FMCG) industry. However, after 7-Eleven Australia got on board to stock Thankyou Water, the social enterprise saw success with the product that appealed to ethical consumers around Australia. Consumers welcomed the idea that their money would go towards helping those who need it most.

But founders Daniel, Justine and Jarryd didn't rest on their laurels. In true entrepreneurial fashion, they developed their rapidly growing brand into a movement consisting of three product lines under the Thankyou parent brand: Thankyou water, Thankyou food, and Thankyou body care. Along with expanding their product line they have also grown their social ambitions to include food, hygiene and sanitation solutions for the world's poorest. What makes Thankyou different is that 100 per cent of its profits go to funding projects around the globe, and the company has no investors or shareholders.

Having given over \$5 million to fund projects in over 20 countries to help hundreds of thousands of people with water, food and hygiene and sanitation solutions, Thankyou represents more than just another business idea. It is an example of what people can achieve when they let their social conscience guide their entrepreneurship. While the exact future of such a dynamic social enterprise is unknown, we know that the growing social awareness of consumers will lead to Thankyou products becoming an increasingly viable alternative to those offered by for-profit businesses. As the famous French poet Victor Hugo once said 'Nothing is as powerful as an idea whose time has come'.

Thankyou Group founders Jarryd Burns, Daniel Flynn and Justine Flynn





### 3.9.5 Franchise

Under a **franchise agreement** a person buys the rights to use the business name and distribute the goods or services of an existing business. The business that grants the right to others to use its name and products is known as a **franchisor**, while the business that buys those rights is known as a **franchisee**. The franchisor supplies a known and advertised business name, the required training and staff development, a method of doing business, management skills and materials. The franchisee supplies the start-up money and labour, operates the franchise business and agrees to abide by the terms and conditions of the franchise agreement.

People choose to buy a franchise in the hope of avoiding many of the problems of starting a new business. For a set fee, the business owner receives the benefits of a successful business formula, a well-recognised name and established trademarks. Franchising has a success rate of almost three times that of independent businesses, largely because it involves an established business name backed up by managerial expertise.

That being said, there are several disadvantages of entering into a franchise agreement. The franchisee has little scope for making independent decisions as the franchisor has control over much of the operations. The share of the profits and fees can be quite favourable to the franchisor, and the franchisee's business forgoes the possibility of expanding an original brand as a franchisor.

Franchising is the fastest area of business growth in Australia. Subway (sandwiches and salads) is an example of a franchise. Other well-known franchises include McDonald's, 7-Eleven, Bakers Delight and The Athlete's Foot.

Many well-known businesses operate under a franchise agreement.



#### GELATISSIMO — A SUCCESSFUL FRANCHISE BUSINESS MODEL

Domenico and Marco Lopresti founded Gelatissimo in 2002 as a single store on King Street in Sydney. The business has since become Australia's biggest chain store selling gelato (ice-cream that originated in Italy). The brothers were already running a wholesale gelato business when they saw an opportunity to open a retail store using a secret family formula for gelato. Before long, word of mouth spread and there were queues out the door of their new store. They soon opened other stores.

Initially, the owners had chosen a company-owned model for Gelatissimo. However, in 2004 they started franchising. The main reason for adopting a franchise model was because the company model was not working as expected, and the owners decided to try franchising instead. They trialled franchising with a particular franchisee — he was given the opportunity to turn a company-owned store around and was able to do so.

The Lopresti brothers also saw franchising as an ideal way to grow their business quickly. Furthermore, as product quality and product presentation are critical for the business, the owners felt that Gelatissimo was best suited to a franchising model, which allows franchisees to bring passion and commitment to their own store.

It is this passion and commitment to creating premium products without compromise that have led to Gelatissimo's success. Gelatissimo now has stores in more than 40 locations across Australia, as well as in China, the Philippines, Singapore, Saudi Arabia, Kuwait and Bangladesh. With close to 50 gelato flavours, some of which have won awards, the business is well known for its quirky flavours. It often adds new ones, particularly limited-edition flavours, such as the 'Hugh Chocman' — named in honour of Hugh Jackman.

Domenico and Marco have since left the business, but the decision they made to pursue a franchise business model clearly affected the ultimate success of Gelatissimo.

The founders of Gelatissimo decided to adopt a franchise business model because they saw it as an ideal way to grow the business quickly.



## on Resources

-  **Weblink:** Franchise Council of Australia
-  **Weblink:** Franchise business

### 3.9.6 Import and export

Import and export businesses are those that earn their income by trading goods internationally. Due to globalisation there has been a drastic increase in the volume of goods and services imported and exported in recent decades. With reductions in trade barriers between nations, advances in technology and the industrialisation of nations with cheap labour resources, globalisation is showing no signs of slowing any time soon. This provides plenty of room for import and export businesses to flourish in the future.

**Imports** are goods and services that are produced overseas and sold to Australian consumers.

There are a number of advantages afforded by adopting an importer business model. Importers source goods from overseas that will be competitively priced on the Australian market due to their superior quality, cheaper cost of production, or lack of viable alternatives. An importer may be able to provide goods to customers that are not readily available locally. The importer business model can therefore provide the prospective business owner with the opportunity to grow and further expand their business. Import business models need to factor in the cost of purchasing the goods from international manufacturers, shipping, distribution and taxes on imports known as tariffs. Importers also need to ensure that the goods they are importing meet Australian consumer standards for health, safety and quality. Today, the majority of manufactured goods available for purchase in Australia are produced overseas.

Exports are goods and services that are produced in Australia to be sold overseas. Although Australia imports more than it exports, some Australian products, such as beef are competitive internationally. There

Approximately 97 per cent of Australia's international trade takes place through shipping, while only 3 per cent occurs via aeroplane.



are a number of advantages afforded by adopting an exporter business model. Like importing, exporting provides the prospective business owner with the opportunity to grow and further expand a business. Exporting allows a business to reduce its dependence on local markets and open new markets. This can extend the life cycle of the business's products, as well as increase competitiveness. This is because the business can sell its products overseas to a greater number of customers. Exporters need to ensure that they are aware of the legal requirements of the nation to which they are exporting. Other risks involved in exporting include foreign exchange, political, shipping and quarantine issues.

## 3.9 Activities

### TEST your understanding

1. What is a business model?
2. List three things that should be considered when developing a business model.
3. Complete the following table to summarise the different types of business model.

|               | Online | Bricks & mortar | Social enterprise | Franchise | Importer and exporter |
|---------------|--------|-----------------|-------------------|-----------|-----------------------|
| Description   |        |                 |                   |           |                       |
| Advantages    |        |                 |                   |           |                       |
| Disadvantages |        |                 |                   |           |                       |
| Examples      |        |                 |                   |           |                       |

4. Distinguish between a retail business model and a wholesale business model.
5. Read the case study 'Thankyou Group' and answer these questions.
  - (a) How did the idea for Thankyou Water first arise?
  - (b) What makes Thankyou Water appealing to consumers?
  - (c) Identify the three brands that make up the Thankyou Group today.
  - (d) Outline what you think Victor Hugo meant by 'Nothing is as powerful as an idea whose time has come'.
  - (e) What benefits do you think establishing a social enterprise like Thankyou would have for an entrepreneur?
6. List four different franchise businesses that operate in your suburb or town.
7. What does the franchisor receive in a franchise agreement? What does the franchisee receive? What does each party provide?
8. Suggest why businesses operating as a franchise have a success rate three times that of independent businesses.
9. Provide one main benefit of franchising for the:
  - (a) franchisor
  - (b) franchisee.
10. Read the case study 'Gelatissimo — a successful franchise business model' and answer the following questions.
  - (a) Explain why the founders of Gelatissimo decided to adopt a franchise business model.
  - (b) Did franchising create a successful business for the founders of Gelatissimo? Justify your response.

### APPLY your understanding

11. Briefly describe the type of business model you would expect the following businesses to operate under:
  - (a) the local fish and chips shop
  - (b) 'OZ game shop', which sells video games through a website
  - (c) the European deli, which buys products from overseas to sell in its Melbourne-based store
  - (d) a blogger named Joshua Becker who writes about 'becoming minimalist' and has attracted thousands of followers.
12. List five businesses that you interact with on a regular basis and describe the type of business model that they operate under.
13. Provide one example each of a retail, wholesale and manufacturing business in Australia.



### EXAM practice

14. Kahinde has developed a new pizza recipe that he believes will sell strongly. He is trying to choose the most appropriate business model for his idea.
- (a) Identify and describe a business model that would be suitable for Kahinde's business. **(3 marks)**
  - (b) Explain the advantages and disadvantages of the business model you identified in part a. **(4 marks)**
15. Analyse how a prospective business owner's decision to use an 'importer' or 'exporter' model may affect the planning for their business. **(4 marks)**

## 3.10 Business support services

**KEY CONCEPT** A variety of support services exist to provide assistance to a business owner with their business planning. Some of them are free, while others are provided by other businesses, which charge for their services.

### 3.10.1 Legal and financial advice

Even prior to starting a business, the owner will, in most instances, seek legal and financial advice to ensure that all the important aspects of the business are planned for. As discussed earlier, there are many different legal structures that a business can adopt, each with their own advantages and disadvantages. Evaluating the different legal structures is an important part of the initial planning stage, and business owners are unlikely to know all of the legal and financial ramifications of each alternative. They are likely to consult an **accountant** for a better understanding of the tax and financial costs associated with each structure as well as registering the business. If the business structure is more complex and involves several owners (such as a partnership), a **solicitor** will often be required to draw up a legally binding partnership agreement.

Once the business is up and running, the owner will still require assistance regarding the day-to-day operations of their business. Planning will be ongoing. Solicitors, accountants and bank managers keep up to date with changes that occur in the business's legal, economic and financial environment. Maintaining a good relationship and regular contact with these advisors is essential for business success.

Business owners should regularly seek legal and financial advice from professionals.



#### Solicitors

Solicitors provide information concerning business formation and structures, registration, contracts, leases, partnership agreements, patents and legislation. Solicitors are up to date with any changes to company law and can advise the business owner on how best to deal with such changes.

#### Accountants

Accountants provide valuable advice on all financial management issues and taxation obligations. They have access to the latest changes to taxation and financial reporting requirements, and know procedures for recording financial events (transactions) accurately, speedily and with maximum security.

## Bank managers

Bank managers are another valuable source of information and advice on financial services, sources of finance, and basic business management. They usually have a wide range of experience to draw on and can access the resources of the bank.

### studyon

Unit 1

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Support for businesses Summary screen and practice questions

## 3.10.2 Technological advice

Establishing an online business presence, networking a number of computers within the business premises or making maximum use of mobile devices can all improve business efficiency. Purchasing equipment from a dealer who offers advice and backup support, or establishing a relationship with an ICT consultant, is another important decision to be made by the prospective business owner.

As a technological support service for business, the federal government has established a website — [business.gov.au](http://business.gov.au) — that includes information relating to technology in business. This service provides free practical advice on a range of topics, including establishing an online presence, e-commerce, social media and online marketing.

## 3.10.3 Community-based services

Many business owners are able to join business service clubs such as Rotary, Apex and Lions. While the primary focus of these clubs is to provide businesspeople with an opportunity to engage in community service projects, membership can put business owners in touch with other local businesspeople. Advice, support and information can be accessed through such local networks.

### Business Enterprise Centres (BEC) Australia

BEC Australia is a not-for-profit network of business enterprise centres, which provide support to small business owners. These centres provide information, mentoring, training programs, workshops and seminars, referrals to accountants, solicitors and government programs, and access to networks of other businesspeople.

### Small Business Centres Victoria (SBCV)

As outlined in chapter 1, Small Business Centres Victoria (SBCV) is a network of business centres providing a range of business services, such as advice and mentoring, in metropolitan and regional locations throughout Victoria. SBCVs are community based and not-for-profit. They provide their services through public/private partnerships with governments, private enterprise and local communities. Many of these business centres are members of BEC Australia. SBCVs can provide subsidised premises, advice, services and support to new and emerging businesses to assist them to become established and profitable. Business centres may also host workshops and seminars, providing new and growing businesses with access to low-cost resources and information.



### Resources



Weblink: [BEC Australia](http://BEC Australia)



### 3.10.4 Formal networks: private

Business owners can access information and support from a large number of professional organisations.

#### Chambers of commerce

These are local associations of businesspeople, usually centred on a suburb or region. They provide legal and financial help, taxation advice, explanations of legislation, and industrial relations information. They also organise training seminars, arrange industry conferences and liaise with government departments.

#### Victorian Chamber of Commerce and Industry (VCCI)

VCCI is the state's main employer group and Australia's largest multi-industry employer organisation. It is concerned primarily with human resources and industrial relations issues, and provides support for members who may be in dispute with their employees.

#### Small Business Association of Australia and New Zealand

This lobby group provides a forum for exchanging news and views relating to small business matters. It also organises training days and promotes the role of small business and its importance to the total economy.

#### Trade associations

Trade associations offer specific industry information and assistance. Examples include the Australian Retailers Association and the Australian Medical Association. Each association is made up of organisations in the same line of business, so it can provide specific details about product development and industry trends.



#### Resources



Weblink: VCCI

### 3.10.5 Formal networks federal, state and local governments

All levels of government provide a range of services to businesses.

The federal government of Australia (left) and the state government of Victoria (right) have established agencies that provide support and advice to business owners.



#### Federal government

AusIndustry is the federal government's principal agency for delivering assistance, programs and services that support businesses. It is a division of the Department of Industry, Innovation and Science. AusIndustry has established a website, a contact centre and a national network to streamline access to information and advice for businesses. The website, [business.gov.au](http://business.gov.au), provides access to information, assistance, forms and services. All areas of planning, starting, running and exiting a business are covered on the website, and there are links to other government websites to help business owners find what they are looking for.

The Australian Bureau of Statistics (ABS) is Australia's national statistical agency. It can provide business owners with data about communities and regions, society and the economy. Using data can help business owners to make good planning decisions.

The Australian Tax Office (ATO) is the federal government's main revenue collection agency. It can provide information about starting and running a business as well as taxation.

Austrade (otherwise known as the Australian Trade and Investment Commission) is the federal government's trade, investment and education promotion agency. It can help businesses to develop international markets by providing information, advice and services.

### State government

In Victoria, the Department of Economic Development, Jobs, Transport and Resources' Business Victoria website provides entry and links to information and support on all aspects of starting and managing a business. The Victorian Small Business Commission (VSBC) is a statutory office established to enhance a competitive and fair operating environment for small and medium businesses. The VSBC advocates on behalf of small business, resolves disputes, monitors the small business environment and engages with the small business community.

### Local government

Local councils offer advice on land zoning, assist with subsidised land and consider development applications.

## 3.10.6 Informal networks

Businesspeople can use their network of friends and colleagues, as well as other local business owners to gain information and advice. Active membership of local chambers of commerce, trade associations and service clubs can lead to friendships and contacts that go beyond the formal activities of these bodies.

## 3.10.7 Business mentors

Small business owners will often seek advice on a regular basis from a person who is experienced or knowledgeable in the field. This person is known as a mentor and can provide invaluable advice and strategies to the small business owner on a variety of issues. The mentor may charge for such services, or may simply share their wealth of knowledge out of goodwill. Regardless, a mentoring relationship can be rewarding for the mentor as well as the mentee.

### Resources

 **Weblink:** Small business mentoring program

## 3.10 Activities

### TEST your understanding

- Identify and explain the type of support and advice that can be provided by each of the following:
  - solicitors
  - accountants
  - bank managers
  - BEC Australia
  - SBCVs
  - chambers of commerce
  - VCCI
  - trade associations
  - federal government
  - state government
  - local government.
- What benefits can a business owner gain by joining a service club, such as Rotary or Lions?
- Why do you think a mentor might offer their advice to a business if not for money?



### APPLY your understanding

4. Irene wishes to set up a hot bread shop in her local shopping centre. Identify five different individuals or organisations she could approach for support, and outline the type of support she could expect to receive from each.
5. Imagine you were starting up a business. Write a list of five questions you would ask a mentor.

### EXAM practice

6. Explain the importance of business support services. **(2 marks)**
7. Hugo is in the initial stages of planning for a new business and is seeking support and advice. Outline and justify three support services that Hugo could use. **(6 marks)**
8. Explain the effect that using business support services will have on business planning. **(2 marks)**

## 3.11 EXTEND YOUR KNOWLEDGE Planning decisions and the internal environment

**KEY CONCEPT** Thorough market research is necessary before deciding to start a business.

### RESEARCHING LOCAL BUSINESS

Two students interviewed Jane, the owner of a local business, At Home, which sells upmarket garden accessories and homewares.

**What were the reasons you decided to work for yourself?**

I was always having disputes with my last employer; they were as stubborn as I was.

I love homewares and glossy magazines and also enjoy my beautiful garden, so that was where my passions lay. I thought I would be better off running my own business.

**What were the major decisions you had to make when you were planning your business?**

Choosing the right location was crucial, because not everyone is interested in upmarket garden accessories. I chose a location that had the right demographics — where people take pride in their gardens and most people who live in the area are professionals with cash to spend. It was also a big decision to set up a website where customers can order garden accessories online. Obviously, finance was a big issue. I used my own savings, but I also borrowed some money from my parents.

**What type of legal business structure did you adopt and why?**

I chose to operate the business as a sole trader, mostly because it seemed to be the simplest option and I like to work on my own. I also wanted to have control over my business.

**Did anyone provide you with support or advice when you were planning the business?**

Mostly my accountant. She advised me on the best structure, how to register the business and the best way to deal with my financial information. I also found a lot of useful information on business.gov.au. I would recommend this as a great starting point for anyone who is considering starting a new business.

**Could you outline any mistakes that you made during the commencement period?**

I wanted to spend some time with my family on the long weekend and closed the shop. I must have lost a lot of business! I realise now that I should have considered my resource needs more seriously. Instead I could have asked an employee to open the store for me.



## 3.11 Activities

### TEST your understanding

1. In pairs, arrange an interview with a local business owner. You might like to use the questions in the interview above, or make up your own. Prepare a report for presentation to the rest of the class, including the following information:
  - the reasons the business owner decided to start the business
  - how they decided on the resource needs for the business
  - how they selected the location of the business
  - the source of finance they decided to use and why
  - who they received support or advice from
  - any other decisions they made when planning the business
  - any mistakes that they made during the commencement period or what they would have done differently
  - a brief history of the business
  - advice the business owner would offer to someone starting a business.
2. Arrange to interview a partner in a local business. Investigate the following topics:
  - the number of people in the partnership
  - the advantages of a partnership as opposed to sole trading
  - the contents of the partnership agreement
  - a brief history of the business.
3. Interview the owner of a local private company. Prepare a report outlining the following information:
  - the full name of the business
  - a brief history of the business
  - the business's main activity
  - why the owner decided to incorporate
  - the expenses involved in setting up and operating a private company
  - the main problems involved in operating the business
  - the owner's long-term plans for the business
  - changes that the owner would like to make to the business and operation of the business.

### EXTEND your understanding

4. Visit your local shopping centre or mall. Draw a map of the centre, using a colour code for different types of business (e.g. different colours for clothing stores, cafés, hairdressers). Answer the following questions:
  - (a) What advantages does the shopping centre have in terms of location, parking facilities, public transport access, etc.?
  - (b) Identify examples of businesses in direct competition with each other. How might this affect the success of each business?
  - (c) Identify the best located shops. Explain why they have the best locations.
  - (d) Are there any goods or services that are not available at the local shopping centre that could provide potential business concepts?
  - (e) Is a major supermarket chain represented at the centre? Does the presence of the supermarket draw consumers to the centre? (Ask a sample of shoppers and business owners to get their opinions.)
  - (f) Identify examples of complementary businesses.
  - (g) Is there a nearby traditional shopping strip? Is there any evidence that the presence of the shopping centre has affected businesses in the shopping strip?
  - (h) Is there a business association or chamber of commerce representing business owners in the centre? What role does this association play in supporting local traders?
5. Use the **Business support services** weblinks in the Resources tab to research the websites of each of the following professional and business support organisations, and prepare a report on each:
  - Law Institute of Victoria
  - Institute of Chartered Accountants
  - VCCI.



Your report should include answers to the following questions:

- What are the major objectives of the organisation?
  - What services does each organisation offer its members?
  - How does a person or business become a member?
  - What services are offered to consumers and other members of the community?
  - What is the educational, training and career preparation role of the organisation?
6. Use the **BEC Australia** weblink in the Resources tab to answer the following questions about Business Enterprise Centres (BEC) Australia:
- When and by whom was this organisation set up?
  - How has the organisation developed and grown following its establishment?
  - BEC Australia is a not-for-profit organisation. How does it fund its services?
  - What are the key objectives of BEC Australia?
  - Identify five different services offered by BEC Australia, and explain how each operates.
  - Identify the closest BEC Australia office to your home or school.
7. Use the **Franchise Council of Australia** weblink in the Resources tab to answer the following questions.
- What are the main objectives of this organisation?
  - Who can be a member of the organisation?
  - What services are offered to its members?
8. Commonwealth and state business support websites provide information on the various legal and regulatory requirements to be met by a prospective business owner. Using these websites, select two such legal requirements and outline the processes the prospective business owner has to follow in order to comply with these requirements.
9. Arrange for a representative of the local chamber of commerce, the local traders association, or a local service club (Rotary, Lions or Apex) to visit your class. Before the visit, prepare questions to ask the representative on issues relevant to both informal and formal support services provided for local business owners. If possible, video the session (obtain the visitor's permission in advance). Write a 500-word report on what you learned from the visit.
10. Most trade or professional organisations formulate codes of practice or codes of conduct for their members, encouraging ethical and socially responsible behaviour.
- (a) Visit the website of one such organisation and make a copy of the code of practice or code of conduct of the organisation.
- (b) Explain how each item in the code encourages members to operate their businesses in an ethical and socially responsible manner.



## Resources



Weblink: Business support services



Weblink: BEC Australia



Weblink: Franchise Council of Australia

## 3.12 Planning tools and business plans

**KEY CONCEPT** Using planning tools such as a SWOT analysis and business plans are vital for the success of a business.

In chapters 2 and 3 we have closely examined the range of factors that a business must consider when planning. A business owner has a variety of planning tools and techniques at their disposal to ensure that all of these factors have been addressed.

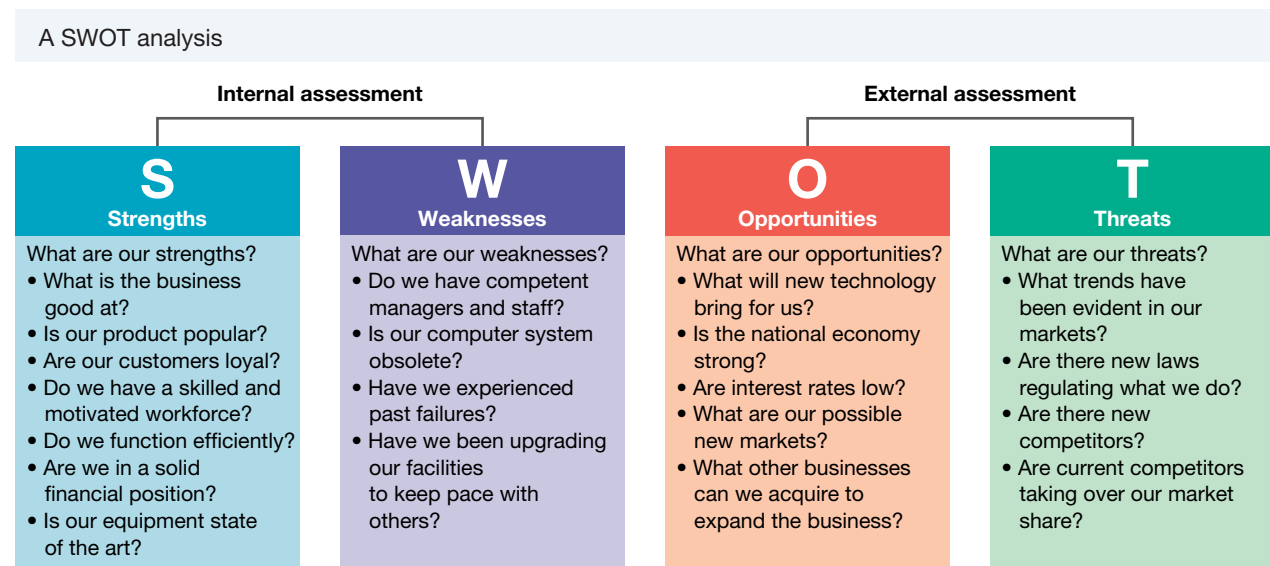


### 3.12.1 Market research

Market research involves collecting and analysing data and information to assist the business in its understanding of potential customers and competitors. By better understanding the desires and habits of potential customers as well as the level of competition in a given market, a business can develop or adjust its products and marketing strategies in such a way that it targets unmet consumer demand. By conducting preliminary market research prior to starting a business, an entrepreneur can establish whether or not there is room in the market for the business they have conceptualised.

### 3.12.2 SWOT analysis

In order to plan for the successful future of a business, the owner must have an understanding of where the business currently stands. A SWOT analysis is a planning tool that identifies the business's internal strengths and weaknesses, as well as any opportunities and threats from the external environment.



A SWOT analysis, completed honestly and objectively by the business owner, can be used to evaluate the business's current situation and interpret information about what the business might do well, where improvements can be made and where the business might be placed in the external environment. For example, a business owner may analyse the strengths of their business and find that it has a product that market research suggests is in high demand. The owner may also consider whether there are opportunities to export this product to new markets. When analysing the business's weaknesses, the owner may determine that the business will not have the facilities to produce sufficient amounts of the product. The business owner may find that a threat comes from competitors moving into domestic markets. After conducting the SWOT analysis, the business owner may plan to develop new manufacturing facilities and then export the business's products.

A SWOT analysis has the advantage of being relatively low cost, and it is fairly simple and straightforward to use. Completing a SWOT analysis allows the business owner to become more familiar with the business as they are making planning decisions, as well as addressing weaknesses, responding to threats, taking advantage of strengths and seizing opportunities. It should also assist the owner to develop goals and strategies for achieving them, which can then be written into the business plan.

However, a business owner should be aware that a SWOT analysis is only a small part of the business planning process. Market research and a business plan should also be completed when planning a business. A SWOT analysis may also generate a large amount of information — not all of which may be useful. A SWOT analysis does not provide solutions to weaknesses or threats; nor does it help the business owner choose which strengths or opportunities are the best options.

## study on

Unit 1

AOS 3

Topic 2

Concept 9

**SWOT analysis** Summary screen and practice questions

### 3.12.3 Business plans

When business owners start a business they are usually keen and optimistic, convinced their idea will succeed. However, while enthusiasm is an essential ingredient to the success of a business, it is not enough in itself. If prospective business owners neglect to put together a carefully researched business plan, the stage is set for business failure, and optimism will turn to despair.

#### kikki.K — PLANNING TO SUCCEED

Kristina Karlsson, founder and creative director of kikki.K, started the business in 2001. She had a passion for stationery and opened her first store in Melbourne Central. The store featured her stationery products as designer accessories. Karlsson says that ‘having limited financial resources to start and grow my business was probably the hardest challenge I faced in getting kikki.K off the ground. The banks certainly weren’t too supportive in our early years. They needed high levels of security, which we couldn’t give — so I ended up selling the house to fund business development. It meant that I really had to do my homework and develop a comprehensive business plan.’

Today, kikki.K has more than 100 stores in Australia, New Zealand, the UK and Hong Kong. In 2017 it expanded into the United States through a partnership with Nordstrom. The business has also grown its product range to include notebooks, greeting cards, pens and wrapping paper.

Kristina Karlsson says that it is important to put plans down on paper as a business plan, in order to have a clear vision for a business idea. She says, ‘this enables you to crystallise your thoughts and it facilitates a reference point when putting your ideas into action’. However, she believes that business plans must be flexible so that if something is not working, the business can adapt accordingly.

Kristina Karlsson developed a business plan very early on for her business, kikki.K.



The essential role of the business plan is to act as a guide or map on which the business’s journey can be plotted. It is one of the most useful management tools a business owner can use. In all businesses, the best results come from effective management and detailed planning.

#### DID YOU KNOW?

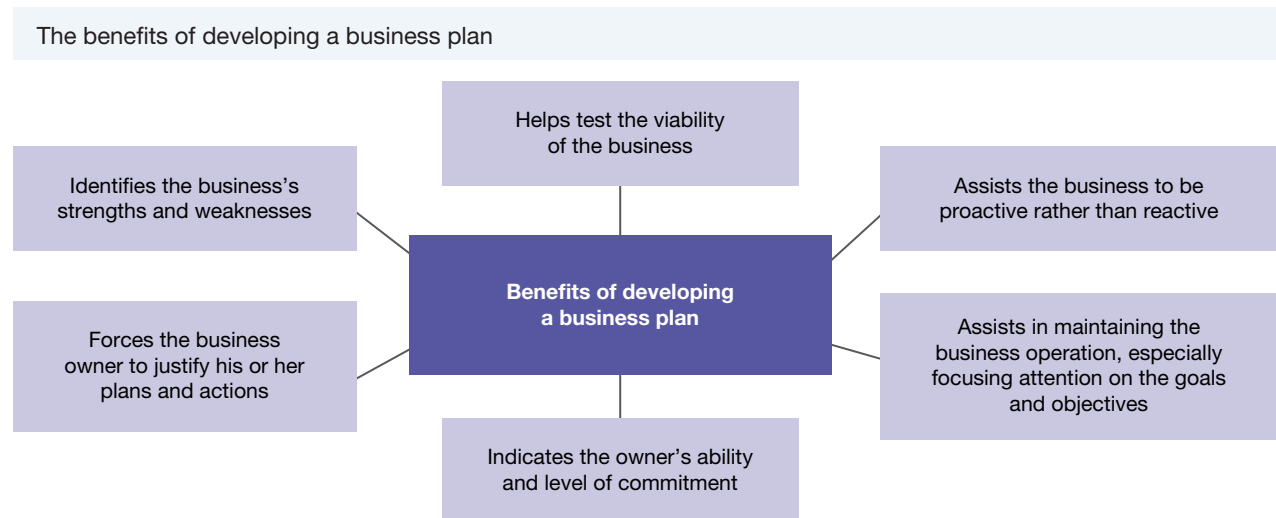
‘Businesses do not plan to fail, they fail to plan.’ This is an old and very well-known quotation, but is nonetheless an accurate reflection of reality for many business owners.

## What is a business plan?

A **business plan** is a written statement of the goals and objectives for a business, and the steps to be taken to achieve them. In other words, it is a summary and an evaluation of a business concept.

A comprehensive business plan will also assist when arranging finance for the business. The plan provides information that lenders need to know, and it shows that the business is being properly organised and managed.

**Planning** is a process — a series of actions to achieve an objective. If you decide to have a party next Saturday night, for example, this becomes your objective. Unless you undertake some planning you will not be able to achieve this objective. You will need to invite people, organise food and drink, arrange for music and decide on a venue. These tasks are your series of actions, which you need to undertake to achieve the objective.



As Kristina Karlsson notes in the *kikki.K* case study, a business plan should be a ‘living document’. It needs to change as the business changes.

The planning process acts as a link or bridge between the business owner’s ideas and the actual operation of the business; it is a way of turning dreams into reality. Any business with a plan has direction, which ultimately saves money, time and effort, and also increases the likelihood of success. Preparing a business plan is similar to completing an assessment task. The result will reflect the amount of time, effort and research that goes into the plan and its final presentation.

All businesses are different, which means that all business plans will look slightly different. A typical business plan should, however, include the following elements:

1. *Executive summary*. This is a one-page document describing the business and its objectives. This is usually prepared at the end of the plan-writing process.
2. *Operations plan*. This outlines how the business will be set up and the human resource needs.
3. *Financial plan*. This details how the business will be financed, and projected cash flow, revenue, expenses and profit.
4. *Marketing plan*. This outlines key information from the industry the business will be entering and how it fits in, and the marketing strategy of the business.

While there are several benefits in completing a business plan, a prospective business owner should keep in mind a number of limitations. The business plan is simply a plan — it does not guarantee the ultimate success of a business. For example, profit may be lower than anticipated, because a range of factors out of the owner’s control can affect it. The business owner may spend excessive amounts of time preparing the business plan rather than creating and selling the business’s product. Business plans need to be implemented; many business owners develop a business plan and then neglect to follow it.

## 3.12 Activities

### TEST your understanding

1. What is market research?
2. How can market research help existing businesses as well as those in the making?
3. What is a SWOT analysis and why is it an important planning tool for a business?
4. Outline the benefits and limitations of conducting a SWOT analysis.
5. Explain what a business plan is.
6. Why was it important for Kristina Karlsson to have a business plan?
7. List the six main benefits of a business plan.
8. Outline the limitations of completing a business plan.
9. Choose the most appropriate word from the following options to complete the sentences (a) to (g):

|            |            |         |
|------------|------------|---------|
| plan       | planning   | steps   |
| fail       | failure    | link    |
| written    | researched | heading |
| objectives | loan       |         |

- (a) Businesses do not plan to \_\_\_\_\_; they fail to \_\_\_\_\_.
  - (b) If prospective business owners neglect to put together a carefully \_\_\_\_\_ business plan, the stage is set for business \_\_\_\_\_.
  - (c) Without planning, the business owner does not know where the business is \_\_\_\_\_.
  - (d) In all businesses, the best results come from detailed \_\_\_\_\_.
  - (e) A business plan is a \_\_\_\_\_ statement of the \_\_\_\_\_ for the business and the \_\_\_\_\_ to be taken to achieve them.
  - (f) When someone is applying for a \_\_\_\_\_, financial institutions will want to examine the business plan.
  - (g) The planning process acts as a \_\_\_\_\_ between the owner's ideas and the actual operation of the business.
10. A friend has asked you to help him prepare a business plan for a new fitness centre he wants to open. What elements would you suggest he include in the business plan?

### APPLY your understanding

11. Prepare a SWOT analysis for a business you deal with regularly, such as a retail store.
12. Use the questions below to interview a local business owner about aspects of their business and then present your research as a business report.
  - (a) What were the planning options that had to be considered when commencing the business?
  - (b) Was a business plan completed?
  - (c) What was the purpose of the business plan?
  - (d) What is the role of the business plan within the operation of the business?
  - (e) What is the importance of planning to the overall success of the business?
13. Use the **Business plan** weblink in the Resources tab to find advice concerning the preparation of a business plan.

### EXAM practice

14. Define the term 'business plan'. **(1 mark)**
15. Explain how a SWOT analysis can be used to evaluate a business's current situation. **(2 marks)**
16. Discuss the use of a business plan. **(4 marks)**

-  Weblink: SMBS business planning tools
-  Weblink: Business plan

## 3.13 APPLY YOUR SKILLS Business plans and planning tools

### PRACTISE YOUR SKILLS

- Define, describe and apply relevant business management concepts and terms
- Acquire, record, interpret and share business information and ideas
- Research and analyse case studies and current examples of business management applicable to planning a business
- Apply business management knowledge to practical and/or simulated business situations
- Develop and construct business plans
- Use a planning tool to analyse a business's current situation and interpret the information

### 3.13.1 Developing and constructing a business plan

In chapter 1 you may have completed market research and/or a feasibility study for a business idea. You are now going to develop and construct a business plan for that idea. Your idea might be for a school-based, short-term business activity or it might be for a business that could operate outside school, now or in the future.

#### Some things to consider before you start

Your teacher will let you know about the date or dates on which your business activity can run if a school-based, short-term business activity is to occur. It might be a good idea to work in a group — this way you can share the workload.

*Note:* Due to the potential implications of this activity on students' time within and outside of school, financial issues and potential implications for the wider school community, principal and key stakeholder permission and approval should be sought before conducting a student school-based business activity.

#### Some suggestions

Some suggestions for the scope and range of small business ventures include:

- a sausage sizzle stall
- a market day with student stalls competing against each other during a lunchtime market
- planning and running a year-level formal
- running a school comedy night
- constructing and selling student-designed websites to local businesses.

#### Complete your business plan

- Use ProjectsPLUS in the Resources tab to complete a business plan using the Business Plan template. There are other resources, such as support files and weblinks, to provide you with information and guidance on creating your business plan. Alternatively, there are free business plan templates available on the Business Victoria and business.gov.au websites. *Note:* Some of the questions or tasks may need to be modified to suit a school-based business activity.



- Submit your business plan.
- If you are participating in a school-based business, make any changes necessary to your business plan.
- Make final preparations to run your business activity.



## Resources



**ProjectsPLUS:** Planning for success (PRO-0105)

### 3.13.1 Activities

#### TEST your skills

1. What is the purpose of a business plan?
2. Identify the main elements of a business plan.
3. How did you or your group manage the business plan?

#### APPLY your skills

4. What was the objective for your business?
5. How will you achieve these objectives?
6. Use the following table to summarise your business plan. For example, your executive summary might outline that your business is a sausage sizzle stall called 'Snags' with the objective of selling the highest quality sausages at the lowest price.

| Element           | Outline |
|-------------------|---------|
| Executive summary |         |
| Operations plan   |         |
| Financial plan    |         |
| Marketing plan    |         |

### 3.13.2 SWOT analysis

As discussed in section 3.12.2, a SWOT analysis identifies the strengths, weaknesses, opportunities and threats that will affect a business. It will help to identify the strong and weak areas within the business, while highlighting any opportunities or threats that may exist in the external environment.

Examining the business's internal environment and researching the business's external environment will help the owner to form short- and long-term strategies. A SWOT analysis also draws the owner's attention to areas of the business that require improvement as well as core strengths that can be used to further develop and refine the business.

#### MARS

Mars is a private, family-owned company that produces some of the world's leading confectionery, food and pet care products, and has growing beverage and health and nutrition businesses. Headquartered in McLean, Virginia (in the United States), Mars Incorporated operates in more than 80 countries and employs more than 100 000 associates (employees) worldwide. Mars launched in Australia in 1954. The company's global sales are approximately US\$35 billion annually. Founded in 1911, the company manufactures and markets a variety of products under many of the world's most recognisable trademarks, including M&M'S®, SNICKERS®, MASTERFOODS®, DOLMIO®, PEDIGREE®, UNCLE BEN'S®, ROYAL CANIN®, WHISKAS®, EXTRA®, ECLIPSE® and STARBURST®. Mars uses high quality ingredients and employs the highest standards of quality control.

Mars has developed five principles to lead and guide the company: Quality, Responsibility, Mutuality, Efficiency and Freedom. They express the company's vision of not only what Mars is, but also where and what Mars wants to be. The Five Principles are put into practice every day by Mars associates (staff) all over the world and have developed into a practical, effective and unique way of doing business that collectively and individually sets Mars apart. For example, Mars' environmental policy is anchored in the Five Principles.

Mars has policies concerning its use of genetically modified ingredients, the health and nutrition of its foods, research involving animals and positive relations with its associates. Mars has a 2020 target — that 100 per cent of its cocoa will come from certified sources; in 2016 it was on track to certify 50 per cent of the cocoa it buys.

Staff at Mars are known as associates and teamwork is very important; units work with each other to achieve broad corporate objectives. Mars Australia was recognised as the best place to work in Australia for 2017 (according to Great Place to Work®'s Best Places to Work Study — in the over 1000 employees category).

**Source:** Mars website, mars.com.au.

Mars is a global manufacturer of confectionery, pet care, and other food products.



### 3.13.2 Activities

#### TEST your skills

1. List each of Mars' strengths and weaknesses in the table. These should relate to the internal aspects of the business.

| Strengths | Weaknesses |
|-----------|------------|
|           |            |

2. List each of Mars' opportunities and threats in the table. These should relate to the external aspects of the business.

| Opportunities | Threats |
|---------------|---------|
|               |         |

3. Explain what a SWOT analysis is.

#### APPLY your skills

4. How could Mars use its strengths to seize the opportunities you have listed?
5. How could Mars use its strengths to overcome the threats you have listed?
6. What could Mars do to make sure that its weaknesses do not prevent it from seizing its opportunities?

### 3.13.3 Business planning wasn't meant to be easy

Buying into a franchise requires the franchisee to make a huge financial and time commitment. It takes hard work and long hours to become successful. A business plan is also essential. McDonald's expects its franchisees to be able to create and implement business plans with short-term and long-term objectives.

## CONSTRUCTING A BUSINESS PLAN FOR A McDONALD'S FRANCHISE

The owner of the McDonald's franchise in Tecoma knows all about business planning. While planning and setting up the outlet — in a town located in Melbourne's Dandenong Ranges — he had to deal with opposition from the Yarra Ranges council, angry protesters demonstrating at the construction site and his Boronia store, and media coverage.

'It's certainly been a long road but I'm really proud of the restaurant we've built — it's a beautiful building that absolutely fits in with the local surrounds and, more importantly, it's created over 100 local jobs,' James Currie says.

James started working for McDonald's when he was 15. He cleaned the floors for two years and then started on a management development program. He became a restaurant manager at age 23. A few years later he gained the qualifications necessary to become a training consultant and helped to open stores in Victoria, New South Wales, Tasmania and South Australia. He then started to buy McDonald's franchises as a family business with his wife and sons.

'We obviously did our research in Tecoma — as we do with all of our sites — and we knew that there was a demand and local community support for us in Tecoma,' he says.

Mr Currie declared the opening a success. Around 4000 people passed through the Burwood Highway restaurant during its 12-hour opening day in 2014, and more than 20 000 customers passed through in the first week of trading. McDonald's Australia said that it was confident that locals would continue to support the restaurant.

One local who has lived in Tecoma for over 40 years commented that it is the best thing that has happened to the town.

Locals queue during the protest at McDonald's, Tecoma.



### 3.13.3 Activities

#### TEST your skills

1. What difficulties did James Currie face when planning his new McDonald's store?
2. Identify the results of the research that James Currie completed.
3. Outline the essential elements that would have been included in James Currie's business plan.
4. Explain the results of his business plan.

#### APPLY your skills

5. Why do you think it is important to spend time undertaking research before completing the business plan?
6. Outline some of the main reasons that business owners should complete a business plan.

## 3.14 Corporate social responsibility management issues regarding business planning

**KEY CONCEPT** A business owner should consider corporate social responsibility when planning a business.

When planning a business, a business owner needs to consider corporate social responsibility management issues. The federal government's [business.gov.au](http://business.gov.au) website recommends that a business plan includes a sustainability plan section, in which the owner outlines: environmental and resource impacts, community

impact and engagement, risks and constraints, and strategies for minimising or mitigating the business's environmental impact as well as any risks to the business.

To be socially responsible, a business must not simply abide by the laws and generate the largest profit possible; it needs to consider how it can go above and beyond its basic legal requirements to improve the welfare of its **stakeholders**, including its employees, customers and the wider community.

### 3.14.1 Why corporate social responsibility?

Customers are growing more conscious of the effects businesses have on the wider community. A business that generally acts in a socially responsible manner is far more likely to attract customers. A failure to do so can result in customers **boycotting** the business and turning to more socially responsible competitors.

A business that fails to act ethically towards its employees can sour the relationship it has with its most important asset. Dissatisfied workers are far more likely to leave a business, resulting in an expensive process of finding and training new staff to replace them. Many businesses today see the benefits that corporate social responsibility has on **staff morale**, which in turn leads to a more productive workplace and greater **employee retention**.

A business owner should be aware that acting in a socially responsible manner does have costs and/or limitations. Implementing corporate social responsibility practices has a financial cost. For example, measures such as installing solar panels or water tanks to reduce the impact of the business's operations on the environment, can mean that the business will face significant expenses in the short term.

Planning and managing a business in a socially responsible manner can also be time consuming. Planning socially responsible practices and then producing policies that reflect them can divert resources from other important tasks. Although planning to implement socially responsible practices can result in the business having a good reputation, there is no guarantee that this will occur.

The way in which it treats people is considered a key element of a business's commitment to corporate social responsibility.



### 3.14.2 How to be socially responsible

While each business will find itself in different circumstances that may test its commitment to corporate social responsibility, the following issues are ones that most owners might consider when planning a business.

#### Environmental issues

When making planning decisions, the business owner should consider the potential impact of their business on the environment. For example, the owner may decide to better manage the business's energy use. As well as benefiting the environment, this will also reduce the business's energy costs. Consideration may also be given to recycling, waste reduction measures and using sustainable resources.



To determine the impact of the business on the environment, the owner may choose to conduct an **environmental audit**. This will help the owner to assess the nature and extent of the business's impact on the environment and how it can be managed. An environmental audit can also demonstrate accountability to stakeholders, such as shareholders, customers, the government and the community.

The business owner may also consider setting up an **environmental management system (EMS)**. Implementing an EMS during the planning process will allow the owner to manage the business's environmental impact in a systematic and methodical manner. The owner may choose to have the EMS accredited to the ISO 14001 standard; this means that the business meets the requirements of the international standard for an effective environmental management system. Use of the standard can assure stakeholders that the business is measuring its environmental impact and is improving it.

Implementing an EMS and having it accredited to the ISO 14001 standard can provide assurance to stakeholders that the business is measuring and improving its environmental impact.



### Customer issues

The prospective business owner must plan to meet the needs of customers. Without customers, a business will not survive. Therefore, customer satisfaction will also be an important consideration for a business owner. The products that the business will produce should be of a high quality. The owner must also ensure that the business's products are safe and reliable. Customers must be treated fairly and equitably. The business should not engage in misleading or deceptive behaviour. Many of these issues are also legal responsibilities that are specified under the *Competition and Consumer Act 2010* (Cwlth) and within Australian Consumer Law. However, a business owner should plan to go above and beyond basic legal requirements. Businesses that plan to respect and satisfy customers are much more likely to experience success.

### Staffing issues

Given that the decisions a business owner makes will often have a great impact on employees, it is of the utmost importance that the socially responsible management of staff be considered when planning the business. When planning, the business owner should consider:

- *fair pay*. Businesses are increasingly shifting production overseas where labour is cheaper and laws against the exploitation of workers are not enforced (or non-existent). A business owner should ensure that employees will be compensated fairly for the tasks they will perform regardless of where they work.
- *safe and healthy working conditions*. A business should ensure that its workers' health and safety is the highest priority. While this is also a legal requirement, a business owner should plan to act above and beyond the law. Regardless of where production is taking place, a socially responsible business must ensure that there are no long-term health consequences for people it employs.

While exploiting workers in poorer nations may seem like a cheaper option for businesses, it can result in socially conscious customers boycotting the business.





- *employing disadvantaged groups.* A business owner may plan to make a positive contribution by offering employment opportunities to disadvantaged or marginalised members of society. People who have been released from prison, are from rural Indigenous communities, or who live with a physical or mental disability often find it difficult to find gainful employment. The government recognises the difficulty that certain groups have finding employment and will often subsidise businesses to employ such people.

The government provides support to businesses that employ people with disabilities.



### DID YOU KNOW?

As a general rule of thumb, it costs 40 per cent of the annual salary of a departed worker to replace them.

### 3.14.3 Socially responsible policies

A business needs to ensure that the policies it develops reflect a commitment to social responsibility. It is through policies that the business can set expectations for its employees and define what it deems to be appropriate behaviour. When planning the business, the owner can develop policies in the areas of environmental sustainability, workplace bullying, equal opportunity for all employees, employee leave and flexible work arrangements.

## study on

Unit 1 > AOS 3 > Topic 2 > Concept 10

**Socially responsible businesses** Summary screen and practice questions

## 3.14 Activities

### TEST your understanding

1. What are the benefits of a business being socially responsible?
2. Explain what might happen if a business fails to consider corporate social responsibility.
3. Why do you think it is so costly to replace a worker who has left the business?
4. Distinguish between an environmental audit and an Environmental Management System.
5. Explain why it is important for a business owner to consider the potential impact of their business on the environment.
6. What customer issues should a business owner consider when planning a business?
7. Outline some of the corporate social responsibility issues related to staffing that might be considered by a business owner when planning a business.

### APPLY your understanding

8. List three ways in which the following businesses could ensure that they are acting in a socially responsible manner with regard to their internal environment:
  - (a) a clothing manufacturer considering shifting their operations to Bangladesh
  - (b) a mining company that mainly extracts coal in Queensland
  - (c) a Victorian pesticide manufacturer that specialises in the production of rat poison.

9. The image below is the work of a world-famous British graffiti artist who goes by the alias of 'Banksy'.
- Briefly write your first impressions of the image.
  - Why do you think the artist has illustrated a young boy operating the sewing machine?
  - What do you think is the significance of the boy sewing a British flag?
  - Do you think that an Australian flag would be equally relevant? Why or why not?



### EXAM practice

- Describe two corporate social responsibility management issues regarding business planning. **(4 marks)**
- Discuss the issues that should be considered by a business planning to implement practices related to corporate social responsibility. **(4 marks)**

## 3.15 APPLY YOUR SKILLS Planning decisions in response to internal factors

### PRACTISE YOUR SKILLS

- Define, describe and apply relevant business management concepts and terms
- Acquire, record, interpret and share business information and ideas
- Research and analyse case studies and current examples of business management applicable to planning a business
- Apply business management knowledge to practical and/or simulated business situations
- Discuss the decisions made in response to the internal factors that affect a business

### HOW NIMBLE JUMPED ON THE ACTIVEWEAR FASHION TREND

Hailing from Melbourne, best friends Vera Yan and Katia Santilli are most comfortable dressed all in black.

But after moving to Bondi the pair embraced the area's lifestyle and found themselves attending exercise classes on a daily basis and getting around in their activewear.

'We saw activewear was not just for the gym anymore,' says Yan. 'There was a lot of technical apparel available like Lululemon and Nike but there was not the fashion option.'

Seeing a gap in the market for an activewear brand that featured fashionable prints, met technical requirements and was sold at an accessible price point, the pair launched Nimble Activewear in 2014.

Within three years the business grew to employ 14 staff, turn over \$4 million a year and open two stores in Bondi in Sydney and Armadale in Melbourne.

## Launching from the kitchen table

Yan and Santilli started Nimble Activewear on the side while still working, and self-funded the business without any outside investment.

‘Our office was our kitchen table and our warehouse was the hallway,’ says Santilli. ‘We see every step through ourselves — from the design process, to sourcing fabrics to the pattern making and manufacturing process.’

The early days of building the business had its challenges.

‘Part of being in business is about being so resilient,’ says Yan. ‘We did a photo shoot with a photographer who accidentally used an underwater camera. It was a cheap deal for a photographer and a studio to shoot in, but when the photos came back the model looked so distorted and short. We had to completely reshoot the whole thing.’

## Bricks and mortar retail

The pair started out selling Nimble through their own online store and via Stylerunner and The Iconic.

‘Julie [Stevanja, founder of Stylerunner] was amazing and picked us up very early,’ says Yan.

Traditional retail stores came next.

‘Opening up the Bondi store was a really big turning point for us,’ says Yan. ‘For us the bricks and mortar is so important. Online and retail are an equal split of our business. We hold a lot of free instore events, whether that is a yoga or pilates class or free talks. We try to team up with like-minded businesses.’

## Activewear boom

Nimble has tapped into the rise of leggings as the new jeans, with Ibisworld valuing the fitness and athletic clothing stores market at \$2 billion in Australia.

‘Sportswear is no longer confined to gyms or sporting fields, with consumers increasingly wearing their fitness apparel and footwear as streetwear or casual wear,’ Ibisworld’s report states. ‘This trend has driven strong demand for fashionable activewear that can be worn in or out of the gym.’

Ibisworld predicts industry revenue will increase by an annualised 5.7 per cent over the five years through 2017–18, and Yan and Santilli want to ride that growth.

‘When we launched, activewear was really crossing over in the fashion space,’ says Santilli. ‘People are very busy, they don’t want to get changed after the gym and they want to be comfy. We showed in fashion week in Sydney in May and that was a real indication of the crossover.’

Yan and Santilli list their major competitors as The Upside, PE Nation, Running Bare, Dharma Bums and Lululemon.

‘There is more and more competition, but I think that is a healthy thing,’ says Santilli. ‘We have put a lot of research into our product because at the end of the day we are a technical brand. If they can’t sweat and do an intense workout people won’t come back to us.’

Over the next five years the pair want to open eight stores Australia-wide and further develop their online business, which currently makes 15 per cent of its sales internationally.

‘We think activewear is the Australian apparel product that swimwear was,’ says Yan.

**Source:** Extracts from C Waters, ‘Not just for the gym: How Nimble jumped on the activewear fashion trend’, *The Age*, 22 December, 2017.

Vera Yan and Katia Santilli started their business through an online store, and then also established bricks and mortar stores in Bondi and Armadale.



Nimble Activewear’s growth has been driven by the strong demand for fashionable activewear.



## 3.15 Activities

### TEST your skills

1. Read the case study 'Not just for the gym: How Nimble jumped on the activewear fashion trend'. Outline why Vera Yan and Katia Santilli started an activewear business.
2. Yan and Santilli initially established their business as online only. Why do you think they did this?
3. As well as a store in Bondi, Nimble Activewear has also opened a store in High Street, Armadale (a popular shopping strip in Melbourne). Explain the factors that would have affected this choice of location.
4. Describe Yan and Santilli's initial source of finance, and the factors that would have affected that choice.
5. Nimble Activewear is a private limited company. What does this mean?
6. Describe Nimble Activewear's business model.
7. Using examples, explain how Yan and Santilli's planning decisions were somewhat influenced by factors in the external environment.

### APPLY your skills

8. Working in a small group, copy the table below. Use the second column to briefly explain how Yan and Santilli planned in relation to each internal factor. In the third and fourth columns, outline the strengths and weaknesses of the planning decisions made by Yan and Santilli. One decision has already been completed for you.

| Planning decision                                             | Application to Nimble Activewear                                            | Strengths                                                                                                                                                                            | Weaknesses                                                                                                                                                                                                        |
|---------------------------------------------------------------|-----------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Business location                                             |                                                                             |                                                                                                                                                                                      |                                                                                                                                                                                                                   |
| Sources of finance                                            | Yan and Santilli self-funded their business without any outside investment. | This source of finance is cheaper than other sources as there are no interest payments. As Yan and Santilli contributed the equity they retain control over how the finance is used. | Yan and Santilli would have expected a good return on their investment, but the small amount of finance may have only generated low profits and low returns. It can often take time for an owner to raise equity. |
| Purchasing an existing business / establishing a new business |                                                                             |                                                                                                                                                                                      |                                                                                                                                                                                                                   |
| Legal business structure                                      |                                                                             |                                                                                                                                                                                      |                                                                                                                                                                                                                   |
| Business model                                                |                                                                             |                                                                                                                                                                                      |                                                                                                                                                                                                                   |

9. The task word (sometimes referred to as command word or instructional word) 'discuss' generally requires you to consider both sides of an issue. This might mean writing about the advantages and disadvantages, the strengths and weaknesses or the benefits and costs.  
Using the information you have recorded in the question 8 table, discuss three decisions that Yan and Santilli made in response to the internal factors affecting Nimble Activewear.
10. Suggest two corporate social responsibility management issues that Yan and Santilli may have considered when conducting business planning. Explain the benefits and limitations of these issues.

## 3.16 Review

### 3.16.1 Summary

#### Business resource needs

- Resources are all those people and objects that are needed for the business to function properly.
- There are three categories of resource that a business needs to plan for: natural, labour and capital.

#### Business locations

- Different types of business will be suited to different locations, and the business owner must consider a number of factors when determining the most appropriate location for their particular business.
- Factors to consider include visibility, cost, proximity to customers, suppliers, competitors and complementary businesses.

#### Sources of finance

- There are two types of finance sources available to a business. The business owner can contribute their own funds (equity or capital), which is an internal source of funds. The business can also obtain finance from external sources, by taking on debt or applying for a grant.
- Equity is the funds contributed by the owner/s of a business to start and build the business.
- The main forms of debt are a bank overdraft, bank bills, leasing, trade credit and a mortgage.
- Governments are also providers of finance in the form of grants.
- Businesses must find the source of finance that is most appropriate to their activities.
- Other considerations in financing the activities of a business include the flexibility of the finance, the availability of finance and the level of control maintained by the business.

#### Purchasing an established business or commencing a new business

- A person wishing to go into business has a choice of either purchasing an existing business, with all its existing strengths and weaknesses, or commencing a completely new business.
- Establishing a new business is likely to benefit a business owner who has recognised a gap in the market or who has developed a totally new product.
- Purchasing an existing business is likely to benefit a business owner who is seeking instant income and a proven track record.

#### Types of legal business structures

- A number of different legal ownership structures are available to a person wishing to establish a business.
- The most common are unincorporated businesses such as sole traders and partnerships, which each carry particular legal requirements and responsibilities.
- Incorporation allows a business to become a company, which is a legal entity separate from its owners, and which provides the benefits of limited liability to those owners.
- Private limited companies and public listed companies are the two major forms of incorporated business ownership.

#### Types of business models

- A business model is the way in which the business will run its operations to generate a profit. The business owner will select a business model that meets the goals of the business.
- Business models include online business, bricks and mortar business, importer and exporter.
- Buying a franchise to use an existing brand name and reputation is a popular business model.
- Another business model is social enterprise — this is a business that produces goods and services for the market, but operates with the primary objective of fulfilling a social need.



### Business support services

- The business owner has access to a number of other businesses or individuals, such as solicitors, accountants and banks, which provide expert professional advice and support in the areas of law and finance in return for fees and other remuneration.
- Various levels of government and not-for-profit organisations also provide a wide variety of support services for business, such as technological advice.
- Formal networks include Chambers of Commerce, VCCI, Small Business Association of Australia and New Zealand, trade associations and government.
- Informal networks include networks of friends, colleagues and local business owners.
- Community-based services include Business Enterprise Centres and Small Business Centres Victoria.
- A business mentor can provide valuable guidance to a business owner.

### Planning tools and business plans

- Planning is an essential part of establishing and running a business.
- A business has many tools available to assist in the planning process.
- A business can get a better understanding of its customers and competitors by conducting market research.
- A SWOT analysis helps a business identify its internal strengths and weaknesses as well as external opportunities and threats.
- A typical business plan should include an executive summary, operations plan, financial plan and marketing plan.

### Corporate social responsibility management issues

- A business should consider how it can go above and beyond legal requirements to improve the welfare of its stakeholders.
- A failure to act in a socially responsible manner can result in customers boycotting the business's goods or services as well as employees leaving due to low staff morale.
- A business owner should consider the potential impact of the business on the environment when planning. The owner may consider conducting an environmental audit and setting up an environmental management system.
- A business owner should plan to ensure that the needs of customers are taken into consideration.
- A business owner should ensure that staffing issues are considered when planning. For example, safe and healthy working conditions for employees above and beyond legal requirements should be established; fair wages should be provided regardless of where employees are from; and a business may also consider employing workers from disadvantaged groups.
- A business owner should plan to ensure that policies are in place that reflect a commitment to corporate social responsibility.

## 3.16.2 Key terms

**accountant** a professional who provides advice on all financial management issues and taxation obligations

**angel investors** individuals or businesses that invest in a new business. They are likely to expect a return on their capital, as well as taking a role in supporting the business owner.

**bank overdraft** when a bank allows a business or individual to overdraw their account up to an agreed limit for a specified time, to help overcome a temporary cash shortfall

**bootstrapping** starting a business using personal finance or the revenue from the business

**boycott** when a customer refuses to purchase goods or services from a business as a form of protest against the undesirable activities of the business

**bricks and clicks** the business model that offers customers the choice of online shopping as well as shopping at the physical store

**bricks and mortar** the traditional business model that is based on a store with a physical presence, such as those located on shopping strips and in shopping centres

**business entity** any organisation that exists separately to its owner in order to produce and sell goods and services

**business model** the way in which the business will run its operations to generate a profit

**business plan** a written statement of the goals and objectives for the business, and the steps to be taken to achieve them

**capital resources** the tools and machinery that are used to produce goods or perform services

**complementary businesses** products that are aimed at the same customers

**crowdfunding** a method of raising finance through appeals for donations via social media and the internet

**debt** the funds provided by banks, other financial institutions, government and suppliers, and which must be paid back over time, with interest

**employee retention** the ability of a business to keep employees

**environmental audit** a review of the extent to which a business's activities have an impact on the environment.

**environmental management system** a tool for managing a business's environmental impact in a systematic and methodical manner

**equity** the funds contributed by the owner(s) of a business to start and build the business

**franchise** when a business sells to others the rights to distribute its goods and use the business name

**franchise agreement** an agreement whereby the franchisor grants the franchisee the rights to use its business name and distribute its goods or services

**franchisee** a business that is licensed to operate under the name of an existing business and distribute its goods or services

**franchisor** the owner of the original business concept that licenses another business to use its name and distribute its goods or services in exchange for royalty payments and fees

**goodwill** the monetary value attached to the reputation of a particular business

**imports** goods and services that are produced overseas and sold to Australian consumers

**incorporated** a business that has a separate legal existence apart from its owner/s

**incorporation** the process that a business goes through to become a registered company and a separate legal entity

**labour resources** the people that provide their skills, effort and knowledge to the business

**leasing** a way of financing the purchase of assets without a large initial capital outlay

**lessee** the person or business to whom a lease is granted

**lessor** the owner of an asset that is leased under an agreement to the lessee

**limited liability** when the shareholders of a company cannot be held personally responsible for the debts of the business

**manufacturing** a business that produces physical goods, often in a factory setting. These goods are then sold to wholesalers or directly to retailers who then sell the good on to customers at a marked-up price.

**mortgage** a loan secured by the property of the borrower (the business)

**natural resources** items the business uses that come from the natural environment. These include land, water, raw materials etc.

**partnership** an unincorporated business structure with a minimum of 2 and a maximum of 20 owners

**planning** a process or series of actions to achieve an objective

**proprietary (private) company** an incorporated business with a minimum of 1 shareholder and a maximum of 50 non-employee shareholders

**prospectus** a legal document that provides details about investment in the company

**resources** the people and objects that are needed for the business to function properly

**retail** a business that operates by selling goods and services to the customer at a price higher than the cost to produce or purchase the goods in bulk. Examples include Kmart and Target.

**search engine optimisation (SEO)** the strategies used to increase the number of visitors to a website by making it more visible on search engines such as Google

**shareholders** the owners of a company who are entitled to a share of its profits

**silent or sleeping partner** one who contributes financially to a business but takes no part in the running of the business

**social enterprise** a business model that aims to improve the wellbeing of others through its business activities

**sole trader** a business owned and operated by one person

**solicitor** a professional who provides advice on legal matters such as business formation, registration, contracts and legislation



**staff morale** the general level of satisfaction and wellbeing of employees  
**stakeholder** any group or individual who has an interest in, or is affected by, the activities of a business  
**subcontractor** a person that is not directly employed by the business but has been contracted to perform certain tasks  
**terms of finance** the amount of the repayments and frequency at which they must be made  
**unlimited liability** when the business owner is personally responsible for all the debts of his or her business  
**wholesale** a business that sells large volumes of goods to retailers. While wholesalers are increasingly selling direct to the public, they offer heavily discounted prices on bulk purchases such as those made by retailers.  
**working capital** the funds available for the short-term financial commitments of a business  
**zoning** a means by which local councils allocate land for different uses, such as residential, commercial, recreational and industrial

## Resources

 Digital doc: Key terms glossary (doc-29416)

### 3.16.3 Review questions

#### TEST your understanding

1. Identify and explain the three types of resource used in production.
2. Why is it important for the business to give special consideration to how it uses labour resources?
3. Outline three types of physical location that a business may operate from.
4. Briefly explain three activities that you would expect an online business to undertake.
5. Describe five factors that affect the choice of a business location.
6. Name the two main types of external funding.
7. Identify and describe three forms of short-term debt.
8. Identify and describe two forms of long-term debt.
9. What is a government grant?
10. Identify and describe five factors a business should consider when choosing a source of finance.
11. Describe three benefits of purchasing an existing business as opposed to starting from scratch.
12. Describe three benefits of starting a new business as opposed to purchasing an existing one.
13. Outline three advantages and three disadvantages of running a business as a sole trader.
14. Explain three advantages and three disadvantages of a partnership.
15. Describe three advantages and three disadvantages of a company.
16. Explain what it means for a business to be incorporated.
17. Explain the concept of limited liability and why it is beneficial to the owners of a business.
18. Describe two types of online business models, giving real-life examples of each.
19. Why do you think many 'bricks and mortar' businesses are moving towards a 'bricks and clicks' business model?
20. Outline the difference between imports and exports.
21. How are the objectives of a social enterprise different to those of a traditional business?
22. Briefly explain the role of an accountant in supporting a business.
23. Identify and describe one example of a professional organisation that provides support services to businesses.
24. Describe the role of a mentor.
25. What is a SWOT analysis?
26. Explain the importance of developing a business plan.
27. Outline how a policy can be used to help a business achieve a greater level of corporate social responsibility.

### APPLY your understanding

28. Identify a business of which you have some knowledge. It could be a business that employs a member of your family or a friend, or where you work part time. Interview the owner of the business and prepare a report, covering the questions in (a)–(t) below. You should photocopy this page to take into the interview.

If you are unable to arrange an interview with a business, you may research the website of a given business on the internet to find the information required for the report.

- (a) What are three capital resources that the business uses on a regular basis?
- (b) What are three natural resources that the business uses on a regular basis?
- (c) How many workers does the business have?
- (d) What does the business expect from its workers?
- (e) What do the workers expect from the business?
- (f) How does the business ensure that it treats its workers fairly?
- (g) How does the business ensure that the working environment is safe?
- (h) Where is the business located?
- (i) Why did the business choose this location?
- (j) Are there any disadvantages of its current location?
- (k) How did the business get the finances needed to establish itself?
- (l) How does the business fund its continued operations?
- (m) What form of legal structure is the business?
- (n) Is the business incorporated? If so, has it been so since its establishment?
- (o) What planning did the owner undertake when starting the business?
- (p) What planning tools does the business use today?
- (q) What are the strengths and the weaknesses of the business?
- (r) What opportunities and threats present themselves to the business?
- (s) How does the business show a commitment to corporate social responsibility?
- (t) Does the business have any policies related to corporate social responsibility?

### EXAM practice

29. Distinguish between labour resources and capital resources. **(2 marks)**
30. Explain the costs and benefits of purchasing an existing business or the costs and benefits of establishing a new business. **(4 marks)**
31. Identify a business model and explain the effect that choosing this model will have on the planning of a business. **(3 marks)**
32. Justin and Maynard are considering locating their new computer business in a retail shopping strip.
- (a) Indicate whether or not you believe this is a suitable location. Justify your response. **(3 marks)**
  - (b) Explain how the choices that Justin and Maynard make relating to finance will affect their business planning and, ultimately, the success of the business. **(6 marks)**
  - (c) Identify an appropriate type of legal business structure for Justin and Maynard and discuss the use of this structure. **(5 marks)**
  - (d) Describe two relevant business support services that Justin and Maynard could use. **(4 marks)**
33. Explain why a SWOT analysis is an important planning tool for a business. **(2 marks)**
34. Analyse how corporate social responsibility management issues may affect business planning. **(4 marks)**

## on Resources

 Digital doc: Missing word glossary quiz (doc-29417)

 Digital doc: Crossword (doc-29418)

## study on

Unit 1 > AOS 3 > Topic 1 > Resource, location and finance needs Sit topic test

Unit 1 > AOS 3 > Topic 2 > Business structures, support services and planning tools Sit topic test

### 3.16.4 School-assessed coursework

#### OUTCOME 3

**Describe the internal business environment and analyse how factors from within it may affect business planning.**

#### ASSESSMENT task — case study analysis

Read the following case study and then complete the questions below.

#### A sea change

Phillip and Janice worked in a bank, but had always wanted to run their own business. While on holiday in a small seaside town, they noticed that the local general store and take-away food outlet was up for sale. The business was the only one of its type in the town, but the town is very small and only seems to have a reasonably large population during summer and holiday periods, when the local camping and caravan park and other holiday accommodation are all full. They are very interested in purchasing the store, but realise they have to make a number of important planning decisions before committing to actually making an offer for the store.

Phillip and Janice are considering the purchase of a general store or take-away food outlet such as this one.





Consider the business Phillip and Janice are interested in purchasing and use your judgement to answer the following questions.

1. Describe the business resources that Phillip and Janice are likely to use in the operation of the general store and take-away food outlet.
2. Outline the store location's advantages and disadvantages.
3. Explain two sources of finance that would be suitable for Phillip and Janice as they seek funds to purchase the shop.
4. Analyse Phillip and Janice's decision whether to purchase the existing business as opposed to starting from scratch.
5. What type of legal business structure would be appropriate for Phillip and Janice to use? Justify your response.
6. Explain two business support services that Phillip and Janice could seek advice from.
7. Outline what a bricks and mortar business is, and explain why the general store and take-away food outlet suits this business model.
8. List two opportunities and one threat that the general store and take-away food business might encounter given the information in the case study.
9. Analyse the importance of Phillip and Janice constructing a business plan as they make planning decisions.
10. Outline two issues that Phillip and Janice should consider to ensure that the general store and take-away food business is a socially responsible one.

## Resources



Digital doc: School-assessed coursework (doc-29419)



# UNIT 2

## ESTABLISHING A BUSINESS

### Looking beyond the business idea

Anyone who seeks to successfully establish a business will need to go beyond the good idea, or business concept. At the beginning of Unit 1 we encountered Amanda Wong and her graphic design business, Eclipse Publishing and Design. Amanda's business success has been built on her unique designs and products, but these would not have been sufficient by themselves for business success. All businesses have to conform to a number of legal requirements, and these are important foundations for success. Potential customers have to know that the business exists and what it offers, so a marketing strategy is essential. As the business grows, additional staff have to be recruited and selected, and the quality of these employees is vital for business success.



At the time of establishing her business, Amanda had to register her business name and set up a financial records system so that she could accurately meet her taxation obligations. Failure to meet legal requirements can lead to prosecution and possible fines, which could both cripple the business financially and destroy its reputation.

Marketing and public relations are ongoing issues for all businesses. Potential customers have to be identified, and made aware of the existence of the business, particularly if it is a newcomer to the marketplace. As is often the case, Amanda relied on word of mouth, and return business from regular customers to drive growth in Eclipse Publishing and Design.

Highly skilled and enthusiastic employees are the key to business success. Amanda has always made sure she knows exactly the type of person she is looking for when hiring new staff, and she takes an active role in the process.

| AREA OF STUDY                                            | OUTCOME                                                                                                                                                                                                                                             | CHAPTER                                           |
|----------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------|
| <b>1 Legal requirements and financial considerations</b> | Explain the importance when establishing a business of complying with legal requirements and financial record keeping, and establishing effective policies and procedures.                                                                          | 4 Legal requirements and financial considerations |
| <b>2 Marketing a business</b>                            | Explain the importance of establishing a customer base and a marketing presence to achieve the objectives of the business, analyse effective marketing and public relations strategies and apply these strategies to business-related case studies. | 5 Marketing a business                            |
| <b>3 Staffing a business</b>                             | Discuss the staffing needs for a business and evaluate the benefits and limitations of management strategies in this area from both an employer and an employee perspective.                                                                        | 6 Staffing a business                             |

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# CHAPTER 4

## Legal requirements and financial considerations

### 4.1 Overview

#### 4.1.1 Why it is important

A business must ensure that it complies with all aspects of Australia's complex legal system. Australia's many laws promote fair business practices and in doing so protect workers, consumers and businesses. A business must also ensure that it complies with the financial requirements of running a business by maintaining accurate records. Businesses can use various strategies to ensure that they are fulfilling their legal and financial requirements, such as the development of policies and procedures. By implementing such strategies, businesses can avoid the serious consequences associated with financial mismanagement and breaking the law.



#### SASY N SAVY DEALS WITH LEGAL AND FINANCIAL MATTERS

Sasy n Savy is a natural skincare and aromatherapy business. Samea Maakrun established the business while working as an in-house accountant for other businesses. She was always told that she was entrepreneurial and vibrant.

After developing a business plan for Sasy n Savy, Maakrun launched the company in 2004. She needed to follow the legal requirements for registering the name of the business and, as she was planning to sell online, also needed to register a website domain. Maakrun says the misspelling of the business name is deliberate — to 'make people think outside the square'.

As an experienced accountant, Maakrun knows that accounting is the process that allows a business to control financial areas such as cash flow (making sure there is enough cash to keep the business operating from day to day) and pricing. For Maakrun, this means keeping a lid on costs, making sufficient profit and reinvesting some profit back into growing the business. Sasy n Savy is a debt-free and cash-flow positive business.

Sasy n Savy manufactures natural and organic bath, body and hair care products, using Australian native ingredients, such as Kakadu plum and wild rosella flower. The business has chosen appropriate suppliers that meet Sasy n Savy's corporate social responsibility objectives. With staff and contractors in Australia, and agents in overseas countries, Maakrun sells in Australia at selected retailers and online through her website.

The company opened its first stand-alone store in Sydney in 2014. Sasy n Savy's products are now exported to approximately 18 countries.

Samea Maakrun, owner of Sasy n Savy, dealt with legal and financial matters when she established her business.



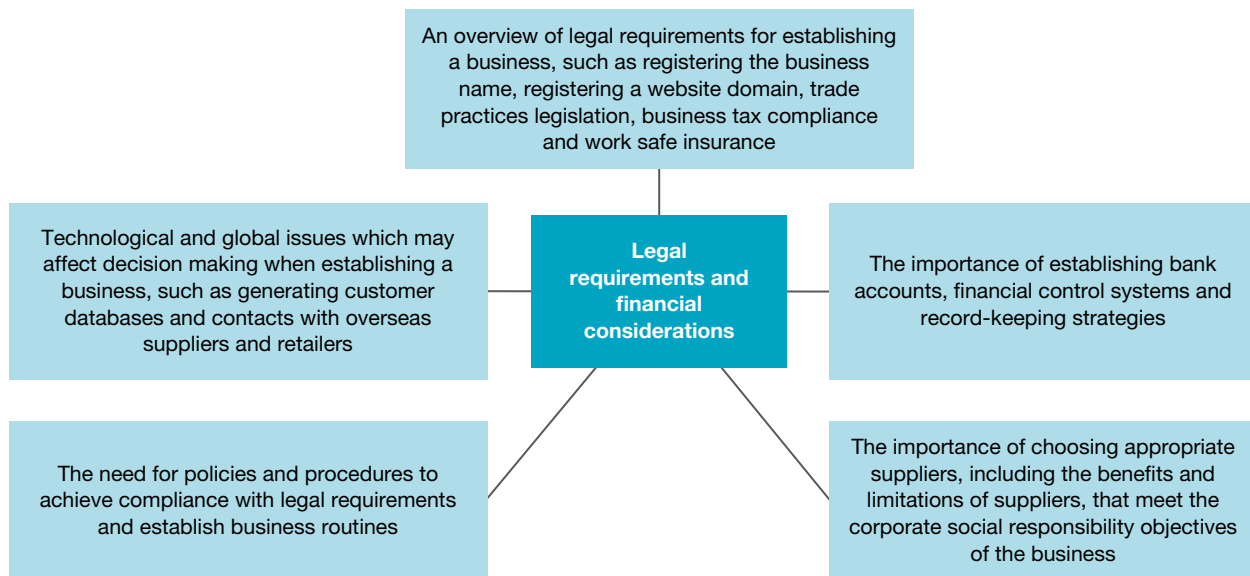


Maakrun's business has certainly grown over its 15 years of operation. However, Sasy n Savy has also become an award-winning business. For example, it won the 2016 Acquisition International (AI) Business Excellence Awards UK — Best for Natural Skincare & Wellbeing Products.

## 4.1.2 What you will learn

### Key knowledge

Use each of the points from the VCE Business Management Study Design below as a heading in your summary notes.



### Key skills

These are the skills you need to demonstrate. Can you demonstrate these skills?

- Define, describe and apply relevant business management concepts and terms
- Acquire, record, interpret and share business information and ideas
- Research and analyse case studies and contemporary examples of business management applicable to establishing a business
- Apply business management knowledge to practical and/or simulated business situations
- Evaluate the costs and benefits of decisions when establishing a business, and justify the strategy chosen

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### Resources

 Digital doc: Key terms glossary (doc-29420)

## 4.2 Legal requirements

**KEY CONCEPT** A business must ensure that it is familiar with all of the various legal requirements that may affect it. A failure to do so can have serious consequences for the business and its owners.

### 4.2.1 Legal and government regulations

There are many licences, permits, approvals and authorities which must be taken into account by business owners. All business owners have a legal obligation to observe the statutory regulations when commencing and operating a business. Fulfilling all legal obligations may be frustrating at times, particularly when more than one level of government is involved. However, businesses that do not obey the law risk losing customers and their reputation, being fined, or losing the right to continue trading. Businesses can evaluate their performance according to the extent to which they have observed laws and regulations. Observing the law, and indeed, exceeding legal expectations, can lead to a business outperforming competitors.

Business names such as this one must be registered.



### 4.2.2 Business name registration

The Australian Securities and Investments Commission (ASIC) is now responsible for a national business name registration service. Businesses need to register their business name, except when the name is that of the owner, and then it is optional. If something is added to a personal name, such as 'Pty Ltd', 'Motors', 'and Associates' or 'and Co', then the business name must be registered. This is to prohibit anyone else from trading under a similar name, and to protect consumers by allowing them to identify the owner of a business name.

The owner must have an Australian Business Number (ABN) or an ABN application reference number to apply for a business name. Before registering a business name, the owner should conduct a search on the ASIC website to check whether the name is already taken.

Registration of a business name does not protect or establish any specific rights to that name. If the business name is a crucial part of the business's operation, then it should also be registered as a trademark with the federal agency responsible for intellectual property (IP Australia), which administers the *Trade Marks Act 1995* (Cwlth).

The owner of a company can register the business's name, although a company name is not compulsory. A company can be known by its Australian Company Number (ACN), a unique number ASIC issues to every registered company. The public must be able to tell if the registered company is a public or private company. For example, a private limited company must include the words 'proprietary' and 'limited' or abbreviations of these words at the end of its name. The name of a company can be registered when the owner goes through the process of registering his or her company.

#### **on** Resources

 **Weblink:** ASIC business name availability

### DID YOU KNOW?

A sole trader business must be registered if the name is different from that of the owner. If Paul Jones, for example, operates a lawnmowing service under the name of P. Jones or Paul Jones, then the name of his business does not need to be registered. If, however, he calls his business Paul's Lawn and Garden Service, he would have to register the name.

## 4.2.3 Registering a domain name

With the rapid growth of e-commerce it is becoming a necessity for most businesses to develop an online presence. A key element of a business's online presence will be the **domain name**, which is the address of its website on the internet.

It is important that the business chooses a unique domain name that represents its activities. It also helps if the domain name is easy to remember and spell, so that customers can find the website without difficulty — for example, kraplumbing.com.au.

A business can register multiple domains to help its customers find them more easily and to prevent other businesses from registering a similar domain name that might confuse customers. A business can see whether a domain name has already been registered by checking the registry online.

Domain names can be registered through resellers and registrars by visiting the Australian Domain Administration website. Although building and hosting a website can cost thousands of dollars, registering a domain name generally only costs between \$10 and \$100 per year.

A domain name is the address of a website on the internet.



### study on

Unit 2 > AOS 1 > Chapter 1 > Concept 1

Registering business and domain names Summary screen and practice questions

### on Resources

-  **Weblink:** Domain name availability
-  **Weblink:** Australian Domain Administration

## 4.2.4 Taxation regulations

Taxation is a means by which the government finances its expenditure by collecting money from individuals and businesses. Tax can be imposed, for example, on income, on capital gains and on the provision of goods and services. Many different taxes apply to different types of businesses, and it is important that a person starting a business becomes familiar with all relevant tax regulations. Some of the main taxes that affect a business are imposed by the federal and state governments and are shown in the table and figures on the next page. The **Australian Taxation Office (ATO)** is the government body in charge of administering and collecting tax for the federal government.

A business owner establishing a partnership or company will need to obtain a tax file number (TFN) for the business. This is a unique number issued by the ATO to individuals and organisations to assist with managing tax and other government services. A TFN can be acquired at the same time as an ABN. A sole trader will need to use their individual TFN when dealing with the ATO.

## Income tax

Federal income tax is levied on the taxable income of an individual or a business. It is calculated differently for individuals and companies. Companies pay a flat rate tax of 30 per cent for larger businesses or 27.5 per cent for businesses with a turnover less than \$50 million. Individuals, on the other hand, pay a **progressive tax rate**, whereby the rate of tax increases with the amount they earn.

| Personal tax rates 2018–19                                            |                                               |
|-----------------------------------------------------------------------|-----------------------------------------------|
| Tax scale — including changes announced in the 2018–19 Federal Budget |                                               |
| Taxable income                                                        | Tax on this income                            |
| 0 to \$18 200                                                         | Nil                                           |
| \$18 201 to \$37 000                                                  | 19c for each \$1 over \$18 200                |
| \$37 001 to \$90 000                                                  | \$3572 plus 32.5c for each \$1 over \$37 000  |
| \$90 001 to \$180 000                                                 | \$20 797 plus 37c for each \$1 over \$90 000  |
| \$180 001 and over                                                    | \$54 097 plus 45c for each \$1 over \$180 000 |

## Other federal and state taxes

There are many other federal taxes that apply to businesses, depending on their activities. The business owner may need to register their business for pay as you go (PAYG) withholding, goods and services tax (GST) and fringe benefits tax (FBT).

| Major federal taxes that apply to business                                                                                                                                                                                                                                                                                                 |
|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Pay as you go (PAYG) withholding</b> <ul style="list-style-type: none"> <li>• Taken from an employee's salary or wage directly</li> <li>• Imposed on the employee</li> </ul>                                                                                                                                                            |
| <b>Goods and services tax (GST)</b> <ul style="list-style-type: none"> <li>• A broad-based tax of 10 per cent on the supply of most goods and services consumed in Australia</li> <li>• Imposed on all consumers</li> <li>• Businesses are only required to register for GST if they earn \$75 000 or more in a financial year.</li> </ul> |
| <b>Fringe benefits tax (FBT)</b> <ul style="list-style-type: none"> <li>• Tax on the provision of a benefit to an employee — such as a car for private use, or a low-interest loan — in place of a wage or salary</li> <li>• Imposed on the employer</li> </ul>                                                                            |
| Major state taxes that apply to business                                                                                                                                                                                                                                                                                                   |
| <b>Stamp duty</b> <ul style="list-style-type: none"> <li>• Placed on documents that give evidence to transactions</li> <li>• Imposed on the individual or business</li> </ul>                                                                                                                                                              |
| <b>Land tax</b> <ul style="list-style-type: none"> <li>• Annually levied on the owner of the land</li> </ul>                                                                                                                                                                                                                               |

## Business activity statement

Any business registered for GST must complete a business activity statement (BAS). This is a form submitted to the ATO to report a business's taxation obligations. Businesses can remit tax due on income earned during the period as well as any GST and employee PAYG withholding obligations. The BAS is lodged periodically with the ATO.

Keeping up with tax requirements can be a daunting task for individuals, let alone businesses with many complicated transactions. A business owner should seek help from the Australian Taxation Office or a registered tax agent when unsure.



## studyon

Unit 2

AOS 1

Topic 1

Concept 2

**Taxation requirements** Summary screen and practice questions

## 4.2.5 Work health and safety regulations

A business owner is legally responsible for implementing health and safety practices in the workplace when he or she establishes a business. Under the *Work Health and Safety Act 2011* (Cwlth), a business owner must ensure the health and safety of workers while they are at work in the business, so far as is reasonably practicable. Each state and territory in Australia is expected to pass its own laws consistent with the Commonwealth Act so that occupational health and safety laws are uniform across all states.

In Victoria, the *Occupational Health and Safety Act 2004* (Vic) is the principal legislation covering occupational health and safety. This Act:

- secures the health, safety and welfare of employees and other persons at work
- eliminates risks to health, safety or welfare of employees and other persons at work
- ensures that the health and safety of other members of the public is not placed at risk by the conduct of undertakings by employers and self-employed persons
- provides for the involvement of employees, employers and organisations representing those persons in the formulation and implementation of health, safety and welfare standards.

Employers should ensure that the equipment being used by employees is regularly checked for faults that may present a safety hazard.





## WorkSafe insurance (WorkCover)

In Victoria, work health and safety legislation is administered by **WorkSafe Victoria**. This government agency aims to reduce workplace injuries and support injured workers. WorkSafe has the power to inspect work sites and prosecute employers for any breaches of health and safety requirements.

As well as enforcing Victoria's occupational health and safety laws, WorkSafe provides WorkCover insurance, which is a compulsory expense for Victorian employers. It provides employers with insurance cover for the cost of benefits if workers are injured or become ill as a result of their work.

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.

### study on

Unit 2

AOS 1

Topic 1

Concept 3

Work health and safety regulations Summary screen and practice questions

## 4.2.6 Consumer protection and fair competition

Australia has both federal and state laws in place to ensure that businesses and consumers are protected from unfair trading practices. Furthermore, each major industry has its own **code of practice**, which provides businesses with guidelines for dealing with customers. A business must familiarise itself with its industry's code of practice as well as any state or federal laws that may affect its day-to-day operations. A failure to abide by these laws can result in heavy fines for the business.

The business owner must comply with trade practices legislation when establishing his or her business. The *Competition and Consumer Act 2010* (Cwlth) is a federal law that specifies what business behaviour is acceptable in relation to a wide range of issues, from product safety and pricing to the way in which a business competes in the marketplace. The Australian Consumer Law is set out in Schedule 2 of the *Competition and Consumer Act* and covers issues such as misleading or deceptive conduct, unfair practices, conditions and warranties. The *Competition and Consumer Act* is administered by the **Australian Competition and Consumer Commission** (ACCC), which promotes competition and fair trading across the nation. Australian courts and tribunals can enforce the *Competition and Consumer Act* and the Australian Consumer Law.

In Victoria, the Australian Consumer Law is enacted through the *Australian Consumer Law and Fair Trading Act 2012* (Vic). This legislation is administered by **Consumer Affairs Victoria**.

Australian federal and state laws aim to create a fair and safe market for both consumers and businesses.



## Anti-competitive practices

The *Competition and Consumer Act 2010* either prohibits or places strict controls on the following activities by business:

- *Cartels (ss.45AA–45AU)*. A cartel exists if two or more businesses that would normally be in competition with each other agree to act together. The Act prohibits businesses from making agreements with competitors to fix prices, rig bids, share markets or restrict outputs. For example, it is illegal for businesses to communicate before lodging bids and agree among themselves who will win and at what price (rigging bids). It is illegal for two businesses in competition with each other to agree to set identical prices for their products (price fixing).
- *Misuse of market power (s.46)*. The Act prohibits businesses with a substantial degree of market power from engaging in conduct that has the purpose, or has or is likely to have the effect, of substantially lessening competition in a market. For example, a business should not take advantage of its power to damage or get rid of a competitor, prevent anyone from competing in a market or prevent another competitor from entering a market.
- *Exclusive dealing (s.47)*. This occurs when one business trading with another imposes restrictions on the other's freedom to deal with other businesses. An example is when a hair products supplier will only sell to a hairdresser on the condition that the hairdresser does not purchase hair products from a competitor of that supplier. This can be legal in some circumstances if it is not seen to lessen competition in the market for the products in question. For example, McDonald's sells Coke products but not Pepsi. Businesses that wish to enter such an arrangement, and believe it may be legal, must notify the ACCC of the agreement. The ACCC will then examine the details before either approving or disallowing the arrangement.
- *Resale price maintenance (s.48)*. This occurs if a supplier sets the prices at which retailers will sell their products. Suppliers can recommend a retail price for the sale of their goods, but it is illegal to attempt to force a retailer to sell at that price. It is also illegal to set a minimum price that sellers must not sell below, and to force a retailer not to discount goods. On the other hand, it is quite legal for a supplier to insist on a maximum price, as this can discourage a retailer who has a monopoly in a particular location from overcharging customers.
- *Mergers and acquisitions (s.50)*. The Act prohibits any **merger** or **acquisition** that would have the effect, or be likely to have the effect, of competition being substantially lessened. Mergers between one or more businesses and acquisitions can be important for the efficient functioning of the economy, as they can allow businesses to achieve efficiencies and spread their risk. Therefore, a merger or acquisition may be permitted if it does not substantially limit

Japanese company Nippon Yusen Kabushiki Kaisha (NYK) was convicted of criminal cartel conduct and ordered to pay a fine of \$25 million in the Federal Court in 2017. Following an extensive investigation by the ACCC, the large shipping company admitted colluding with other shipping lines for contracts to import cars. The cartel affected vehicles transported to Australia by NYK and other shipping lines from Asia, the United States and Europe on behalf of major car makers including Nissan, Suzuki, Honda, Toyota and Mazda. The fine was the second largest imposed in ACCC history.



In 2017, the ACCC announced that it intended to oppose BP Australia Pty Ltd's proposed acquisition of Woolworths Limited's network of retail service station sites. In ACCC Chairman Rod Sims' view, the acquisition would 'be likely to substantially lessen competition in the retail supply of fuel'.



competition. Planned mergers and acquisitions must be notified to the ACCC, which will determine if they can proceed.

## The Australian Consumer Law

The following are some of the undesirable and misleading practices that are illegal under the Competition and Consumer Act:

- *Misleading or deceptive conduct.* A business must not engage in conduct that is misleading or deceptive or that is likely to mislead or deceive. For example, advertisements must not use words that are deceptive or claim that a product has some specific quality when it does not. Such actions convey a false impression of the exact nature of the product. Additionally, price reductions or specials must be genuine. Another example would be a business using the word ‘free’ in a ‘buy one, get one free’ offer but not revealing the full truth — that the price of the first item was increased to cover the cost of the second item. It is against the law to use a brand name similar to a well-known brand or use an Australian-made logo when the product was made overseas.
- *Unconscionable conduct.* This is conduct in business transactions that is unfair or unreasonable and goes against good conscience. It is illegal for businesses to engage in unconscionable conduct when dealing with other businesses or with customers.
- *Unfair contract terms.* Consumers are protected from unfair terms in a contract (a legally enforceable agreement between two or more parties). A term of a consumer contract may be deemed unfair if it would cause a significant imbalance between the business’s rights and obligations and those of the consumer — if it is not reasonably necessary to protect the legitimate interests of the business and if it would cause detriment (financial or non-financial) to a party if it were to be enforced. An example would be when the contract permits the business to vary prices without notifying the customer. Negotiations should be based on a principle of fair and open dealing. Contracts must be clearly expressed, legible and available to all parties.
- *False or misleading representations regarding goods or services.* A false or misleading representation is a statement that is untrue, such as claiming that a motor vehicle has a certain fuel consumption performance when it does not.
- *Offering gifts and prizes in connection with the supply of goods and services and then not providing them.*
- *Bait advertising.* This involves advertising products at reduced prices without a reasonable supply for customers to buy. A business attempts to attract customers by advertising some products at lower prices. When the advertised products quickly run out, customers are directed (or switched) to higher priced items.
- *Pyramid schemes.* Participation in pyramid schemes is illegal. A pyramid scheme involves a person or business making money by recruiting people, rather than providing a genuine good or service. Promoters at the top of the pyramid profit from having people join their ‘money making’ scheme. New members are promised payments for recruiting other investors or new participants. Those at the top pocket the fees and other payments made under them. Most participants, however, never make money; most lose all the money they paid to participate.
- *Referral selling.* This occurs when a business offers a customer benefits, such as a special deal or special price, if the customer refers other potential customers to the seller. This is illegal because it may encourage consumers to spend more money than they planned with the expectation that they may recoup some if they encourage others to buy.

The following are some examples of lawful sales practices under the Competition and Consumer Act:

- *Unsolicited consumer agreements.* These are agreements that result from negotiations by phone or at a location other than the seller's place of business, and when a seller, or their sales agent, approaches or calls the consumer uninvited. Unsolicited consumer agreements made through door-to-door sales or telephoning consumers are limited to 9 am to 6 pm on weekdays and 9 am to 5 pm on Saturdays and are not permitted on Sundays or public holidays. This rule does not apply when consumers have agreed in advance to an appointment time for the seller to visit their home. A salesperson must leave immediately if requested and must not contact the consumer again for at least 30 days (with that same product).
- *Lay-by agreements.* These must be in writing and be transparent (expressed in plain language, legible and presented clearly). The agreement must specify all terms and conditions, including any termination charge.
- *'Proof of transaction' and itemised bills.* A retailer must provide an itemised bill on request; a retailer must provide a receipt for all transactions over \$75 and, on request, for transactions under \$75.

Door-to-door sales are tightly controlled by the Australian Consumer Law.



## GET QUALIFIED AUSTRALIA FOUND TO BE MISLEADING, DECEPTIVE AND UNCONSCIONABLE

In 2017, the Federal Court ordered Get Qualified Australia Pty Ltd to pay an \$8 million penalty, and its sole director, Mr Adam Wadi, to pay a penalty of \$500 000, for multiple breaches of the Australian Consumer Law. The Court found the education company, which left thousands of students without the qualifications they paid for, had engaged in misleading and deceptive conduct, unfair contract terms and unconscionable conduct.

Get Qualified Australia's false or misleading representations and misleading or deceptive conduct occurred through a range of practices, including:

- assuring consumers they were eligible for qualifications when, in fact, the company could not directly offer qualifications and its employees were not qualified to assess eligibility
- telling consumers that they would be entitled to a '100 per cent money back guarantee' if they were unsuccessful in obtaining the qualification despite Get Qualified almost always declining students' requests for refunds.

Get Qualified Australia engaged in a system of unconscionable conduct that comprised a number of elements, including:

- false or misleading representations
- obtaining contact details of potential customers through a 'Free Skills Review' function on its website, which produced an automated response irrespective of the information submitted by a consumer
- using unfair sales tactics to pressure consumers into enrolling.

The Federal Court also made declarations that Get Qualified Australia imposed an unfair contract term and entered into unsolicited consumer agreements by making uninvited sales phone calls to people, failing to disclose the full terms of the agreement and requiring payment within ten business days.





ACCC Commissioner Sarah Court said, 'Get Qualified Australia and Mr Wadi took advantage of vulnerable people trying to advance their career. Some examples of the illegal conduct included enrolling people into courses through misleading marketing and unfair sales tactics, not providing the service customers paid for, and refusing customers refunds despite GQA's 100 per cent money-back guarantee promise'.

The ACCC said that the size of the penalties was in keeping with the nature of the conduct.

## Consumer guarantees

The Australian Consumer Law sets out protections for consumers who buy goods and services from businesses. Consumer guarantees are a comprehensive set of rights and obligations in relation to the supply of goods and services to consumers. All suppliers and manufacturers automatically provide guarantees on their products they sell to consumers. These exist regardless of any express warranty provided by the manufacturer. A business cannot eliminate consumer rights under the consumer guarantees, but they can extend and improve these basic rights.

Australian Consumer Law provides the following guaranteed rights:

- The consumer will gain clear legal title to goods; that is, that the seller actually owns the goods being sold, and can legally transfer ownership to the buyer.
- Goods must correspond to any sample, demonstration model or description provided to the buyer.
- Goods must be of acceptable quality; that is, they must be safe, durable, free from defects, acceptable in appearance and finish, and do all the things that the goods are ordinarily used for. If a consumer purchased a sandwich, for example, that turned out to be stale, or contained impurities, the sandwich would not be considered of acceptable quality.
- Products must be fit for a particular purpose. Fitness of purpose means the product will perform as the instructions or advertisement implies. A pair of running shorts being sold as football shorts, for example, would be a breach of a condition to supply goods for the purpose for which the seller knew they were intended.
- Repairs and spare parts are reasonably available.
- Services are carried out with reasonable care and skill.
- Services are completed within a reasonable time.

If a good or service that a customer purchases fails to meet a consumer guarantee, they have the right to ask for remedy through a repair, replacement or refund under the Australian Consumer Law.



### Resources



**Weblink:** Industry fact sheets

**Weblink:** Consumer Affairs Victoria — Fair trading

## 4.2.7 Local government legal requirements

Many business owners overlook the importance of local government regulations. Any business using premises or land must first seek local government approval. Commencing trading before approval is obtained could result in the closure of the business and wasted time, money and energy. Local governments have control over the following business activities:

- land zoning and the purpose for which a building or land can be used
- new development applications and alterations to existing premises
- fire regulations, especially the provision of adequate fire-prevention facilities
- parking regulations governing the number of parking spaces that need to be provided
- health regulations
- business signs — their size, shape and location.

Two important local laws, or by-laws, relate to zoning and health services.



## Zoning regulations

Local government ensures activities that do not belong together, such as those associated with factories and residential areas, are kept separate. This function assists the local community in terms of planning. Each council has a local planning scheme that describes the types of activities or developments that may occur in different areas of a municipality. Land is zoned for particular uses, such as residential, industrial, business or other.

When commencing a business, the owner must enquire with the local council to determine which zoning regulations will affect the business now and in the future. For example, a manufacturing business that uses heavy equipment and wants to operate a 24-hour shift would need to be located where zoning regulations allow it to operate in this way. A location close to a residential area would not be suitable mainly because of the noise pollution the business would create in such an area.

Councils implement the Food Act at the local level through registration and the monitoring and inspection of food premises. Local councils are required to obtain and test food samples to determine if the food produced is safe and suitable for human consumption.



## Health services

Local government also ensures compliance with health regulations under the *Food Act 1984* (Vic). Each local council supplies businesses (primarily those dealing with food, such as cafés, restaurants, butcher shops and bakeries) with the regulations and standards they must meet in order to obtain a licence to operate.

A health officer will inspect premises regularly, often without warning, to ensure the business owner maintains standards. If problems occur, then the business is given a period of time to rectify the situation or it will be closed down. Local councils may also register and inspect other premises such as accommodation and hairdressers to ensure they observe hygiene and safety requirements.

### study on

Unit 2 > AOS 1 > Topic 1 > Concept 4

Trade practices legislation Summary screen and practice questions

## 4.2 ACTIVITIES

### TEST your understanding

1. What are the main objectives of imposing government regulations?
2. Why is it important to comply with legal and government regulations?
3. When is it compulsory to register a business name?
4. Explain why it is important to register a website domain.
5. Describe three federal taxes that a business would be likely to pay.
6. Describe two state taxes that a business would be likely to pay.
7. What is WorkSafe Victoria?
8. Who pays for WorkCover insurance and what does it cover?
9. What is the *Competition and Consumer Act* and which federal body is in charge of administering it?
10. What is the *Australian Consumer Law and Fair Trading Act* and which state body administers it?

11. Explain each of the following anti-competitive practices:
  - cartels
  - misuse of market power
  - exclusive dealing
  - resale price maintenance
  - mergers and acquisitions.
12. Explain each of the following practices that are illegal under the *Competition and Consumer Act*:
  - misleading or deceptive conduct
  - unconscionable conduct
  - unfair contract terms
  - bait advertising
  - pyramid schemes
  - referral selling.
13. Provide a brief description of the following examples of lawful sales practices:
  - unsolicited consumer agreements
  - lay-by agreements
  - 'proof of transaction' and itemised bills.
14. Read about the case brought against Get Qualified Australia. Explain why the Federal Court found the company had engaged in misleading and deceptive conduct, unfair contract terms and unconscionable conduct.
15. Outline the consumer guarantees set out by the Australian Consumer Law.
16. Explain why it is important for a small business owner to comply with the consumer protection provisions of the *Competition and Consumer Act*.
17. What is the purpose of zoning?
18. In what way does local government ensure compliance with health regulations under the *Food Act 1984* (Vic)?

### APPLY your understanding

19. Brainstorm suitable business names for the following businesses and check to see whether they are already registered.
  - (a) Solomon is starting his plumbing business as a sole trader.
  - (b) Slavica is a florist launching her business in the township of Belgrave.
  - (c) Nick and Hubert have decided to go into a business partnership to develop cutting-edge smartphone applications for everyday practical use.
  - (d) Jo is beginning her business as a chiropractor in Mordialloc.
  - (e) Steve is commencing his business as a private investigator in the Melbourne suburb of Mulgrave.
20. Brainstorm suitable domain names for the following businesses and check whether they are already registered.
  - (a) Allen and Volkan are partners in a mortgage brokerage business trading as 'Select mortgage and financial services Dandenong'.
  - (b) Daniel operates a business as an electrician trading under the name of 'i-active electrical'.
  - (c) Mick operates a trucking business trading under the name of 'KNN transport'.
21. If Solomon earns \$34 000 a year from his plumbing business, how much tax would he pay as:
  - (a) a sole trader
  - (b) the owner of a company.
22. How much tax would Harry and his wife Sally each have to pay if they earn a total of \$80 000 from their 50/50 partnership running a florist business?
23. Do you think a company is better or worse for tax purposes than a sole trader or partnership? Justify your response.
24. In each of the following situations, state whether there has been a breach of the *Competition and Consumer Act*. If so, describe the type of breach committed.
  - (a) Franchisees of a franchised garden maintenance business were required to sign a clause in their agreement with the franchisor that they would only operate in a specific group of postcode areas.
  - (b) The owners of five petrol retailers along a major stretch of road met each week to determine how much they would all charge on each day of the week.



- (c) The manufacturer of a range of electrical goods provided all retail outlets selling its products with a list of recommended retail prices for each of its products.
  - (d) A branch of a major supermarket chain, located in the same shopping centre as an independent supermarket, consistently prices all its products 5 per cent below those of the independent supermarket, even when the independent business lowers its prices to try to match its competitor.
  - (e) A small business advertises jumpers and claims that they are made in Australia when in fact they are made in Hong Kong.
  - (f) A small business advertises that a special deal is only for one week when in fact it plans to extend it for two months.
  - (g) A small business offers its customers a 10 per cent discount if they provide the names and addresses of five potential customers for the business.
25. In each of the following examples, state if there has been a breach of the Australian Consumer Law and why.
- (a) A small business owner displays a sign that reads 'Choose carefully. No refunds given'.
  - (b) A small business owner does not issue a receipt for a \$300 transaction.
  - (c) A small business owner removes any unfair terms from the business's contracts.
26. Arrange to have a representative from the school canteen outline the health regulations that apply to this business.

### EXAM practice

27. Explain why it is important when establishing a business to comply with legal requirements. **(2 marks)**
28. Describe two legal requirements that need to be considered when establishing a business. **(4 marks)**

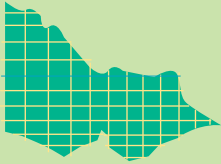
## 4.3 EXTEND YOUR KNOWLEDGE Legal requirements created by the three levels of government

**KEY CONCEPT** The business owner must comply with legal requirements created by all three levels of government when establishing a business.

Our federal system of government came into being on 1 January 1901 when the Commonwealth of Australia was formed. The six colonies became states and agreed to hand over some powers to a central government. Under these new arrangements, three levels of government were established: federal, state and local. As seen in the diagram below, all three levels of government enact laws and regulations that affect the way in which businesses are established. These laws will not only influence the dealings that will occur between businesses and customers but will also affect their relationship with competitors. These laws and regulations have two broad purposes:

- to protect consumers from being sold dangerous or unsuitable products, and to ensure that they receive the goods and services they expect to receive at the price they expect to pay. This includes protecting consumers from undesirable or misleading practices that may be attempted by unscrupulous business owners.
- to ensure maximum levels of fair and open competition between businesses. This is achieved by regulating business practices that may restrict competition, and by ensuring that there are a number of competing businesses operating in the same market at any one time. Greater competition gives the consumer more choice and reduces the risk of dishonest practices.

## The three levels of government in Australia and their main responsibilities

|                                                                                                                                                                                                                                                                                                                                                                                 |                                                                                                                                                                                                                                                                                                                                |                                                                                                                                                                                                                                                                                                                                                                        |
|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <br><b>Federal government</b> <ul style="list-style-type: none"><li>• Taxation</li><li>• Foreign affairs</li><li>• Defence</li><li>• Social security</li><li>• Health</li><li>• Education</li><li>• Aboriginal welfare</li><li>• Trade</li><li>• Communication</li><li>• Immigration</li></ul> | <br><b>State government</b> <ul style="list-style-type: none"><li>• Law and order</li><li>• Housing</li><li>• Health</li><li>• Education</li><li>• Transport</li><li>• Local government</li><li>• Industry and business development</li></ul> | <br><b>Local government</b> <ul style="list-style-type: none"><li>• Parks</li><li>• Rubbish</li><li>• Minor roads</li><li>• Street lighting</li><li>• Zoning</li><li>• Signage</li><li>• Development applications</li><li>• Health regulations</li><li>• Fire regulations</li></ul> |
|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|

## MSY TECHNOLOGY FINED FOR CONSUMER GUARANTEE MISREPRESENTATIONS

The Australian Competition and Consumer Commission (ACCC) took consumer electronics retailer, MSY Technology, to the Federal Court in 2017. In October, the company was fined \$750 000 for misrepresenting consumers' rights to remedies for faulty products.

MSY Technology operates 28 retail stores across Australia and has an online site. The company sells computers, computer parts, accessories and software. According to the ACCC, statements allegedly made by MSY on its website and by some of its employees in New South Wales and Victorian stores misrepresented consumers' rights to a repair, replacement, or a refund when they had purchased faulty products.

The ACCC alleged that between January 2013 and February 2016, the company misrepresented consumer rights by claiming that:

- MSY Technology had discretion over whether a customer was entitled to a remedy for a faulty product
- it was up to MSY Technology to choose which remedy it would provide customers
- MSY Technology would only provide a remedy for products returned within seven days
- MSY Technology may require the customer to pay an administration fee to receive a remedy for a faulty product that is out of warranty
- MSY Technology would provide no remedies in relation to faulty software products.

MSY admitted that it made false or misleading representations to consumers about their rights on its website, and in oral and email communications.

ACCC Deputy Chair Delia Rickard said, 'MSY had misrepresented consumers' rights to a repair, replacement or a refund where a product developed a fault. Businesses must ensure their refund and returns policies and any representations accurately reflect their obligations under consumer law'.

The Federal Court ordered fines totalling \$750 000 be paid by MSY Technology in 2017 after it found that the company had misrepresented consumers' rights to remedies for faulty products.



The Federal Court also ordered MSY to undergo a comprehensive Australian Consumer Law compliance training program and pay \$50 000 towards the ACCC's costs.

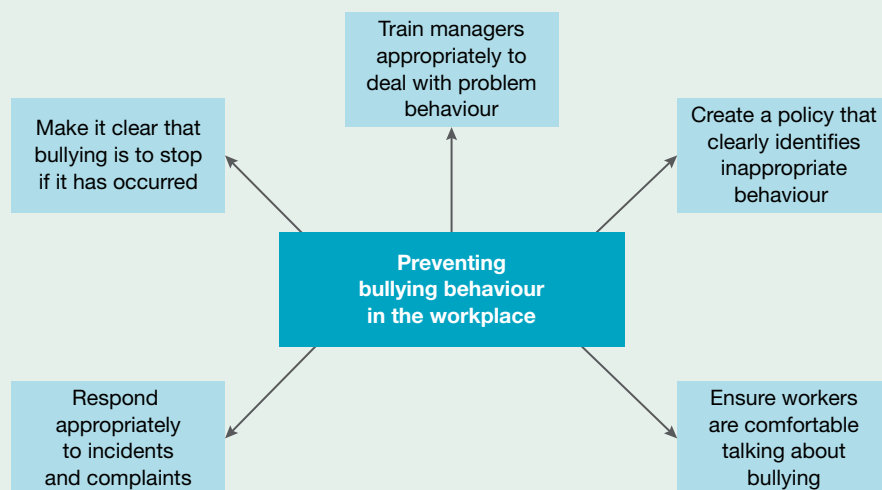
This was not the first appearance of MSY Technology in court. In 2011, following action by the ACCC, the company was fined \$203 500 for misleading customers over their warranty entitlements for the products they purchased.

## WORKPLACE BULLYING

Bullying unfortunately doesn't just take place in the schoolyard. Bullying can occur in the workplace and, according to WorkSafe Victoria, it is 'characterised by persistent and repeated negative behaviour directed at an employee that creates a risk to health and safety'. When considering whether behaviour is unreasonable, an employee should apply the test of whether an impartial person observing the situation would think that behaviour was unacceptable.

Business owners are no exception when it comes to providing a healthy and safe workplace. It may well be that persistent bullying can result in a breach of occupational health and safety legislation. In addition to this, the *Crimes Act 1958* (Vic) was amended in 2011 to include cyber and workplace bullying, such as threats, abusive language and performing offensive acts. Business owners should have policies and procedures to prevent bullying in the first place. The diagram below suggests some ways that business owners can prevent bullying. If bullying does occur, the business should appropriately respond to the allegations.

A most serious case of bullying in the workplace occurred at Cafe Vamp in Melbourne in 2006. Brodie Panlock took her own life that year after enduring bullying while working at the café. One incident involved pouring fish sauce over Brodie's hair and clothes. The café's owner pleaded guilty to charges that included not providing and maintaining a safe work environment. The owner and three employees working in the business were fined \$335 000. It was found that the owner told staff to 'take it out the back' when abuse was being carried out, and this sent the message to employees at the café that bullying was acceptable.



Victoria's anti-bullying legislation (often referred to as Brodie's Law) was introduced following lobbying by Brodie's parents. The legislation has seen more than 40 people charged since January 2012. In a recent case, electrician Tommy Liu pleaded guilty to stalking with intent to cause mental harm, after subjecting an apprentice to a relentless campaign of physical and mental abuse. In the Frankston Magistrates' Court in 2017, Mr Liu was sentenced to a 15-month community corrections order.



## RESTAURANTS FINED FOR FOOD SAFETY BREACHES

Local council environmental health officers regularly inspect food businesses. However, many restaurants continue to breach food safety regulations. During the 2016–17 financial year, 37 convictions for offences under the Food Act were recorded against 30 companies or individuals across Victoria. Over \$350 000 in fines were issued.

In a recent case, a restaurant in Camberwell was convicted and fined in October 2017 for breaches of the Food Act. This was the second time in three years that the restaurant had been found guilty of serious food safety breaches. The City of Boroondara successfully prosecuted Japanese Gourmet Kenji in the Melbourne Magistrates' Court. The council did not release details of the breaches. However, a media release said that 12 charges were laid in relation to 'unclean and unsanitary' equipment, and 'unsafe food handling practices'. Both the company and the director were fined \$20 000 and \$5 000 respectively, and a conviction was recorded.

Boroondara Mayor Phillip Healey said, 'We expect all food traders to adhere to food safety laws and regulations and putting the health and safety of the community at risk is, quite simply, unacceptable'.

In September 2017, a bakery and café in Collingwood was fined \$120 000 for multiple breaches of food safety laws. The company operating the restaurant, Pastry Art Design Pty Ltd, and its directors received convictions in the Melbourne Magistrates' Court. The charges included inadequate pest control, inadequate cleaning, contaminated food products, inadequate and inaccessible hand washing facilities and intimidation of an authorised officer.

In her summation, Judicial Registrar Samantha Dixon said, 'This is one of the worst cases I have seen. The proprietor failed in every way to provide a safe working environment and to protect the public, it is very serious'.

The prosecution was brought by the City of Yarra.

The *Food Act 1984* (Vic) stipulates that a food business must keep its food premises in a clean and sanitary condition and must ensure that food prepared, sold or otherwise handled at the food premises is safe and suitable.



## 4.3 Activities

### TEST your understanding

1. Identify the level of government that has responsibility for each of the following:
  - defence
  - street lighting
  - zoning
  - foreign affairs
  - health regulations
  - housing
  - transport
  - trade.
2. Read 'MSY Technology fined for consumer guarantee misrepresentations' and answer the following questions.
  - (a) Outline the ACCC's role in responding to breaches of the *Competition and Consumer Act*.
  - (b) Identify the type of behaviour prohibited by the Act, for which MSY Technology was prosecuted in this case.
  - (c) Explain the legal consequences that were applied to MSY Technology as a result of this finding by the Federal Court.



3. Read 'Workplace bullying' and answer the following questions.
  - (a) Under what legislation do business owners have an obligation to ensure workers are not bullied?
  - (b) Explain why the owner of Cafe Vamp was also responsible for the bullying that occurred in his workplace.
  - (c) What can businesses learn from this case study in terms of providing a safe work environment?
4. Read 'Restaurants fined for food safety breaches' and answer the following questions.
  - (a) Why was the Camberwell restaurant fined?
  - (b) Under what Acts (or laws) was Japanese Gourmet Kenji charged?
  - (c) What penalties were applied to the restaurant?
  - (d) Why was the Collingwood bakery and café fined?
  - (e) What penalties were applied to the bakery and café?
  - (f) Why do you think the local council checks food-related businesses?

### EXTEND your understanding

5. Would you say that running a business is complicated, in terms of all of the laws that you need to know? Explain.
6. The ACCC does not always prosecute businesses that breach the *Competition and Consumer Act*. In many cases, once the offending conduct has been identified, the business will willingly change its behaviour to ensure it no longer breaches the Act. Use internet sources to locate the ACCC's website and find an example of where this has occurred. This is likely to be in a media release.  
Once you have done this answer the following questions:
  - (a) What was the name of the business involved?
  - (b) What was the business conduct that was at risk of breaching the *Competition and Consumer Act*?
  - (c) What was the solution agreed to by the business to resolve the issue?
7. Janine worked as a casual assistant and had some difficulty understanding the procedure required at the end of the day regarding the cash register and closing the shop. Which of the following scenarios is clearly a case of bullying and which is not? Provide reasons for your answer.
  - (a) Janine's manager said that she needed more assistance and training so that mistakes did not continue to occur. Janine felt she was being bullied.
  - (b) Janine's manager shouted at her every morning when she found that the appropriate closing procedure had not been used. Janine was repeatedly given a dunce hat and told to wear it. When Janine said she needed more training she was told she needed a new brain. Janine's health was beginning to be affected as she was so stressed and felt hopeless.
8. If bullying in the workplace has occurred and an allegation is made, an investigation should take place. Using internet sources, find the WorkSafe Victoria website to locate procedures for dealing with workplace bullying. Explain the procedure that will take place if an investigation into workplace bullying needs to occur.
9. It is the local council's responsibility to ensure that businesses that sell or prepare food comply with regulations. Without looking at the actual regulations, can you guess what sort of regulations a food-related business must comply with in relation to food handling?
10. Imagine you run a bakery. It is up to you to ensure food safety. In the following situations, what would you do to ensure that food regulations are met?
  - (a) Su knows that she must not touch the bread with her bare hands, but when she is in a hurry she takes a short cut.
  - (b) Geoff the baker makes a batch of scones. Some fall to the floor so he just picks them up and puts them back on the tray.
  - (c) One of the sales assistants has a heavy cold and arrives for work coughing and spluttering.
  - (d) Geoff the baker doesn't check the use-by date on the flour before making today's fresh batch of patty cakes.
11. Explain the legal considerations that need to be taken into account by a business owner when establishing a business.

## 4.4 Establishing bank accounts

**KEY CONCEPT** Opening and managing the right bank account is an important decision for a business.

### 4.4.1 Establishing separate accounts

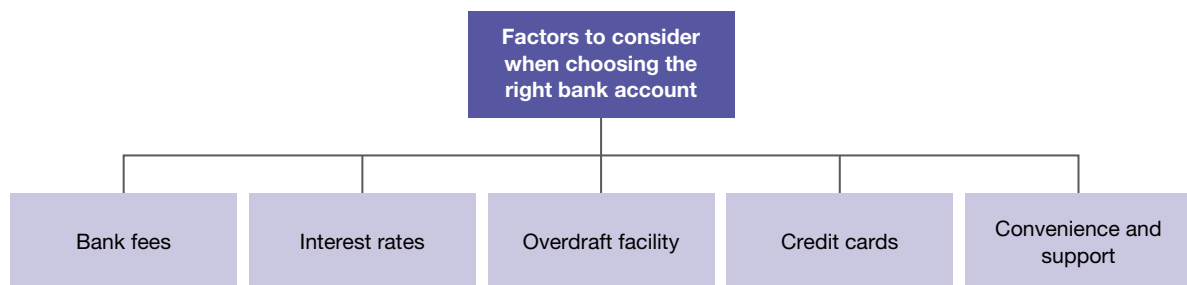
An essential part of establishing a business in Australia is opening a business bank account. While most business owners may already have an individual bank account for their personal use, it is highly recommended that the transactions of the business are performed through a separate bank account. There are several reasons for this:

- The ‘**separate entity**’ accounting principle states that we should always record the transactions of the business and its owners separately. This is far easier to do with separate bank accounts.
- It is easier to monitor the financial performance and position of the business if it has a separate account to that of its owner.
- It is easier to calculate business expenses such as bank fees, and revenue such as interest earned, which makes it less time consuming and costly to prepare tax returns for the business.

It is important to compare the various options offered by different financial institutions when opening a bank account.



### 4.4.2 Choosing the right bank account



Opening a business bank account can be as straightforward as walking into a local branch with the required proof of identification, and agreeing to the terms offered by the bank. However, choosing the right bank account from the right financial institution requires consideration of the following factors:

- *Bank fees.* Banks are notorious for charging hidden or ‘not so obvious’ fees. While these fees are legally required to be stated in the product disclosure statement (PDS), it is the customer’s responsibility to read the paperwork carefully and ask questions if unsure.
- *Interest rates.* This is probably the most important factor in determining which is the best alternative, as the interest rate will determine how much money the business will earn on the amount of money they have in the bank account, or how much they have to repay on any loans.

- *Overdraft facility.* Some financial institutions allow a business to withdraw more money than they have available in their account. This is known as a bank overdraft facility and can be an important feature for a business that might temporarily fall low on cash flow.
- *Credit cards.* Having a business credit card can also be convenient for the owner. Different credit cards have different features, including the maximum amount that can be used, as well as the interest rate on unpaid balances. The terms of the credit card should also be closely evaluated when deciding on which financial institution to open an account with.
- *Convenience and support.* Some financial institutions offer a more practical way of banking. While smaller banks and credit unions can often offer a lower interest rate, they often lack the infrastructure to support the business owner with their banking needs in a way that larger commercial banks can. Having a local branch with supportive staff and a variety of secure internet banking options available is a convenience that can ease the burden of running a business for its owner.

A credit card can be a convenient tool for a business that regularly repays the amount that is owed. The owner must ensure they are up to date with repayments as many banks charge very high rates of interest on unpaid balances.



## study on

Unit 2 > AOS 1 > Topic 1 > Concept 5

**Business bank accounts** Summary screen and practice questions

## 4.4 Activities

### TEST your understanding

1. What is the 'separate entity principle' in accounting?
2. Explain one reason why a business should have a separate bank account to that of its owner.
3. Why is it important to carefully read the terms of the agreement before signing up for a new bank account?
4. What is an overdraft facility?

### APPLY your understanding

5. Describe a scenario in which an owner would need to use the bank overdraft facility.
6. Give two reasons why a business owner might opt for a larger commercial bank, even though they have higher fees and interest rates than a smaller bank?
7. Use the following weblinks in the Resources tab to visit the websites of the various banks, and outline some of the support services they offer to their business customers:
  - (a) **Commonwealth Bank of Australia**
  - (b) **National Australia Bank**
  - (c) **Westpac Banking Corporation**
  - (d) **ANZ.**

### EXAM practice

8. Outline why a business owner should have a separate bank account for their business. **(2 marks)**
9. Explain why establishing a bank account is an important decision for a new business owner. **(2 marks)**
10. Describe two factors that a new business owner should consider when establishing a bank account. **(4 marks)**

## on Resources

-  Weblink: Commonwealth Bank of Australia
-  Weblink: National Australia Bank
-  Weblink: Westpac Banking Corporation
-  Weblink: ANZ

## 4.5 Establishing financial control systems

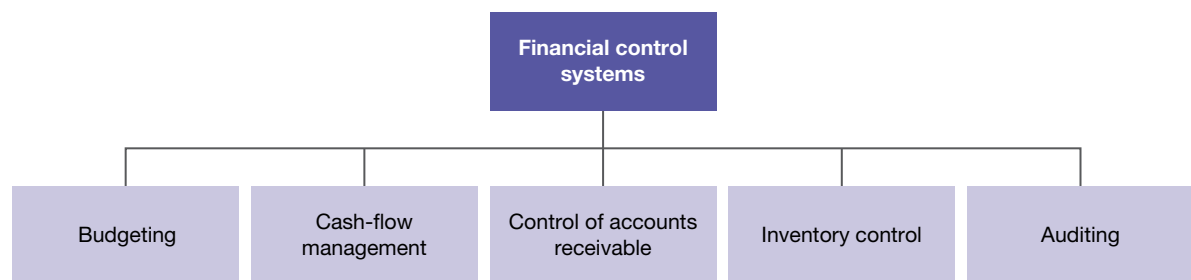
**KEY CONCEPT** Financial control systems are used to help the business monitor and manage its financial performance.

As a business is established, its day-to-day operations will command much of the owner's attention and effort. To continue to build momentum, the business will need to establish **financial control systems** that allow the business owner to monitor and manage its financial performance. Financial control systems will vary from business to business depending on its size and nature. Some of the more common financial control systems that businesses implement relate to accounting and record-keeping systems. Record-keeping strategies will be covered in more detail in 4.6 Establishing record-keeping strategies.

A new business could potentially suffer financial problems and/or losses because of any of the following:

- poor systems
- mismanagement
- theft or fraud
- poor debt management
- lack of cash flow
- damage to assets
- incorrect pricing.

If these problems and losses were to eventuate, the business's financial performance may be hampered. In the worst case, the business may be forced to close. Financial control systems can be used by the business to prevent these problems and losses.





## 4.5.1 Budgeting

**Budgeting** refers to predicting or estimating the business's financial performance for a given period in the future. There are a number of different types of budgets that a business can prepare, including cashflow budgets, budgeted income statements and budgeted balance sheets. Budgets may be prepared monthly, quarterly or yearly.

Budgeting is used to control the business. By comparing actual with planned results, the business can ask questions about why certain targets were not reached or why results were better than anticipated. Completing budgets also helps the business to establish standards and use them as a benchmark against which to compare actual events.

Budgeting is a system or tool for estimating the business's financial performance for a given period in the future.



## 4.5.2 Cash-flow management

Managing **cash flow** is crucial to the survival of the business. Regardless of whether the business is making a profit (what is left after business expenses have been deducted from money earned from revenue), if it does not have the cash needed to pay its day-to-day expenses it will find itself in a great deal of trouble. A profitable business can ensure such issues do not arise by implementing some of the following strategies:

- keeping track of money that is owed to the business and chasing up outstanding debts
- hiring accounts receivable staff to ensure that customers are paying the full amount on time
- offering discounts to customers who pay cash or make payments early
- withholding future supplies to customers who are late in paying their accounts or who have outstanding amounts owing
- arranging readily available short-term loans and a bank overdraft.

### HOW IMPORTANT IS CASH FLOW?

Cash flow is like blood pumping through your body. It keeps a business alive. Profit is also vital to the business. Failing to make a profit will lead to the long-term demise of the business. A small business owner needs to manage a profitable business and make sure that there is enough cash available to pay debts and expenses on time. Just how important is cash flow? Is it more important than profit?

The Australian Taxation Office (ATO) says that it is very important for a business to maintain sufficient cash flow to be able to meet obligations, such as bills and tax. It suggests that the best way to do this is to prepare a cash-flow projection or budget. This can be as simple as adding up all the cash receipts over the course of a year, such as sales and other income, then adding up all the cash payments, including payments for salaries and interest. By comparing the totals,

Cash flow is important because a business needs cash as payment for goods and services that ensure the business continues to operate. Without cash flow, a business would be unable to maintain payments to creditors and to ensure that other obligations, such as wages, utilities expenses and tax, can be covered.



a business can calculate its surplus or deficit of cash. A deficit means that the business will need to take corrective action to avoid problems.

A common solution to a cash-flow problem is to send reminder notices to debtors, but another way is to encourage early payment. A business might change their **credit terms** of 30 days from the date a statement is issued, for example, to offering a discount of 10 per cent on 7-day payment terms. Although this strategy may benefit cash flow, in the long term it can have an impact on profit, as total revenue is decreased by 10 per cent.

A business that has a healthy cash flow but that is not making a profit will find over time that cash reserves will disappear. A business can delay paying expenses but, ultimately, creditors must be paid if the business is to continue. If there is insufficient revenue coming into the business, eventually the only way to make payments will be to use cash reserves, which is an unsustainable practice. A business can return to profit by increasing revenue and/or by reducing costs. If this process is managed successfully, a positive cash-flow position should be restored. Making a profit is very important, but so too is cash flow. A business can continue to operate for some time without making a profit but, if it is lacking cash, it will be unable to meet the immediate needs that allow it to continue operations.

### DID YOU KNOW

In December 2017, the Australian Securities and Investments Commission (ASIC) published its annual overview of corporate insolvencies based on statutory reports lodged by external administrators during the 2016–17 financial year. Insolvency occurs when a business can no longer meet its financial obligations with lenders as debts become due. While there was a decline in reports received (down 17.9 per cent), small- to medium-sized corporate insolvencies dominated the reports (79 per cent of businesses had fewer than 20 employees). The primary cause of failure was inadequate cash flow or high cash use, with 47 per cent of owners reporting this. Poor financial control was nominated as another cause of failure (according to 35 per cent of reports).

## 4.5.3 Control of accounts receivable

**Accounts receivable** refers to the outstanding invoices or payments that a business has — that is, the money that the business is owed by its customers. In many ways, accounts receivable represents cash waiting to come into the business.

When a business makes a sale — and has delivered the good or service to a customer — but the customer stills owes payment on the good or service, the amount will be recorded under accounts receivable. It is important to note here that the business has made a sale. However, the money is still owed. Collecting accounts receivable is vital in a business to ensure cash flow.

When establishing a business, the owner needs to ensure that they set the right credit terms. A typical payment cycle ranges from 30 to 90 days. A longer payment term extends more credit to customers, while shorter terms should result in the business being paid faster. A business owner might also offer a variety of payment methods to make payment easier. Bonuses or rewards for early payment, such as discounts, free shipping, gifts, loyalty/points programs or future credits may encourage customers to pay on time. Late payment fees could also be used to encourage prompt payments.

## 4.5.4 Inventory control

Many businesses have large quantities of materials on hand to complete production. This is called stock, or inventory. Businesses hold large inventories to make sure they do not run out of materials. However, this can become a huge cost for a business because the stock has to be stored. Stock that takes up storage space for a long time can also result in the business missing opportunities to invest money in other places. In addition, materials can become unusable after a certain period of time. It is very important to manage materials effectively so that costs can be kept down.

**Inventory control** is a system businesses use to ensure that the costs associated with maintaining an inventory of materials are kept to a minimum. Costs can be minimised by not allowing materials to remain idle and by making sure that materials are available for production when needed. Control may occur through both

physical control of inventory and through accounting control — for example, by using an inventory recording system.

Many businesses use bar coding and computerised stock records to control inventory. Computerisation can help to minimise loss or theft of stock and it provides precise, up-to-date information about stock levels. Signals can alert management when it is time to order new materials and how much to order. Businesses also conduct stocktakes, physically counting stock and then comparing the count against what was expected to be available. Any differences would indicate problems with stock control. Some businesses use an inventory system called Just In Time (JIT). This system ensures that the correct materials arrive just as they are needed for production, which can reduce storage costs and reduce the risk of waste occurring in storage, thereby improving the business's financial performance.

### 4.5.5 Auditing

**Auditing** is the process of testing and evaluating a business's accounting processes and internal controls. Auditing can be done internally, whereby employees of the business perform the audit, or externally, whereby another business performs the audit. While contracting experienced external auditors can provide the business with valuable feedback, it is often a costly exercise that many businesses avoid.

Although some employees may feel uncomfortable about the idea of an external auditor checking the validity of their work, audits can lead to great improvements in the accounting processes and internal controls of a business.



#### study on

Unit 2 > AOS 1 > Topic 1 > Concept 7

**Financial control systems** Summary screen and practice questions

## 4.5 ACTIVITIES

### TEST your understanding

1. What are financial control systems?
2. Explain what budgeting is and why it is an important financial control system.
3. How important is cash flow to a business, and what can be done to improve it?
4. Why is it important for a business to monitor its cash flow?
5. Outline what accounts receivable refers to.
6. Explain how accounts receivable can ensure cash flow in the business.
7. What is inventory?
8. What is the main benefit of inventory control?
9. Explain how inventory control can be used to improve a business's financial performance.
10. Outline why it is vital for a business to make use of auditing.

### APPLY your understanding

11. How do you think the financial control systems of a chicken shop might be different to that of a builder? Highlight at least two differences.

12. As a business consultant, you have been asked to advise the manager responsible for the area affected in each of the following situations. Describe the financial control problem that exists and suggest ways to deal with the situation.
- (a) The accounting area is confused about why the business invariably seems to struggle to pay for expenses, which always seem to emerge unexpectedly.
  - (b) The finance manager is concerned about cash flow and suspects that some employees are collecting money from customers and keeping a proportion for themselves.
  - (c) Accounts receivable has found that approximately one in five accounts has become a bad debt. Easy credit terms are offered and many customers end up not repaying all of their debts.
  - (d) The production manager claims that inventory often seems to be missing. It might be theft or there is the possibility that stock has deteriorated and has been disposed.
13. Explain why an external auditor might provide more useful feedback to a business than an internal auditor.

### EXAM practice

14. Define the term 'financial control system'. (1 mark)
15. Outline the importance of a business developing effective financial control systems. (2 marks)
16. Explain one financial control system that a business might use to improve its financial performance. (2 marks)

## 4.6 Establishing record-keeping strategies

**KEY CONCEPT** Record-keeping strategies are used to help the business monitor, manage and report its financial performance.

### 4.6.1 Record-keeping systems and strategies

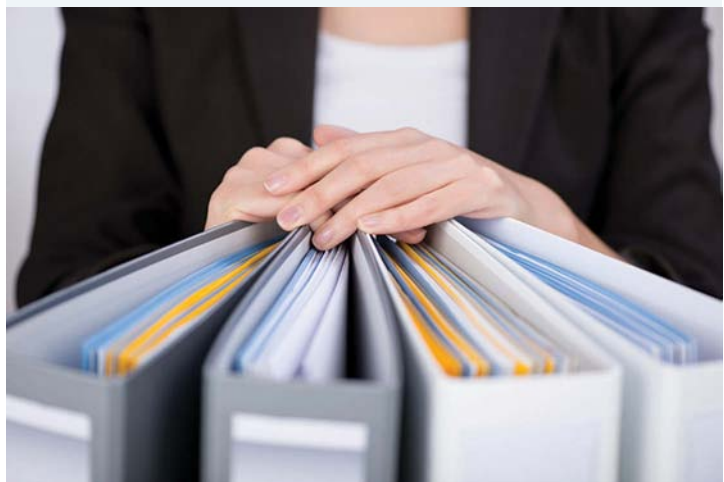
Maintaining accurate records is not only an obligation of the business, but also serves as an invaluable tool for decision making. Without accurate records, an owner has a restricted understanding of how the business is performing and where improvements need to be made. Furthermore, investors and financial institutions are unlikely to invest in or make loans to a business that cannot demonstrate its financial position.

Businesses are required by law to keep records of their financial transactions for at least five years for tax purposes. This includes all documents relating to income and expenses such as tax invoices, receipts and bank statements, as well as other important documents such as employee contracts.

While the Australian Taxation Office (ATO) allows businesses to keep all such information electronically, it is important that businesses keep their electronic information backed up and secure.

While maintaining accurate records can be a time-consuming and daunting task, having the right systems and strategies in place can cut down and simplify the workload significantly.

Being organised is the key to maintaining accurate records. Each business needs to develop a system of efficiently categorising and sorting its records.





## 4.6.2 Source documents

When established, a business will engage in a variety of financial transactions, all of which can be recorded on paper. Cash register docket, credit card or EFTPOS vouchers and purchase invoices are all examples of these paper records. As well as handing these to a customer, a business will keep a copy, and it is these copies that are used to produce the financial reports. Original paper documents recording transactions are known as **source documents**. Source documents are essential for the business owner as they provide the basic data necessary for the ultimate production of financial reports.

The type and format of source documents will vary between businesses, reflecting the differences in operation. There are common features in most records, however, including:

- the date the transaction occurred
- the names (and addresses if applicable) of the parties involved
- the nature of the transaction
- the amount of money involved.

Source documents provide evidence of financial transactions and include cash register docket, credit card or EFTPOS vouchers and purchase invoices. The business must keep records of these transactions.



Businesses record the information from these documents into journals. This allows the business to keep a chronological summary of all transactions to assist in the preparation of financial reports. Cash received by a business is recorded on the duplicates of receipts issued to those from whom the cash has been received. The journal that summarises this data is known as the cash receipts journal. Payments that a business makes will be recorded in the cash payments journal. When these two journals are combined, it is known as a cash book.

## 4.6.3 Cash book

A **cash book** normally consists of two sections, with cash receipts recorded on the left-hand side and cash payments recorded on the right. The main benefit of using a cash book is that it allows the business owner to:

- keep a tight control on the cash
- monitor the business's cash-flow position — that is, the money coming into the business and the money leaving the business
- determine the cash balance.

The Dava's Landscaping case study shows how a business's cash receipts and cash payments are recorded in a single-entry cash book.



## DAVA'S LANDSCAPING

Dava Norwich is the owner of Dava's Landscaping. She has just started her business and during the month of September, the following cash transactions occurred:

These financial transactions must now be recorded into a cash book. As you can see, a separate column is created for transactions that occur regularly during the month, such as wages, lease payments and fees.

Dava can control her cash flow by recording transactions in her cash book.

- 4 September — paid fortnightly lease \$440 (chq. no. 2356)
- 6 September — received fee from client \$1750 (rec. no. 487)
- 9 September — paid Nathan's Nursery for plants \$520 (chq. no. 2357)
- 10 September — paid wages \$859 (chq. no. 2358)
- 12 September — paid for repairs to motor vehicle \$180 (chq. no. 2359)
- 14 September — received interest from the bank \$218 (rec. no. 488)
- 15 September — purchased printer cartridge \$45 (chq. no. 2360)
- 18 September — paid fortnightly lease \$440 (chq. no. 2361)
- 21 September — received fee from client \$2100 (rec. no. 489)
- 25 September — paid wages \$859 (chq. no. 2362)
- 28 September — received fee from client \$2592 (rec. no. 490).



By examining the cash book, it is easy to see where the money is coming from (receipts) and where it is going to (payments). A positive cash flow occurs when the cash received is greater than cash payments — as is the case with Dava's Landscaping for the month of September. As the cash book shows, a balance of \$3317 is brought forward at the start of October — that is, \$6660 minus \$3343 equals \$3317.

Dava's Landscaping cash book

| Dava's Landscaping                        |                 |          |             |            |                |          |           |          |            |             |            |                |
|-------------------------------------------|-----------------|----------|-------------|------------|----------------|----------|-----------|----------|------------|-------------|------------|----------------|
| Cash book for the month of September 2019 |                 |          |             |            |                |          |           |          |            |             |            |                |
| Receipts                                  |                 |          |             |            |                | Payments |           |          |            |             |            |                |
| Date                                      | Details         | Rec. no. | Fees        | Other      | Total receipts | Date     | Details   | Chq. no. | Lease      | Wages       | Other      | Total payments |
| 6/9                                       | Fees            | 487      | 1750        |            | 1750           | 4/9      | Lease     | 2356     | 440        |             |            | 440            |
| 14/9                                      | Interest        | 488      |             | 218        | 218            | 9/9      | Plants    | 2357     |            |             | 520        | 520            |
| 21/9                                      | Fees            | 489      | 2100        |            | 2100           | 10/9     | Wages     | 2358     |            | 859         |            | 859            |
| 28/9                                      | Fees            | 490      | 2592        |            | 2592           | 12/9     | Repairs   | 2359     |            |             | 180        | 180            |
|                                           |                 |          |             |            |                | 15/9     | Cartridge | 2360     |            |             | 45         | 45             |
|                                           |                 |          |             |            |                | 18/9     | Lease     | 2361     | 440        |             |            | 440            |
|                                           |                 |          |             |            |                | 25/9     | Wages     | 2362     |            | 859         |            | 859            |
|                                           | Totals          |          | <u>6442</u> | <u>218</u> | 6660           |          | Totals    |          | <u>880</u> | <u>1718</u> | <u>745</u> | 3343           |
|                                           |                 |          |             |            |                |          |           |          |            |             |            | <u>3317</u>    |
| 30/9                                      | Closing balance |          |             |            | <u>6660</u>    |          |           |          |            |             |            | <u>6660</u>    |
| Oct. 1/10                                 | Opening balance |          |             |            | 3317           |          |           |          |            |             |            |                |

## 4.6.4 Income statement

A business earns income by selling a good or service to its customers. To measure how successful a business is at trading, a financial report called an **income statement** is drawn up. The income statement (also called the revenue statement or the profit and loss statement) is used primarily to help a business to calculate how much net profit it has made over a period of time.

The income statement shows:

- the amount of income or revenue earned
- the costs or expenses incurred in earning that revenue
- whether a profit or a loss has been incurred in the period under review.

The income statement for Angelo's Eatery shows how expenses are deducted from revenue to determine net profit. This income statement is for a trading business (a business that purchases goods from suppliers and then sells them at higher prices to customers). Service businesses (ones that provide a service) do not calculate cost of goods sold (and therefore do not show gross profit).

The first step in completing an income statement is to record the revenue, which is the income earned by a business. A café, for example, earns revenue by selling food and drinks. The second step is to record the cost of goods sold, which is the money spent on purchases of raw materials or finished goods for resale, and to use this figure to calculate gross profit. The gross profit/loss is the amount remaining when the cost of goods sold is deducted from revenue. The third step is to calculate net profit. To earn revenue, a business will have a variety of expenses. Common expenses include wages and salaries, payments for telephone, electricity, postage, motor vehicle expenses and so on. A net profit/loss is the amount remaining when operating expenses are deducted from gross profit. The word 'net' means all expenses have been deducted.

For the owner of a business, profit represents a return on the contribution they have made to the business in terms of both labour and funds. The owner can either withdraw profits from the business as a reward for taking the risk of running the business or reinvest the profits within the business so that the business grows.

The income statement can be used to answer the following questions:

- Is revenue high enough to cover expenses?
- Is the profit mark-up on purchases sufficient?
- Is the business making an adequate profit?
- Are the expenses in proportion to the revenue they are earning?

By examining figures from previous income statements, business owners can make comparisons and analyse trends to help evaluate the business's financial performance.

Income statement for Angelo's Eatery

| <b>Angelo's Eatery</b>                                  |           |                |
|---------------------------------------------------------|-----------|----------------|
| <b>Income Statement for the year ended 30 June 2019</b> |           |                |
| <b>Revenue</b>                                          | <b>\$</b> | <b>\$</b>      |
| Cash sales                                              |           | 215 000        |
| <b>less Cost of goods sold</b>                          |           | <b>90 000</b>  |
| <b>Gross profit</b>                                     |           | <b>125 000</b> |
| <b>less Expenses</b>                                    |           |                |
| Wages                                                   | 38 000    |                |
| Lease payments                                          | 20 000    |                |
| Electricity                                             | 5 500     |                |
| Advertising                                             | 3 550     |                |
| Insurance                                               | 2 750     |                |
| Interest on loan                                        | 3 500     | 73 300         |
| <b>Net profit</b>                                       |           | <b>51 700</b>  |

## 4.6.5 Balance sheet

A **balance sheet** is like a snapshot providing a picture of what a business owns (assets) and owes (liabilities) and the owner's equity on a particular date. Its heading includes the words 'as at', which means 'at that point in time'. It represents the net worth (equity) of the business. In other words, it shows the financial stability of the business.

The main purpose of the balance sheet is to help a business owner watch the debt and equity levels of the business, evaluate the business's overall financial position against that of previous periods and to undertake financial decision making. A simplified balance sheet is shown in the following figure. The balance sheet records the value of assets, the value of liabilities and owner's equity.

Assets are items of value that the business owns. You can see from the balance sheet for Kiji Cottage T-shirts that the assets of this business are cash at the bank, debtors (the money that other individuals or businesses owe Kiji Cottage T-shirts), stock, a motor vehicle, equipment and the premises. Liabilities are the debts owed by a business to others. Kiji Cottage T-shirts' liabilities include creditors (the money owed to other businesses for supplies), a loan from the bank (the mortgage) and credit cards. Owner's equity represents the value of the business to the owner. It is sometimes called proprietorship or capital, because it represents the money that the owner has invested in the business.

The balance sheet is like an acrobat — it must always balance! Assets must balance on one side with liabilities and owner's equity on the other side. This is called the accounting equation. All assets belong to either an outside entity or the owners.



Horizontal format balance sheet showing the main sections of a balance sheet for a trading business, with modelling. Current assets will be used up within 12 months. Current liabilities need to be paid within a similar period. Non-current assets and liabilities are expected to last longer than 12 months.

|                                      |                                                                                                                    |  |                                                         |  |                                           |
|--------------------------------------|--------------------------------------------------------------------------------------------------------------------|--|---------------------------------------------------------|--|-------------------------------------------|
| Note format of heading               | <div style="text-align: center;"> <b>Kiji Cottage T-shirts</b><br/> <b>Balance Sheet as at 30 June 2019</b> </div> |  |                                                         |  | Liabilities are on the right.             |
| Assets are on the left.              | <b>ASSETS</b>                                                                                                      |  | <b>LIABILITIES</b>                                      |  | Current liabilities are shown first.      |
| Current assets are shown first.      | <b>Current assets</b>                                                                                              |  | <b>Current liabilities</b>                              |  | Non-current liabilities are shown second. |
| Non-current assets are shown second. | <b>Non-current assets</b>                                                                                          |  | <b>Non-current liabilities</b>                          |  | Owner's equity is on the right.           |
|                                      | Cash at bank 5 000<br>Debtors 7 500<br>Stock 11 500                                                                |  | Creditors 2 500<br>Mortgage 7 000<br>Credit cards 1 500 |  |                                           |
|                                      |                                                                                                                    |  |                                                         |  |                                           |
|                                      |                                                                                                                    |  |                                                         |  |                                           |
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|                                      |                                                                                                                    |  |                                                         |  |                                           |

#### 4.6.6 Other record-keeping strategies

A business owner should consider the following record-keeping strategies.

- Use **bookkeeping** software such as MYOB, Xero or Quickbooks. Learning to use the program may be difficult, which is why many businesses engage professional bookkeepers to enter the financial transactions on a weekly basis.

- Consider hiring a bookkeeper if they are not confident they have the time, skills or knowledge to accurately record financial transactions.
- Establish a good filing system, and process documents and transactions into their record-keeping software regularly.
- Keep records as simple as possible to understand while still containing all of the relevant information.
- Be organised and make sure they don't let record-keeping duties pile up.
- Do not mix up business records with their personal finances.
- Make sure they obtain all documents, such as invoices, at the time of the transaction and record all of the necessary details as soon as possible.
- Seek assistance where needed. The ATO provides plenty of support through their telephone hotline and online information, as well as free assistance visits from tax officers. A registered tax agent can also provide assistance for a fee.

Hiring a bookkeeper can help ease the burden on business owners.



## 4.6 ACTIVITIES

### TEST your understanding

1. Why is it important for a business to maintain accurate records?
2. What are source documents?
3. Why is it important for a business to keep source documents?
4. Identify the benefits of a cash book.
5. Examine the Dava's Landscaping cash book entries. Describe the financial transactions that occurred on the following dates:
  - (a) 6 September
  - (b) 10 September
  - (c) 18 September
  - (d) 28 September.
6. What is the main use of an income statement by a business?
7. What does a balance sheet show?
8. Briefly outline the purpose of the balance sheet.

### APPLY your understanding

9. Explain why source documents would be needed for each of the businesses and individuals involved in the following cases.
  - (a) Freda receives a shipment of flowers for her florist business from her supplier in Gippsland.
  - (b) An electrical contractor wires up a house for a builder.
  - (c) A plumber purchases pipes and fittings from a plumbing supplies business for use in the connection of water to a new house.
  - (d) A pizza shop provides home-delivered pizzas.
10. Anita Toparis owns and operates Petal's Florist. Last year she had sales revenue of \$285 000. Her cost of goods sold totalled \$115 000. Her operating expenses were: electricity \$5000, advertising \$11 000, interest charges \$5000, salaries \$62 000 and rent \$25 000. Construct an income statement for Anita and tell her whether she has made a net profit.
11. Candice Wahler, an artist, has asked you to help her construct a balance sheet.
  - (a) Briefly explain to her how a balance sheet is set out.
  - (b) Draw up her balance sheet as at today's date from the following information: cash at bank \$1500, motor vehicle \$10 000, accounts payable \$6000, equipment \$8200, accounts receivable \$3000, bank loan \$13 500 and stock \$3000.

### EXAM practice

12. Outline the importance of a business developing effective record-keeping strategies. **(2 marks)**
13. Explain one record-keeping strategy that a business might use to improve its financial performance. **(2 marks)**
14. Distinguish between financial control systems and record-keeping strategies. **(4 marks)**

## 4.7 EXTEND YOUR KNOWLEDGE A basic record-keeping strategy — establishing a cash book

**KEY CONCEPT** Establishing a cash book that records cash receipts and cash payments is an important record-keeping strategy to use when beginning a business.

A cash book keeps track of cash purchases. Many businesses, particularly small businesses, find that cash books are useful for ensuring that there is adequate cash for purchasing materials when experiencing unpredictable shortfalls or for meeting other unexpected expenses. The following case study outlines how a business might use a cash book. In doing so, it illustrates how a typical business owner might establish a cash book for their own business. The receipts and payments are recorded in pre-ruled columns that have headings that suit the business.

### NU LOOK INTERIOR DESIGNS CASH BOOK

Juno Roberts owns and operates Nu Look Interior Designs, which is a business that renovates homes and offices. She uses a van to transport equipment and materials and employs two part-time assistants. Juno is completing a cash book for the month of June. She wants the cash book drawn up so she can obtain details about fees, wages, and motor vehicle and materials expenses.

Juno has collected the following receipts for Nu Look Interior Designs for the month of June:

| Date | Detail                       | Rec. No. |
|------|------------------------------|----------|
| 3/6  | Renovation fee \$950         | 425      |
| 8/6  | Renovation fee \$635         | 426      |
| 12/6 | Interest from the bank \$250 | 427      |
| 18/6 | Renovation fee \$2540        | 428      |
| 21/6 | Loan from the bank \$5000    | 429      |
| 29/6 | Renovation fee \$3200        | 430      |

By using a cash book as a record-keeping strategy Juno can determine her business's cash flow. If Nu Look Interior Designs does have a cash-flow problem, information in the cash book can be used to develop a solution.





The payments that Juno has collected for Nu Look Interior Designs for the month of June are:

| Date | Detail              | Chq. No. |
|------|---------------------|----------|
| 2/6  | Materials \$3750    | 645789   |
| 5/6  | Wages \$1250        | 645790   |
| 6/6  | Petrol for van \$65 | 645791   |
| 8/6  | Materials \$2500    | 645792   |
| 10/6 | Van insurance \$685 | 645793   |
| 10/6 | Wages \$1250        | 645794   |
| 25/6 | Petrol for van \$59 | 645795   |
| 28/6 | Materials \$3590    | 645796   |

Juno records these financial transactions into a cash book (see the figure below). Her headings have been chosen to suit the business: her headings for receipts are 'fees' and 'other' and her heading for payments are 'wages', 'vehicles' and materials'.

Nu Look Interior Designs Cash book for the month of June 2019

| Receipts |                 |         |      |               |        | Payments |           |         |       |          |           |               |
|----------|-----------------|---------|------|---------------|--------|----------|-----------|---------|-------|----------|-----------|---------------|
| Date     | Details         | Rec.No. | Fees | Other         | Total  | Date     | Details   | Chq.no. | Wages | Vehicles | Materials | Total         |
| 3/6      | Fees            | 425     | 950  |               | 950    | 2/6      | Materials | 645789  |       |          | 3750      | 3750          |
| 8/6      | Fees            | 426     | 635  |               | 635    | 5/6      | Wages     | 645790  | 1250  |          |           | 1250          |
| 12/6     | Interest        | 427     |      | 250           | 250    | 6/6      | Petrol    | 645791  |       | 65       |           | 65            |
| 18/6     | Fees            | 428     | 2540 |               | 2540   | 8/6      | Materials | 645792  |       |          | 2500      | 2500          |
| 21/6     | Loan            | 429     |      | 5000          | 5000   | 10/6     | Insurance | 645793  |       | 685      |           | 685           |
| 29/6     | Fees            | 430     | 3200 |               | 3200   | 19/6     | Wages     | 645794  | 1250  |          |           | 1250          |
|          |                 |         |      |               |        | 25/6     | Petrol    | 645795  |       | 59       |           | 59            |
|          |                 |         |      |               |        | 28/6     | Materials | 645796  |       |          | 3590      | 3590          |
|          | Totals          |         | 7325 | 5250          | 12 575 |          |           |         | 2500  | 809      | 9840      | 13 149        |
|          |                 |         |      |               |        |          |           |         |       |          |           |               |
| 30 Jun   | Closing balance |         |      |               | 12 575 |          |           |         |       |          |           | -574 or (574) |
|          |                 |         |      |               |        |          |           |         |       |          |           | 12 575        |
| 1 Jul    | Opening balance |         |      | -574 or (574) |        |          |           |         |       |          |           |               |

Juno now examines the cash book to see where money is coming from (receipts) and where it is going to (payments). A positive cash flow occurs when the cash received is greater than cash payments, whereas a negative cash flow occurs when cash payments are greater than cash receipts. It can be seen from the cash book that Nu Look Interior designs had a negative cash flow of \$574 for June. A balance of \$(574) is brought forward at the start of July — that is, \$12 575 minus \$13 149 equals \$(574).

Juno now knows that she will need to improve her cash flow. To increase her business's cash flow, she could encourage customers to pay on time by offering a discount for early payment or she could increase the number of reminder notices. Alternatively, she could reduce her expenses, reduce the amount of cash she has tied up in materials or delay payments to suppliers. Juno's total materials purchase for June was \$9840. This represents 74.83 per cent of total cash payments. She might determine that she has too many materials stored in inventory and therefore reduce the amount of materials purchased for a short time.

## 4.7 ACTIVITIES

### TEST your understanding

- Outline two benefits to a business of establishing a cash book.
- On 4 November a business has \$340.40 in its bank account. On that day the owner deposits \$415.00 in the bank. On the same day a cheque is written for advertising for \$267.00. Calculate the bank balance after these transactions.
- A business provides the following receipts and payments information for October.

| Receipts          |  | \$     | Payments |  | \$     |
|-------------------|--|--------|----------|--|--------|
| Capital           |  | 30 000 | Wages    |  | 19 000 |
| Loan              |  | 15 000 | GST paid |  | 7 000  |
| Cash from debtors |  | 17 000 | Computer |  | 4 000  |
| GST received      |  | 11 000 | Drawings |  | 22 000 |

The business's net cash flow would be:

- (A) \$21 000  
 (B) \$9000  
 (C) \$23 000  
 (D) \$98 000.
- Using the following data, determine net cash flow from this operation: cash from debtors \$22 000, cash fees paid \$14 000, credit fees paid \$19 000, cash paid to creditors \$9000, stock purchased for cash \$10 000, wages paid \$4000, rent \$1000, loan repayment \$5000.

### EXTEND your understanding

- A business records the following transactions in the first week of February. Record the transactions in a cash book using the headings shown below.

|                   |                                                                                                                                                             |
|-------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>February 1</b> | <ul style="list-style-type: none"> <li>Cash fees charged to Kane Crellin \$240 (receipt no. 221)</li> <li>Paid for materials \$300</li> </ul>               |
| <b>February 2</b> | <ul style="list-style-type: none"> <li>Cash fees charged to Carolyn Smith \$350 (receipt no. 222)</li> <li>Paid wages of \$500 to Jerry Jalopies</li> </ul> |
| <b>February 3</b> | <ul style="list-style-type: none"> <li>Cash fees charged to Mike Patter \$280 (receipt no. 223)</li> </ul>                                                  |
| <b>February 4</b> | <ul style="list-style-type: none"> <li>Received interest from the bank \$150</li> <li>Cash fees charged to Anton Woods \$560 (receipt no. 224)</li> </ul>   |
| <b>February 5</b> | <ul style="list-style-type: none"> <li>Cash fees charged to Regina Kuzmich \$240 (receipt no. 221)</li> <li>Paid for materials \$300</li> </ul>             |

| Receipts |         |          |      |       |                | Payments |         |           |       |                |
|----------|---------|----------|------|-------|----------------|----------|---------|-----------|-------|----------------|
| Date     | Details | Rec. No. | Fees | Other | Total receipts | Date     | Details | Materials | Wages | Total payments |
|          |         |          |      |       |                |          |         |           |       |                |



6. Rick runs an electrical appliance repair business. At the beginning of August, his business had \$2360 in the bank. During August, his business had the following cash transactions.

**FIGURE 4.29** Arrange the data in a table as below:

| Date | Detail                                | Rec. No. | Date | Detail                                | Rec. No. |
|------|---------------------------------------|----------|------|---------------------------------------|----------|
| 1/8  | Received cash fees \$380              | 50331    | 12/8 | Received cash fees \$400              | 50334    |
| 1/8  | Materials for appliance repairs \$450 | 765234   | 15/8 | Vehicle repairs \$260                 | 765239   |
| 3/8  | Paid petrol for van \$70              | 765235   | 17/8 | Received cash fees \$330              | 50335    |
| 4/8  | Received cash fees \$410              | 50332    | 18/8 | Received cash fees \$430              | 50336    |
| 7/8  | Materials for appliance repairs \$380 | 765236   | 21/8 | Materials for appliance repairs \$400 | 765240   |
| 8/8  | Received cash fees \$270              | 50333    | 24/8 | Paid wages \$580                      | 765241   |
| 10/8 | Paid wages \$580                      | 765237   | 28/8 | Received cash fees \$290              | 50337    |
| 10/8 | Paid petrol for van \$60              | 765238   | 30/8 | Interest from investments \$310       | 50338    |

- (a) Prepare the cash book for the business for the month of August.  
 (b) After having looked at Rick's cash book, comment on the business's cash flow. Should Rick be concerned about his appliance repair business's cash flow? Why or why not?

## 4.8 Choosing suppliers

**KEY CONCEPT** A business must choose suppliers that are appropriate for its needs. A business also needs to consider the benefits and limitations of suppliers which meet the corporate social responsibility objectives of the business.

Choosing the right suppliers is an important part of developing a successful business. This process of finding, acquiring and purchasing resources from suppliers is referred to as **procurement**. Failing to find the right suppliers can cripple the ability of the business to provide goods and services to their customers. Furthermore, if a supplier fails to act in a socially responsible manner, it can damage the reputation of the business as well as the integrity and culture within the business. Although different businesses will have different supplier needs, they all need to consider certain aspects when choosing suppliers.

### study on

Unit 2 > AOS 1 > Topic 1 > Concept 8

**Selecting suppliers** Summary screen and practice questions

### 4.8.1 Price

For a business to remain profitable it must keep costs low where possible. While the price of the raw materials or goods offered by the supplier should not be the only consideration, it will often be the deciding factor for a business that competes on price.

### 4.8.2 Quality

The quality of the goods and materials provided by suppliers will generally determine the quality of the end product offered by the business. If a business wishes to develop the reputation of offering quality goods and service to its customers, it needs to source quality inputs from its suppliers. Businesses also need to ensure that the goods it purchases from international suppliers are in compliance with Australian quality and safety standards. Failing to do so can have serious legal consequences for the business owner.

A business must carefully inspect the goods of its supplier before committing to purchase.



### 4.8.3 Reliability

Businesses that have a fast turnover of stock often rely on quick and timely delivery from their suppliers. If a business doesn't receive the goods that are needed to continue its operations, it may not only lose sales but also its reputation may suffer as a result of not being able to deliver to its customers.

### 4.8.4 Proximity

Being in close proximity to suppliers can save the business time and money. A shorter distance means less travel time before goods arrive and can also reduce the cost of transporting the goods. Sourcing supplies locally is not only more environmentally friendly but also helps to support the local economy — this is considered socially responsible.

### 4.8.5 Corporate social responsibility

It is vital that the business's suppliers meet the corporate social responsibility objectives of the business. Today, many businesses practice sustainable procurement. Sustainable procurement decisions consider the environmental and social impacts from purchased materials as well as the cost, or economic impact. For example, a business practising sustainable procurement might assess the cost of acquiring a certain resource as well as the costs involved at the end of the resource's life cycle, such as the disposal of any waste. Once these considerations are met, a business would also avoid materials produced by socially irresponsible suppliers, such as producers that are not environmentally friendly or those that exploit labour.

Sustainable procurement will involve a high degree of collaboration between the business and suppliers. It is the duty of a business to take reasonable care when selecting a supplier to ensure that its own business is not tainted by the poor practices of a supplier. If a business relies heavily on a given supplier it should enquire about and, if possible, inspect the operations of that supplier prior to making any long-term commitments.

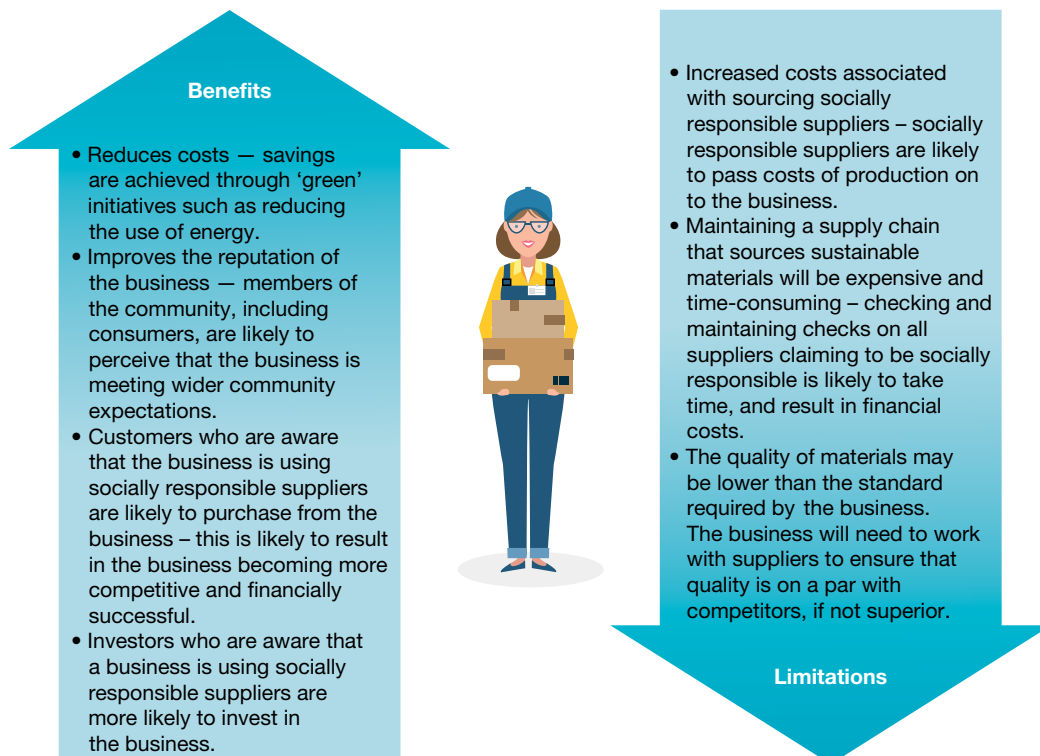
Some of the factors that need to be considered when choosing suppliers that meet the corporate social responsibility objectives of the business are summarised in the following diagram.

## Considerations when choosing socially responsible suppliers

| Financial/economic impacts                                                                                                                                                                                                                                                                                                           | Social impacts                                                                                                                                                                                              | Environmental impacts                                                                                                                                                                                                                                                                                                                                                                                                                      |
|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <ul style="list-style-type: none"> <li>• The costs involved in sourcing suppliers which meet the corporate social responsibility objectives of the business</li> <li>• The costs involved in maintaining the procurement of socially responsible materials</li> <li>• The savings gained from more efficient resource use</li> </ul> | <ul style="list-style-type: none"> <li>• The labour conditions involved in the manufacture, use and disposal of materials</li> <li>• The labour conditions involved in the delivery of materials</li> </ul> | <ul style="list-style-type: none"> <li>• How resources such as energy and water are used in the manufacture, use and disposal of materials, as well as the delivery of materials</li> <li>• Whether or not pollution and waste are produced from the manufacture, use and disposal of materials, as well as the delivery of materials</li> <li>• How the removal or alteration of natural resources will affect flora and fauna</li> </ul> |

Choosing suppliers that meet the corporate social responsibility objectives of the business has a number of benefits and limitations. These are summarised in the following diagram.

The benefits and limitations of using suppliers which meet the corporate social responsibility objectives of the business





## EXAM TIP

- The key skills for **Unit 2, Area of Study 1** state that you need to ‘evaluate the costs and benefits of decisions when establishing a business’ as well as ‘justify the strategy chosen’.
- The key knowledge for **Unit 2, Area of Study 1** states that you must know ‘the benefits and limitations of suppliers which meet the corporate social responsibility objectives of the business’.
- The task word ‘evaluate’ in this case requires you to be able to present a judgement of the use of socially responsible suppliers by exploring both benefits and limitations, and then provide an overall conclusion or judgement related to which argument is more persuasive and why. To ‘justify’ — expressing valid reasons for accepting a particular conclusion — the use of socially responsible suppliers, knowing the benefits of using socially responsible suppliers will also prove useful.

## RANA PLAZA

On the 24 April 2013, the Rana Plaza building in Bangladesh collapsed, killing 1134 garment workers and injuring many more. The horrific event once again shed light on the questionable behaviour of over 150 international brands, which source the cheapest possible garment suppliers on the planet, ignoring crimes inflicted on the impoverished workers.

The collapse was caused by a complete disregard of health and safety standards that would result in heavy fines and imprisonment had such negligence taken place in western nations such as Australia. Workers were paid just \$40 a month, were often physically abused, and forced to work in inhumane conditions for long hours.

It became apparent to many consumers that much of the garment industry, which had once been forced to uphold decent standards for their workers when factories were located in western nations, was now taking advantage of the desperate needs of poverty stricken Bangladeshis.

Many of Australia’s biggest retail brands including Just Jeans, Peter Alexander, Portmans, Best & Less and Lowes pleaded ignorance to the circumstances in which their clothing is manufactured and have been more resistant than other companies such as Kmart and Target to alter their supply chain policies. Subsequently, many consumers have boycotted such brands and have turned to more reputable retailers instead. The move reflects a growing level of awareness among Australian consumers who are on the lookout for socially responsible alternatives when adding to their wardrobes.

When the Rana Plaza building collapsed 1134 garment workers died. Many consumers around the world have boycotted the retail outlets that were sourcing garments from Rana Plaza suppliers.



## 4.8 Activities

### TEST your understanding

1. Why is it important for a business to choose the right supplier?
2. Define the term 'procurement'.
3. List five considerations for a business when choosing a supplier.
4. Why is the location of a supplier an important factor for many businesses?
5. Outline the benefits and limitations for a business that chooses to source materials from socially responsible suppliers.
6. Read 'Rana Plaza' and answer the following questions.
  - (a) What happened on 24 April 2013 in Bangladesh?
  - (b) Outline the working conditions that the garment workers faced prior to the collapse.
  - (c) Why do you think businesses allowed the workers of their suppliers to be treated in a way that they would not treat their Australian workers?
  - (d) To what degree do you think the Australian retailers were responsible for the poor working conditions and eventual collapse of Rana Plaza?

### APPLY your understanding

7. Why is it important for a business to ensure it sources inputs that are in accordance with Australian standards for quality and safety?
8.
  - (a) List, in order of importance, the factors that a \$2 shop would consider when choosing a supplier.
  - (b) List, in order of importance, the factors that a high-end cosmetics retailer would consider when choosing a supplier.
  - (c) List, in order of importance, the factors that an organic fruit and vegetable shop would consider when choosing a supplier.
  - (d) Compare your answers for each of the above scenarios and explain why your answers differed for each.
9. Do you think the Australian government should hold Australian businesses more accountable for their use of unethical supply chains? Justify your response.
10. Do you think the Rana Plaza collapse is still relevant today? Using internet sources, write a paragraph on how the world has reacted to Rana Plaza in the past few years.

### EXAM practice

11. Outline two considerations that a business might make when choosing appropriate suppliers. **(2 marks)**
12. Explain the importance of a business choosing appropriate suppliers. **(4 marks)**
13. Sustainable Living is a company that manufactures furniture and homewares. Where possible, the business sources its materials from socially responsible suppliers in an effort to minimise the company's carbon footprint. Discuss Sustainable Living's choice to use suppliers that meet its corporate social responsibility objectives. **(4 marks)**
14. Identify a business that uses socially responsible suppliers. Justify the business's decision to use suppliers that meet its corporate social responsibility objectives. **(3 marks)**

## 4.9 Policies and procedures

**○ KEY CONCEPT** Policies and procedures must be developed and implemented to establish and communicate basic expectations about behaviour and decision making.

### 4.9.1 Policies

A **policy** is a written set of broad guidelines to be followed by all employees when dealing with important areas of decision making. Policies are established by businesses to set the direction of the business and to determine standards of behaviour. Clearly defined policies promote good practice and help ensure employees

are working within the requirements of the law. The right policies can also help to establish a positive culture within the business, which will in turn assist the business to reach its objectives.

Your school will have a well-defined policy on bullying and harassment. This policy would have been widely communicated in your school. The policy exists to establish clear guidelines on what the issue is, the school's stance on bullying and consistent approaches to dealing with the issue.

It is important that policies achieve compliance with legal requirements. For example, one area of legal compliance for all businesses is discrimination. Several federal and state laws aim to end discrimination in the workplace, including Victoria's *Equal Opportunity Act 2010*. This law supports businesses to take action in eliminating discrimination, sexual harassment and victimisation. All equal opportunity policies in Victoria must conform to the provisions of this Act.

When you read the Toll Holdings policy you will notice that a framework for behaviour, decisions and actions has been established for all members of the business. In this way, the policy ensures the daily actions of every employee are consistent with the values, objectives and strategies of the business. Policies, therefore, guide employees.

The diversity and equal opportunity policy for Melbourne-based company Toll Holdings Ltd.

#### **DIVERSITY AND EQUAL OPPORTUNITY POLICY**

##### **Scope**

This policy applies to all employees and contractors engaged by Toll globally.

##### **Principles**

Toll's commitment

We are committed to:

- attracting and selecting a diverse range of people based on merit and through fair and equitable processes, without regard to personal attributes
- welcoming a diverse range of people and providing a workplace that is both welcoming and inclusive
- providing a workplace that is free from inappropriate conduct such as, discrimination, bullying, harassment, vilification, victimisation and violence
- educating and training our employees on the value of diversity and their roles and responsibilities in relation to diversity and equal opportunity
- providing tools/process for employees to raise grievances and for Toll to annually review these tools/processes
- fostering diversity through reviewing the demographic profile of the workforce and

ensuring talent solutions are initiated to build a diverse workforce. Providing flexible work options to:

- assist our employees balance their work and personal lives
- enable us to retain a diverse workforce
- providing training and leadership programmes that promote respect and fairness in how we work with and value others
- complying with local legislation such as, but not limited to, anti-discrimination.

##### **Expected workplace behaviour**

Toll expects all employees and contractors of Toll to:

- at all times behave in a manner that is consistent with Toll's commitments set out in
- this policy; and report any instances where the actions or behaviours of Toll employees are not consistent with Toll's commitments set out in this policy.

##### **Implementation of this policy**

The Group Managing Director is responsible for this policy across all business units, worldwide.

The Group Managing Director will communicate this policy and any subsequent updates or amendments to it, to all Divisions within the company for implementation.

## 4.9.2 Procedures

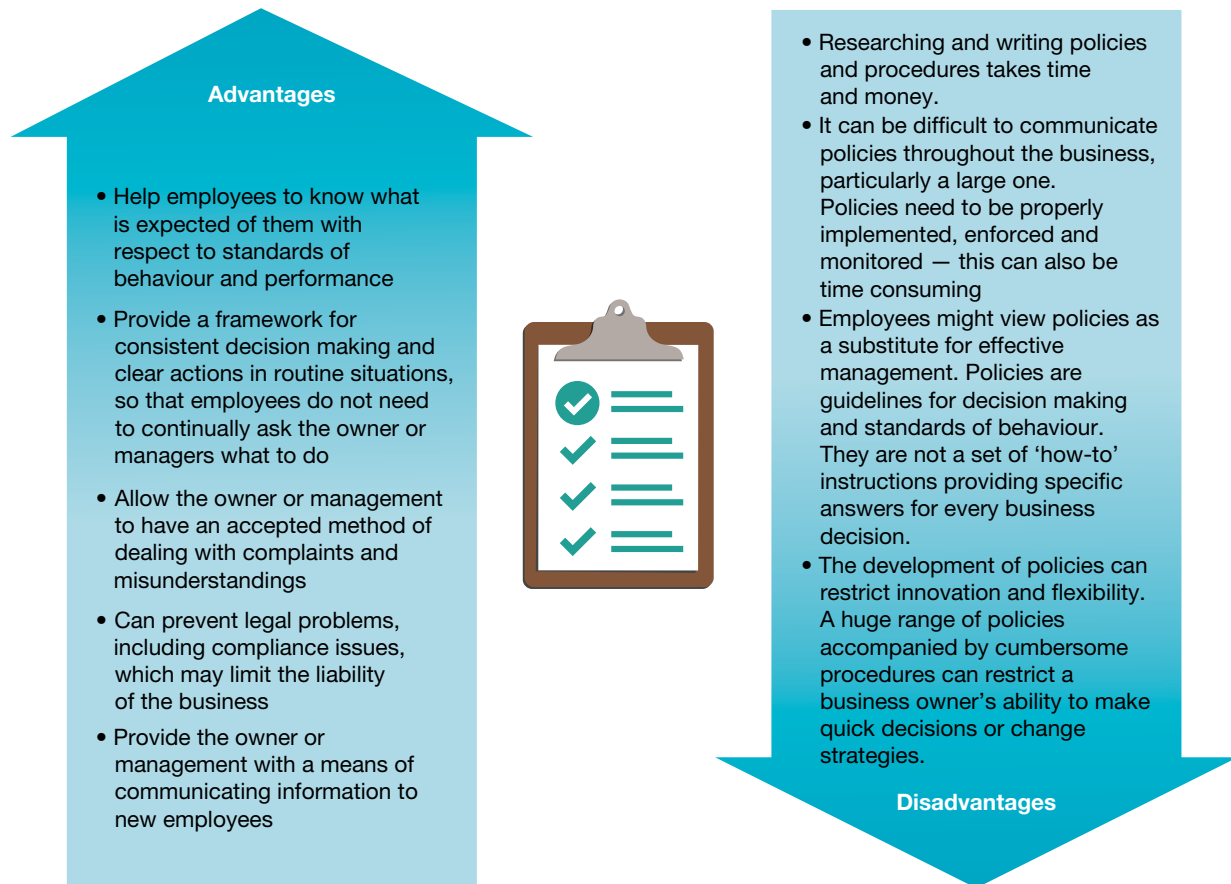
A **procedure** is a series of actions that enable a policy to be put into practice. It is a step-by-step set of instructions. A procedure can also be used to provide a means of resolving a dispute brought about by a breach of a policy. In this way procedures establish business routines which put into effect the policies that help the business to achieve objectives. Most businesses have procedures for paying accounts, handling grievances, preparing budgets, and dealing with customer complaints.

To support an equal opportunity policy, for example, specific procedures establish how a complaint is handled. These procedures might include:

- how to record the complaint
- the process used to investigate an allegation of sexual harassment, bullying or discrimination
- how to arrange counselling for victims
- the process used to counsel, warn or terminate employees responsible for sexual harassment, bullying or discrimination
- the steps to be taken when an allegation is found to be untrue.

Similar to policies, procedures provide a sense of consistency within the business by putting in place common methods to deal with problem solving or routine tasks.

### The advantages and disadvantages of policies and procedures



### 4.9.3 Types of policies

Not all issues or problems faced by the business will require a policy. Many routines can be dealt with by having simple workplace processes in place. Some small businesses may struggle to implement policies and procedures. Instead, a small business owner who has constant direct contact with staff may choose to share a statement of expected behaviours in the workplace or a code of conduct.

However, some examples of typical policies commonly used by many businesses include:

- recruitment policies
- occupational health and safety policies
- privacy policies
- anti-discrimination, equal opportunity and harassment policies
- dispute resolution policies
- drug and alcohol policies
- customer service policies
- anti-bribery and corruption policies
- risk-management policies
- supplier policies
- environmental policies
- accounting policies.

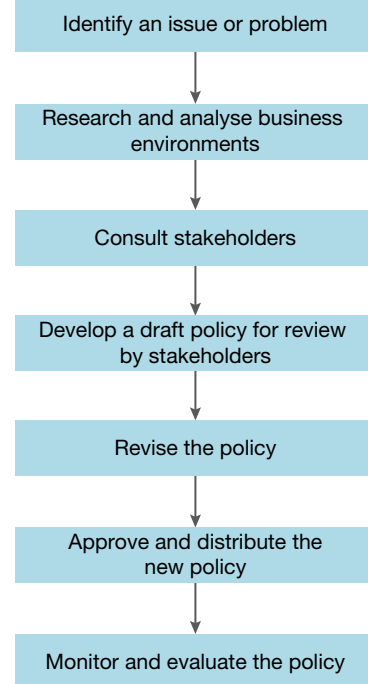
### 4.9.4 Ensuring policies and procedures comply with legal requirements and establish routines

Policies should be reviewed regularly. The need to change a policy may originate with any of the stakeholders of the business. Regardless of where the pressure to change occurs, the business will need to use a process to develop policies that ensure compliance with legal requirements and establish routines.

The need for a new policy may arise because there is an issue or problem that needs to be resolved, or a change to the law that necessitates the introduction of a new policy into the workplace. For example, any changes to the Victorian Equal Opportunity Act will require businesses, such as Toll, to review their policies, making sure there is compliance with the law. Following research and analysis, a summary of changes should be provided to all stakeholders, seeking feedback. Once a decision has been made to proceed with the policy development, a team would write a draft policy, incorporating the feedback of stakeholders and any changes to legislation.

After the draft policy has received feedback, it should be revised and then presented to senior management for approval. A final version must be distributed to all stakeholders and it needs to be clearly communicated to all staff. Management and staff may need training related to understand the new policy and its implications. After the policy has been introduced it will need to be monitored and evaluated to ensure it is easily understood and is being followed. Policies will typically be reviewed on a regular basis to ensure that they remain current. For example, a business might include an end date for a policy, which will prompt a review within a given period such as one year or five years.

A process for developing policies that ensure compliance with legal requirements and establish routines



## 4.9 ACTIVITIES

### TEST your understanding

1. What is the purpose of policies and procedures?
2. Examine the Toll diversity and equal opportunity policy and answer the following questions.
  - (a) To what Act are all equal opportunity policies in Victoria required to conform?
  - (b) Whom does the policy cover?
  - (c) In what ways is Toll committed to a diverse and discrimination-free workplace?
3. List three other areas for which a business needs to have policies.
4. In what ways is a policy different from a procedure?
5. What are the main pressures for a change in policy?
6. Explain how a business can ensure that policies and procedures achieve compliance with legal requirements and establish business routines.
7. Outline the advantages and disadvantages of establishing policies and procedures.

### APPLY your understanding

8. Inspect a number of policies being used in a business with which you are familiar. Evaluate the effectiveness of each policy by looking at aspects such as:
  - (a) the connection of the policy to the objectives of the business
  - (b) the extent of consistency within the policy
  - (c) how easy it is to follow.
9. Use the **Coca-Cola Amatil** weblink in the Resources tab to locate Coca-Cola Amatil's environmental policy. What information does this policy contain? Can you find other policies on this website? What information is in the other policies?



### EXAM practice

10. Distinguish between a policy and a procedure. **(2 marks)**
11. Using an example, outline what a policy is and explain why it is necessary for a business to have one. **(4 marks)**
12. Explain how policies and procedures achieve compliance with legal requirements and establish business routines. **(4 marks)**



### Resources



Weblink: Coca-Cola Amatil

## 4.10 APPLY YOUR SKILLS The need for policies and procedures

### PRACTISE YOUR SKILLS

- Define, describe and apply relevant business management concepts and terms
- Acquire, record, interpret and share business information and ideas
- Research and analyse case studies and contemporary examples of business management applicable to establishing a business
- Apply business management knowledge to practical and/or simulated business situations
- Evaluate the costs and benefits of decisions when establishing a business, and justify the strategy chosen

Kathmandu is a global chain of retail stores that sells outdoor and travel clothing and equipment. The business is well known for its adventure gear. It sells an extensive range of products including jackets, shirts and pants, footwear and socks, packs, bags, tents and travel accessories. The company, which was founded in 1987 by John Pawson and Jan Cameron, has 163 stores: 115 in Australia, 47 in New Zealand and 1 in the United Kingdom. Almost 2000 people work for Kathmandu.

Kathmandu has a number of policies including a code of conduct, a returns policy, a privacy policy, a continuous disclosure policy, a risk management policy, a diversity policy, a remuneration policy and a responsible purchasing policy. An extract from Kathmandu's privacy policy is presented below.

### KATHMANDU PRIVACY POLICY

#### Our privacy commitment

Kathmandu is committed to protecting the privacy of your personal information. We manage your personal information in an open and transparent way.

Kathmandu will only use your personal information when it is necessary for us to deliver you a service or perform other necessary business functions and activities.

Kathmandu will not use or disclose your personal information for purposes unrelated to the services we provide, unless we first obtain your consent.

Where we can, we will allow you to deal with us anonymously or by using a pseudonym. However, in some circumstances, this may not be possible, and Kathmandu may need to collect personal information from you to provide you with a delivery or other service. In some cases, if you do not provide the required personal information we will not be able to provide you with a service.

## Our privacy obligations

This privacy policy sets out how we comply with our obligations under the:

- *Privacy Act 1988* (Cwlth) (Australia);
- *Privacy Act 1993* (NZ) (New Zealand); and
- *Data Protection Act 1998* (United Kingdom).

Kathmandu is bound by the requirements of these privacy laws, which regulate how we may collect, use, disclose and store personal information/data. These laws also specify how individuals may access and correct personal information/data held about them.

‘Personal Information’ means information or an opinion about an identified individual (or an individual who is reasonably identifiable), whether true or not, or recorded in a material form or not.

‘Personal Data’ means data which relates to a living individual who can be identified from the data, including an opinion about the individual.

For example, these types of information/data could include your name, contact details, age and health information.

This privacy policy is effective from March 2014. From time to time, our privacy policies and procedures will be reviewed and, if appropriate, updated. If any changes are made to this policy, these will be posted on our websites.

## How and why does Kathmandu collect and hold your personal information?

Kathmandu will only collect personal information about you by lawful and fair means, and not in an unreasonably intrusive manner.

It is Kathmandu’s usual practice to collect personal information [about you (and possibly about your family) directly from you (or from your authorised representative)], when you:

- complete an online form on one of our websites
- visit and browse our website
- complete a hard copy form
- apply for membership of the Summit Club
- purchase goods or services from us in certain circumstances such as through our website, or if you deal with us by reference to your Summit Club membership, or if you pay other than by cash
- enter one of our competitions
- apply for employment with us
- contact us by telephone, via mail, email or online.

We may collect personal information about you from a third party or a publicly available source, but only if you have consented to such collection, or would reasonably expect us to collect your personal information in this way.

Kathmandu only collects personal information for purposes that are directly related to our business activities, and only when it is necessary for or directly related to such purposes. We also collect personal information related to employment services, human resource management, and other corporate service functions.

If we receive information about you from a third party and it is not information we need in respect of our business activities, we will destroy or de-identify that information (provided it is lawful to do so).

No one under the age of 13 years is allowed to provide any personal information. Minors under the age of 18 years are prohibited from making purchases, including subscriptions, on our websites.

## What kind of personal information does Kathmandu collect and hold?

Any personal information that you provide via our websites or directly (for example, when you apply to become a member of the Summit Club) is collected and managed by Kathmandu.

If you provide your personal information to a third party via a link from the Kathmandu website, that information is collected and managed by those third parties. You should familiarise yourself with their privacy policy prior to deciding whether you wish to provide them with your information.

The types of personal information Kathmandu may collect includes (but is not limited to) your:

- name
- date of birth
- gender



- marital status and family details
- residential address
- email address
- contact telephone numbers
- identification details (e.g. student, YHA member, over 60s)
- Tax File Number
- passport details
- testimonials or opinions
- photos of you
- financial information, such as credit card details
- statistical information about visits to pages on the site, the duration of individual page view, paths taken by visitors through the site, data on visitors' screen settings and other general information
- written or verbal contact with Kathmandu, including voice recordings of telephone conversations you have had with our employees
- activities, including but not limited to sporting and other lifestyle interests.

The nature of the information collected will depend on the purpose for which it is being collected.

If you provide us with information about any third party, you must obtain that person's permission to give us the information and inform them that you have given the information to us.

### **How does Kathmandu use your personal information?**

We use your personal information for a variety of reasons including to:

- provide services and products to you
- answer your inquiries and deliver customer service to you
- to tell you about other products that we think may be of interest to you
- maintain and improve customer services
- administer our Summit Club program
- facilitate your interaction with us on our website
- consider any application for employment made by you
- meet our legal obligations
- manage and resolve any legal or commercial complaints and issues
- carry out internal functions including training
- conduct marketing research and analysis.

While you may opt not to provide us with your personal information, you should be aware that without this personal information, we may not be able to provide you with some of the services and/or products you are seeking.

### **In what circumstances will Kathmandu disclose your personal information?**

In the course of conducting our business and providing our products and services to you, we may disclose your personal information.

We only disclose personal information for the purposes for which it was given to us, or for purposes which are directly related to one of our functions or activities. We do not give it to anyone else unless one of the following applies:

- you have consented to the disclosure
- you would reasonably expect, or have been told, that your information is passed to those individuals, bodies or agencies;
- it is otherwise required or authorised by law.

If we engage third party agents or contractors, we will take all reasonable steps to ensure that they do not breach privacy requirements in relation to the information before we share your personal information with them.

### **Who do we disclose your personal information to?**

We may disclose your personal information to:

- another Kathmandu business
- professional advisers (such as lawyers or auditors)
- payment systems operators and financial institutions
- third party agents or contractors with whom we contract in the ordinary course of business
- organisations authorised by Kathmandu to conduct promotional, research or marketing activities
- upon lawful request from law enforcement agencies or government authorities

- any persons acting on your behalf including those persons nominated by you, executors, trustees and legal representatives.

In all circumstances where your personal information is disclosed, we will take all steps reasonable to ensure that these third parties undertake to protect your privacy.

### Direct marketing

We are committed to compliance with all laws and requirements relating to the use of your personal information. We will only use or disclose your personal information for direct marketing purposes if you have provided your information for that purpose (and you would expect us to use the information for that purpose), or if you have provided consent for your information to be used in this way.

From time to time, we may contact you with information about products and services offered by us and our related entities and our business partners which we think may be of interest to you. When we contact you it may be by mail, telephone, email or SMS.

We may also provide targeted marketing to you whether directly or through online advertisement networks such as those operated by Google, based on your viewing activity of our website. For more information, see 'Website usage' below.

Where we use or disclose your personal information for the purpose of direct marketing, we will:

- allow you to request not to receive direct marketing communications (also known as 'opting-out')
- comply with your request to 'opt-out' of receiving further communications within a reasonable timeframe.

You can opt out of receiving targeted advertising derived from your viewing habits by selecting from your browser's privacy or security settings to reject, delete or block (as the case may be) the cookies or web beacons used by us in order to conduct such targeted marketing.

Kathmandu will only ever contact you if you have consented to this, and you can ask to be removed from our marketing lists at any time by contacting us directly.

Kathmandu's Bourke Street store in Melbourne



## AUSTRALIAN PRIVACY PRINCIPLES

The Australian Privacy Principles (APPs) are contained in schedule 1 of the *Privacy Act 1988* (Cwlth). The APPs outline how businesses with an annual turnover of more than \$3 million and some small businesses must handle, use and manage personal information.

Each business needs to consider how the principles apply to its own situation. The principles cover:

- the open and transparent management of personal information, including having a privacy policy
- an individual having the option of transacting anonymously or using a pseudonym where practicable
- the collection of solicited personal information and receipt of unsolicited personal information, including giving notice about collection
- how personal information can be used and disclosed (including overseas)
- maintaining the quality of personal information
- keeping personal information secure
- the right of individuals to access and correct their personal information.

The Australian Privacy Principles place more stringent obligations on businesses when they handle 'sensitive information'. Sensitive information is a type of personal information and includes information about an individual's health (including predictive genetic information); racial or ethnic origin; political opinions; membership of a political association, professional or trade association or trade union; religious beliefs or affiliations; philosophical beliefs; sexual orientation or practices; criminal record; biometric information that is to be used for certain purposes; and biometric templates.

An individual has a right to complain if he or she believes that a business covered by the *Privacy Act* has not complied with the legislation in handling his or her personal information. The Office of the Australian Information Commissioner's (OAIC) can investigate, conciliate and make determinations where necessary about complaints made about a business's handling of personal information.

## 4.10 ACTIVITIES

### TEST your skills

1. Describe the difference between a policy and a procedure.
2. In your own words, define the term 'privacy'.
3. Using Kathmandu as an example, outline what personal information is.
4. According to Kathmandu's privacy policy, how does Kathmandu collect personal information and what does it do with it?
5. According to Kathmandu's privacy policy, to whom does Kathmandu disclose personal information?
6. Is it possible to opt out of receiving direct marketing communications from Kathmandu? If so, how?
7. Outline why Kathmandu needs a privacy policy.

### APPLY your skills

8. Explain the need for a business to have policies and procedures.
9. (a) Use the table below to record the advantages and disadvantages for Kathmandu in developing policies. Use the company's privacy policy as an example. One advantage and one disadvantage has already been completed for you.

#### Advantages for Kathmandu in developing policies

Policies help employees at Kathmandu to know what is expected of them with respect to standards of behaviour. The privacy policy lets employees know what they can and cannot do with customers' personal information.

#### Disadvantages for Kathmandu in developing policies

Policies take time and money to research and write. Kathmandu's privacy policy is lengthy and would have taken time to finalise. Confirming that it meets the requirements of the relevant legislation would also have been time consuming.



- (a) The task word (sometimes referred to as command word or instructional word) 'evaluate' generally requires you to consider both sides of something, and then provide an overall conclusion or judgement related to which argument is the more persuasive and why. For VCE Business Management Unit 2, Outcome 1 you are expected to be able to evaluate the costs and benefits of decisions when establishing a business.  
Using the information you have recorded in the table, evaluate Kathmandu's decision to establish a privacy policy.
- (b) The task word (sometimes referred to as command word or instructional word) 'justify' generally requires you to point out reasons for forming a particular conclusion. This may involve the provision of evidence to support an argument. For VCE Business Management Unit 2, Outcome 1 you are expected to be able to justify strategies chosen when establishing a business.  
Using the information you have recorded in the table, justify Kathmandu's decision to establish a privacy policy.
10. In groups of 2–4 people, brainstorm a set of guidelines that you would include in a policy concerning the following issues at your school:
- the appropriate use of mobile phones
  - school bullying
  - the appropriate use of laptops or tablets at your school
  - involvement in school events such as sport
  - school uniform
  - student discipline
  - any other issue that your teacher deems appropriate.
- (a) Develop a process that you would undertake to implement that policy.
- (b) Consult your teacher and other students about the effectiveness of the policy you have created.
- (c) Write down the feedback and review the policy that you have developed.
- (d) How effective do you think your policy would be at improving the school?
- (e) What are some problems your school might face with the implementation of this policy?
- (f) Compare your policy to any existing school policies (these can usually be found on your school website), show the differences and similarities in a T-chart.

## 4.11 Technological and global issues

**KEY CONCEPT** A business owner must consider technological and global issues when establishing a business.

Today's world of business is more dynamic than ever before. The world is experiencing an era of technological advances and globalisation. You may recall that in chapter 2 we explored how technological issues and global issues have an impact on business planning. Let's now look at how these same two issues may affect decision making when establishing a business.

In a rapidly changing environment, a business owner will need to consider the technological and global issues that may affect the way that their business will operate once it is established. Failing to take advantage of new technology and respond to global issues could possibly leave the business behind competitors who do capitalise on current trends. While it

The world is more connected now in terms of trade and communication than ever before.



can be difficult to predict events that are completely outside of the business's control, the business owner will need to learn about any changes that could affect the business prior to establishing it.

### 4.11.1 Technological issues

Advances in technology can be both a blessing and a curse for a business. A business that can incorporate such advances into its operations successfully will thrive, while those that are too slow to take up the change or invest in the wrong technology are unlikely to experience much success. Much of the cutting-edge technology that businesses currently use will be redundant several years from now and some business models will become outdated by new technology.

Technology not only affects how a business creates its goods and services, but it also plays an increasingly important role in the administration and marketing of a business. While new issues are constantly arising around the impact of technology on businesses, we can get a better understanding of their importance by looking at some contemporary examples.

#### Technology in manufacturing

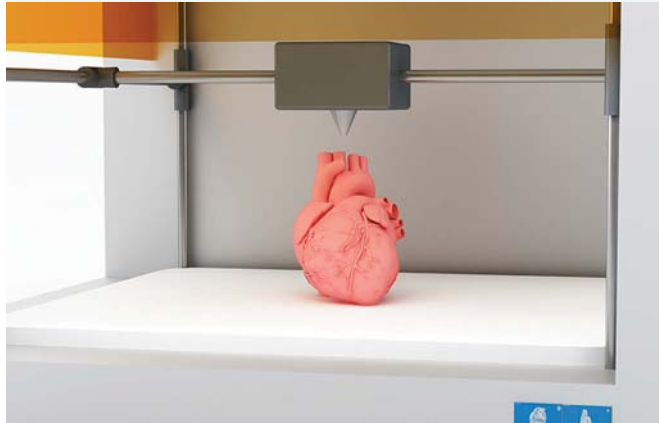
Perhaps some of the most interesting technological advances in recent years affecting production are **three-dimensional (3D) printing** and **robotics**.

The application of 3D printers has expanded from small-scale model replication in laboratories to the construction of entire buildings. The potential of 3D-printer technology is limitless on a commercial scale, and is already being used across a variety of industries to make objects in precise accordance with their design.

Increasingly complex robots are being developed that can perform a wider range of tasks to a greater degree of precision than is humanly possible. While robotics has been used in manufacturing for many decades, the significant improvement and more widespread application of robotics leaves no doubt as to its significance for the future needs of many businesses.

Despite a technology's potential, when a business owner is planning a business, they will need to decide whether the technology available is cost-effective or whether traditional methods are more practical. The business owner should consider that, while technology such as robotics may be initially expensive and require maintenance, in the long run it may be less expensive than the cost of manual labour and human error.

3D printers can produce anything from replacement body parts to full-sized houses.



Robots can perform some tasks to a higher degree of accuracy and speed than humans can.



## Technology in administration

Smartphone applications and web-based software for businesses has progressed in leaps and bounds over the past decade. The owner of a business can now do everything on a smartphone, from viewing live security camera footage to email correspondence and web-based conferencing. Further, the cost of developing software specific to the needs of the business has significantly reduced, with options to outsource such work to cheaper international IT contractors. When a business owner is planning a business, they will need to decide what applications or software to use in administration.

Smartphones have made social media far more accessible and practical. In doing so, they have changed the way in which people communicate.



## Technology in marketing

Perhaps the most significant change businesses have experienced in recent years has been to marketing, through the rise of social media advertising. It is now important to develop a social media advertising strategy when establishing a business.

Facebook, Twitter, LinkedIn, YouTube, blogs, podcasts and online communities are all examples of social media channels, and have been behind the recent revolution in **social media advertising** (SMA). Businesses are becoming increasingly aware that SMA can have positive results, especially when used in combination with traditional advertising methods. SMA is relatively inexpensive when compared to traditional marketing methods and is easy to use and monitor. When a business owner is planning a business, they may decide to implement SMA. However, the business owner should be aware that SMA has a number of disadvantages. A business does not always have control over what online consumers write about the business's product. Bloggers have the freedom to discuss, review, criticise and even ridicule a product or business. Unlike more traditional online advertising, it is difficult for a business to accurately measure how successful SMA has been in marketing the business.

## Establishing customer databases

A **customer database** is an organised collection of information on existing and potential customers, including such details as their contact information, personal details, previous interactions with the business, buying habits and preferences. Technology has allowed businesses to establish improved customer databases consisting of large amounts of information about customers. This is largely due to the amount of data that can be collected from an increasing number of internet searches.

A business owner may choose to build their own customer database, perhaps using a spreadsheet, or to purchase access to a database. Data can be collected by gathering data on existing customers or retrieved from market research companies, who sell the information to businesses for a fee.

Generating a customer database allows the business to easily communicate with customers, thereby improving customer relationships and supporting the business in providing better service. Remaining in contact with customers helps to build loyalty and repeat business. However, generating a customer database can be time consuming, if the business owner builds their own, or expensive, particularly if the business pays for a third-party provider. Even if the business owner does build their own database, the expense may grow over time as the business expands and investment needs to be made in infrastructure to support the database.

Businesses also need to ensure that the private details of customers are well protected from hackers who may profit from identity theft should they get their hands on sensitive information. Furthermore, the business owner needs to consider legislation when handling individuals' personal information. The *Privacy Act 1988*

(Cwlth) governs the way in which businesses can gather, use, keep secure and disclose personal information. This Act stipulates that businesses should collect only information that is directly related to their business activities. A business cannot collect sensitive personal information, or use or disclose personal information, unless the individual has given consent.

#### DID YOU KNOW?

Identity fraud occurs every two seconds.

### 4.11.2 Global issues

Despite the fact that the world's population has increased exponentially over the past century, the world is in many ways much smaller. The globalisation phenomenon has presented many opportunities as well as problems for businesses in the twenty-first century. The removal of trade barriers has allowed Australian businesses access to a wider range of overseas suppliers and resources, customers and overseas retailers, as well as competitors.

#### Overseas suppliers and resources

When establishing a business, a business owner may find it beneficial to develop contacts with overseas suppliers. Australian businesses now have access to a global supply network that offers a wider range of more affordable raw materials and finished products. Materials from overseas suppliers are often less expensive than from local wholesalers. This is due to the lower cost of skilled labour in many countries overseas as well as other economic factors, such as lower taxes and low trade tariffs due to free trade agreements. As well as taking advantage of lower prices, the business owner may be able to source materials that are not available domestically.

Technology allows the business owner to make contact with suppliers in other countries over the internet, with software such as Skype enabling regular face-to-face communication. However, it is essential that the business owner choose socially responsible suppliers with which to do business or risk a backlash from employees and customers.

Purchasing materials from overseas suppliers does have disadvantages. There may be hidden costs associated with different cultures and time zones. There may be long lead times (the time taken between placing the order and the delivery of materials). It may also take time to find a suitable supplier that has the required production capabilities to meet orders on time and at the standard demanded by the business owner.

#### Customers and overseas retailers

Many Australian businesses have grown substantially as reductions in trade barriers have provided greater access to international markets. The economic growth of nations such as China has resulted in a greater demand for Australian commodities; demand for Australia's premium agricultural products has also presented excellent opportunities to Australian farmers.

The business owner may decide to develop contacts with overseas retailers when establishing a business. In doing so, the business will become an **exporter**. A business exports when it sends goods or services to another country for sale. Once the business owner has considered laws in the other country, as well as cultural and demographic factors, exporting can allow the business to access more customers and larger markets. Exporting can increase the business's profit, spread the business's risk and reduce dependence on the local market.

When developing contacts with overseas customers such as retailers, the business owner will need to meet with prospective customers, see the overseas market first hand, investigate local pricing and experience how business is conducted in the new environment. There are risks associated with exporting. It is important to understand the different cultures, languages, norms and ways of doing business in other countries. There will



always be hidden costs involved in meeting regulations. Developing export markets can also be costly in terms of time taken to find support and customers willing to purchase the business's products.

The Australian Trade and Investment Commission (Austrade) provides help to businesses who wish to seek opportunities in overseas markets. Austrade can connect businesses that are ready to export to opportunities overseas and work with business owners to achieve their objectives.

### DID YOU KNOW?

Austrade research shows that, on average, exporting companies are more profitable than their non-exporting counterparts.

## FERGUSON AUSTRALIA — AN EXPORT SUCCESS

Ferguson Australia is a leader in the multi-million dollar rock lobster industry, and its success has come from innovative thinking. In 2002, the business did some market research with focus groups and found that there were many customers who loved lobster but did not want to go to the trouble of shelling one. This marketing information was taken seriously, and the company has experienced much success in selling value-added products to the domestic and overseas markets. One of its successful inventions is selling lobster without its hard red shell. The product is ready to eat without all that shelling.

Former General Manager Debra Ferguson said, 'We looked at global food trends and saw that there was a strong movement towards portion control, better packaging, set prices — and telling the stories behind products.'

Ferguson Australia has gained international recognition as an award-winning and innovative seafood processor and exporter. For example, in 2015, the Adelaide-based company was recognised by South Australia's chamber of commerce as the best agribusiness exporter.

In 2015, Ferguson Australia acquired two South Australian seafood brands, Mori Seafood and Five Star Seafoods, and export facilities. This enabled the company to grow its lobster production and launch into the southern bluefin tuna industry. The acquisitions also increased the group's annual lobster exports, and its projected turnover was expected to quadruple.

The company is accredited to export its live and value-added lobsters, oils and other seafood products to countries and regions including China and Japan, the United States of America, Russia, the European Union and the Middle East. In 2017, Ferguson Australia became the first company in the world to achieve the prestigious international 'Friend of the Sea' (FoS) certification for sustainable fishing practices for six wild-caught, local fish species. The company also became the first and only fishery in Australia to gain sustainability certification for southern rock lobster.

Ferguson Australia sells its seafood on the global market. Current General Manager Kate Ferguson holds an Australian southern rock lobster that will be sold in Asia.



## study on

Unit 2

AOS 1

Topic 1

Concept 10

Technology and globalisation Summary screen and practice questions



## 4.11 Activities

### TEST your understanding

1. Outline why it is important for a business owner to respond to technological and global issues when establishing a business.
2. Give two examples from the text of how technology is being used by businesses in manufacturing.
3. Describe how the administration of businesses is becoming easier with the use of technology.
4. What are the advantages and disadvantages of social media advertising?
5. Explain what a customer database is.
6. Outline the factors a business owner will need to consider when generating a customer database.
7. Explain why it may be beneficial for a business owner to develop contacts with overseas suppliers when establishing a business.
8. Explain why overseas retailers need to be considered by business owners when establishing a business.
9. Read the Ferguson Australia case study.
  - (a) Outline the decisions that the owners of Ferguson Australia made when establishing the business.
  - (b) Describe the consequences of the decisions made by the owners of Ferguson Australia.

### APPLY your understanding

10. Video and DVD rental stores were thriving businesses less than a decade ago but have since experienced a drastic decline in customers.
  - (a) How would the introduction of a variety of affordable video players on the market have affected video rental stores?
  - (b) How would the introduction of a variety of affordable DVD players on the market have affected video rental stores?
  - (c) How would the introduction of a variety of affordable DVD burners and more easily available pirated copies on the market have affected video rental stores?
  - (d) How would the spread of high-speed internet and downloading websites have affected video and DVD rental stores?
  - (e) How would online movie and TV streaming subscription services such as Netflix have affected video and DVD rental stores?
11. The National Broadband Network is making fast internet available to remote areas around the country.
  - (a) How might this affect a small regional newspaper?
  - (b) How might a local plumbing business that receives much of its customers through newspaper advertisements adjust to the situation?
  - (c) How might this affect businesses that provide subscriptions to online streaming services such as Netflix?
12. The global financial crisis has resulted in tighter regulations of financial institutions and stricter lending policies in Australia.
  - (a) How might this affect a small business that is considering taking out a loan to expand its operations?
  - (b) How might this affect a mortgage broker who runs a small business organising loans across different banks for clients?
13. Use internet sources to find the Austrade webpage. Explain what Austrade can do to assist a business wishing to begin exporting.

### EXAM practice

14. Outline two factors that a business owner will need to consider when developing contact with overseas retailers. **(2 marks)**
15. Explain the effects that developments in technology may have on decision making when establishing a business. **(3 marks)**
16. Describe one technological issue and one global issue that may affect decision making when establishing a business. **(4 marks)**
17. Discuss a business owner's decision to develop contact with overseas suppliers when establishing a business. **(4 marks)**

## 4.12 APPLY YOUR SKILLS Evaluate and justify decisions when establishing a business

### PRACTISE YOUR SKILLS

- Define, describe and apply relevant business management concepts and terms
- Acquire, record, interpret and share business information and ideas
- Research and analyse case studies and contemporary examples of business management applicable to establishing a business
- Apply business management knowledge to practical and/or simulated business situations
- Evaluate the costs and benefits of decisions when establishing a business, and justify the strategy chosen

### ENVATO DEVELOPS A HUGE ONLINE MARKETPLACE

Collis Ta'eed, Cyan Ta'eed and Jun Rung founded Envato in 2006. The company operates a suite of digital marketplaces where people can buy and sell creative digital goods, such as music, graphics, video, photos, website themes, basically anything a person might need for a creative project. Think of it like an eBay for creative types. Envato employs approximately 300 people, most of whom work from its Melbourne office. More than 2 million people make a purchase on its website each year.

The three founders started Envato after they saw a need in the market for an online place where people could buy and sell stock photography and website components. Once they had decided they were going to begin an online business, they spent nine months building the website. It also cost a large amount of money — \$90 000. The Ta'eeds financed the business using credit card debt, borrowed money from Collis's family and money earned from freelancing. They moved into Cyan's parents' basement and put everything they could afford into the project. The business was finally established in a Sydney garage. Envato was a bootstrap business (a business that is financed using personal finance or the revenue from the business) and continues to be so today.

At the beginning, Envato attracted sellers by promoting the business on online forums and lured buyers with free credit. It paid its creative sellers more than other marketplaces at the time. It began offering sellers 15–25 per cent of each sale, and then increased that to the present range of 50 to 85 per cent.

Initially, Collis and Cyan Ta'eed were hoping that Envato would be a business that they could run while travelling. As the business started to earn income in 2008, they took a holiday to Hong Kong. They took their laptops so that they could work remotely during the day. The holiday extended to other places such as the United States and Paris. However, Envato continued to grow and the couple needed to return home 16 months later. Eventually an office was set up in Melbourne.

In 2017, Envato was named Australia's top exporter for the creative industries at the 55th Australian Export Awards. Envato co-founder and CEO Collis Ta'eed has suggested that Envato has always looked at the global market. He has said, 'I think that's one of the beauties of the internet, that you can go for global markets.'

Envato has built a truly global customer base of approximately 7 million people. Ninety-seven per cent of Envato's revenue now comes from outside Australia. The company has been able to help sellers earn a living through its platforms. By 2018 it had paid out in excess of \$500 million to its community.

Envato co-founders Cyan and Collis Ta'eed



With all of those customers (and sellers) it is vital that Envato maintains a customer database. The company has a privacy policy that outlines how it will collect personal information, how it will use the information, how the information will be stored and how users of the site can access and control their personal information. Because Envato is an online service, it is particularly susceptible to denial-of-service attacks (cyber security events where an attacker tries to prevent users from accessing network resources by disrupting the services of the host connected to the internet). Envato suffered a distributed denial-of-service attack (where the incoming traffic comes from many different sources) for a number of weeks in 2015.

In response to the cyber attack Envato implemented changes, including improving its internal response processes, improving how it works with its service providers and fast-tracking planned upgrades to its online security. In a media release, Envato assured users that 'your data is safe and we are fully committed to mitigating the situation and minimising future unplanned downtime'. No data leaks or breaches were reported.

## MATT BLATT ESTABLISHED AS AN IMPORTING BUSINESS

Husband and wife Adam and Deborah Drexler founded the furniture and homewares brand Matt Blatt 20 years ago. The business has become a family affair, with son Joel becoming general manager and daughter Avril designing graphics and artwork.

Adam Drexler established a business in the eastern suburbs of Sydney in the late 1970s, selling furniture that he sourced from auctions. In the early 1980s, Drexler began manufacturing furniture and wholesaling to retailers. Deborah left her teaching job to help out with answering phones in the warehouse.

The Drexlers soon realised that it would be cheaper to import finished products and sell them, rather than purchase raw materials to make products. They started to import furniture and sell it on eBay. The model proved successful and, as items sold out, the business turned around.

Although the business did well, and despite the Drexlers being adventurous in their selection of products, other businesses were soon copying them and selling similar imported products for less. In 2003, the couple decided to establish their own website and sell directly to customers.

The name of the business came about when a misspelled label on a box of imported chairs from China read 'matt blatt' instead of the colour 'matte black'. The Drexlers thought that the name was quirky and would allow them to go in whatever direction they chose. As well as the website, the business had a warehouse and a small showroom where customers could look around, talk to a salesperson and purchase from the bricks and mortar store or online.

Importing furniture required Adam and Deborah to travel overseas on buying trips. They would visit major furniture shows in Asia, Europe and the United States every year. Today, Deborah is mainly involved in trade shows and selection, continuing to work with Matt Blatt's lead buyer. Most of the business's products come from China, Vietnam and Malaysia. Some also come from Europe. There were problems sourcing products from India because of unpredictable quality. However, they eventually found a supplier who could source unique products made to a suitable level of quality.

Matt Blatt now has 13 stores across Sydney, Melbourne, Brisbane, the Gold Coast, Adelaide and Canberra. The company employs more than 200 people. There are plans to open at least two stores a year for the next five years — in Western Australia, more in Sydney and Melbourne, possibly Newcastle and Tasmania, and also possibly expanding into New Zealand. Even though Matt Blatt has a strong online presence, most of its sales still take place in bricks-and-mortar stores; only about 20 per cent of sales occur online. Customers still love to go in to a showroom and browse. Many will buy online after visiting a showroom.

Adam Drexler says that the family likes to think of themselves as being in the entertainment business. People can walk into a Matt Blatt store and have fun. He says that people can come in and play pinball machines, spin a

Matt Blatt was founded by Adam and Deborah Drexler as an importing business. Today, the couple's son Joel is the general manager and daughter Avril works on the artwork and graphic design.



chocolate wheel to win a gift voucher, or take advantage of an area where children can watch cartoons while their parents shop.

Matt Blatt advertises using print, Google and social media. Newspapers were dropped from its advertising spending because it was felt that print was reaching a diminishing audience. This resulted in sales increasing, but foot traffic slowing. The company reintroduced print ads. The company learnt that it is important to get the right mix between online and offline advertising.

## on Resources



eLesson: Evaluating the decisions made when establishing a business (eles-2979)

## 4.12 Activities

### TEST your skills

1. Define the term 'customer database'.
2. Describe what an overseas supplier is.
3. Read 'Envato develops a huge online marketplace'.
  - (a) Describe the nature of Envato's business.
  - (b) Explain why Collis Ta'eed, Cyan Ta'eed and Jun Rung established Envato as an online business.
  - (c) Outline how Envato promoted itself when it was first established.
  - (d) Why does Envato need a customer database?
4. Read 'Matt Blatt established as an importing business'.
  - (a) Describe the nature of Matt Blatt's business.
  - (b) Explain why Adam and Deborah Drexler established Matt Blatt as a business importing furniture from overseas.
  - (c) What have Adam and Deborah Drexler needed to do to source products from suppliers?
  - (d) How successfully has operating an online business as well as a bricks and mortar business worked for Matt Blatt?

### APPLY your skills

5. Working in a small group, copy the table below. Use the first column to identify technological issues that may affect decision making when establishing a business. Use the second column to identify the decisions made by Envato and Matt Blatt in response to these issues. In the third and fourth columns, outline the costs and benefits of the decisions the owners made when establishing their businesses. In the last column, write a justification for the strategy chosen. Some cells have already been completed for you. You may also be able to identify other technological issues.

| Technological issue            | Decision                                                    | Costs | Benefits                                                                                                                                                                | Justification |
|--------------------------------|-------------------------------------------------------------|-------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------|
| Generating a customer database | Envato established a database for the users of its website. |       |                                                                                                                                                                         |               |
| Using social media advertising |                                                             |       | Envato and Matt Blatt would find that SMA is relatively inexpensive. It is easy to use and monitor and an effective way to gain exposure to new and existing customers. |               |

6. Working in a small group, copy the table on the following page. Use the first column to identify global issues that may affect decision making when establishing a business. Use the second column to identify the decisions made by Envato and Matt Blatt in response to these issues. In the third and fourth columns, outline the costs and benefits of the decisions the owners made when establishing their businesses. In the last column, write a justification for the strategy chosen. Some cells have already been completed for you. You may also be able to identify other global issues.

| Global issue                     | Decision | Costs                                                                                                                                                                                                                                                                                                                                                                                 | Benefits | Justification                                                                                                                                                                                                                                                                                                        |
|----------------------------------|----------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Contacts with overseas suppliers |          |                                                                                                                                                                                                                                                                                                                                                                                       |          | The founders of Matt Blatt found that it was less expensive to import furniture using overseas suppliers. This was likely due to the low cost of skilled labour in other countries, as well as lower taxes and low trade tariffs. The owners were also able to source furniture that was not available domestically. |
| Exporting                        |          | Both Envato and Matt Blatt would have found it important to understand the different cultures, languages, norms and ways of doing business in other countries. They would have become aware of hidden costs involved in meeting regulations. Developing their export markets was also costly in terms of time taken to find support and customers willing to purchase their products. |          |                                                                                                                                                                                                                                                                                                                      |

7. The task word (sometimes referred to as command word or instructional word) 'evaluate' generally requires you to consider both sides of an issue, and then provide an overall conclusion or judgement related to which argument is the more persuasive and why. For Unit 2, Outcome 1 you are expected to be able to evaluate the costs and benefits of decisions when establishing a business.

Using the information you have recorded in the tables in questions 5 and 6, evaluate two decisions that the founders of Envato or Matt Blatt made in response to technological and global issues when they were establishing their businesses.

8. The task word (sometimes referred to as command word or instructional word) 'justify' generally requires you to point out reasons for forming a particular conclusion. This may involve the provision of evidence to support an argument. For Unit 2, Outcome 1 you are expected to be able to justify strategies chosen when establishing a business.

Using the information you have recorded in the tables in questions 5 and 6, justify two decisions that the founders of Envato or Matt Blatt made in response to technological and global issues when they were establishing their business.

9. Use internet sources to locate the Austrade webpage. Find a case study of a business that is successfully exporting.
- Identify the decisions that the business has made in response to technological and global issues.
  - Justify the strategies that the business has chosen.
  - Evaluate the costs and benefits of the decisions the owners made when they were establishing their business.



# 4.13 Review

## 4.13.1 Summary

### Legal requirements

- A business must ensure that it is familiar with all of the various legal requirements that may affect it, as failing to do so can have serious consequences for the business and its owners.
- A business must legally register a business name, domain name, comply with tax regulations, and follow legislation regarding workplace health and safety.
- Businesses must ensure they comply with state and federal laws regarding trade practices for their given industry.
- Businesses must comply with local government regulations.

### Establishing bank accounts

- A business owner should keep the finances of the business separate from their personal finances.
- A business should carefully consider which banking services offered by different financial institutions to use.

### Establishing financial control systems

- Financial control systems are the processes, methods and tools that the business uses to monitor and manage financial performance. The business can use financial control systems to prevent financial problems and losses
- Financial control systems include budgeting, cash-flow management, control of accounts receivable and auditing.
- A business can predict or estimate its financial performance for a given period in the future using budgeting, ensure that adequate amounts of cash are coming into the business by using cash-flow management, and keep track of the money owed to it using control of accounts receivable.
- A business can test its accounting processes and internal controls through the process of auditing.

### Establishing record-keeping strategies

- Record-keeping strategies are used to help the business monitor, manage and report financial performance.
- Maintaining accurate records is a legal obligation of the business and serves as an invaluable tool for decision making.
- Record-keeping strategies include using source documents (written documents that provide evidence of a financial transaction), maintaining a cash book (a summary of all the business's cash receipts and cash payments), producing an income statement (used primarily to help the business to calculate how much profit it has made over a period of time), and producing a balance sheet (a summary of a business's assets and liabilities at a point in time).

### Choosing appropriate suppliers

- A business should consider the price and quality of its suppliers' goods, as well as the reliability and proximity of the supplier.
- A business must choose a supplier that caters for its needs in a socially responsible manner.
- Choosing suppliers that meet the corporate social responsibility objectives of the business has a number of benefits and limitations.

### Policies and procedures

- A policy is an established set of broad guidelines to be followed by all employees.
- Policies need to reflect the legal requirements of the business as well as the behaviour desired within the business.

- A procedure is a series of actions that enable a policy to be put into practice.
- Policies and procedures establish business routines that help a business achieve its objectives and need to be reviewed regularly to ensure that they remain relevant.

### Technological and global issues

- A business must adapt to the rapidly changing global environment in order to be successful.
- The business world is experiencing rapid technological advancements in the areas of manufacturing, administration, and marketing.
- A business can establish a customer database (an organised collection of information on existing and potential customers, including such details as their contact information, personal details, previous interactions with the business, buying habits and preferences). Using technology to establish a customer database has a number of benefits and costs.
- Globalisation has allowed Australian businesses to access a wider range of customers and suppliers. A business may choose to develop contact with overseas suppliers and/or overseas retailers. Both of these decisions have benefits and costs.

## 4.13.2 Key terms

**accounts receivable** the outstanding payments a business is owed by its customers

**acquisition** when one business takes over another business

**auditing** the process of testing and evaluating a business's accounting processes and internal control

**Australian Competition and Consumer Commission** a government body that has the role of enforcing the *Competition and Consumer Act 2010* and a range of additional legislation promoting competition and fair trading, and regulating national infrastructure

**Australian Taxation Office (ATO)** the government body in charge of administering and collecting tax for the federal government

**balance sheet** shows a business's assets and liabilities (the financial position of a business) at a point in time

**bookkeeping** the keeping and processing of a business's financial records

**budgeting** estimating the business's financial performance for a given period in the future

**cash book** provides a summary of all the business's cash receipts and cash payments; it is compiled from the receipt and payment source documents.

**cash flow** the money being transferred into and going out of the business

**code of practice** a written set of guidelines that are intended to help businesses achieve the standards set by the government (e.g. in dealing fairly with customers)

**Consumer Affairs Victoria** Victoria's government body established to regulate the marketplace, helping ensure fairness for businesses and consumers

**credit terms** the terms and conditions of sale between a customer and a business, including the amount of time provided for making final payment

**customer database** a bank of information on existing and potential customers, including their contact information, personal details, previous interactions, buying habits and preferences

**domain name** the address of a website on the internet

**exporter** a local business that manufactures goods for overseas customers

**financial control systems** the processes, methods and tools that allow a business to accurately monitor and manage its financial performance

**income statement** used primarily to help the business to calculate how much profit it has made over a period of time

**inventory control** ensures that costs are minimised and that the business has access to the right amounts of materials when required

**merger** the joining together of two or more businesses to form one business

**policy** a written set of broad guidelines to be followed by all employees

**procedure** a series of actions that enable a policy to be put into practice

**procurement** the process of researching and selecting suppliers, establishing payment terms, negotiating contracts and the purchasing of resources that are vital for maintaining the production of the business's good or service

**progressive tax rate** a tax rate that increases as the individual earns a higher income

**robotics** the engineering behind the design, construction and application of robots

**separate entity** accounting principle recognising that the owner's finances are separate to those of the business and therefore business transactions should be recorded separately

**social media advertising** a form of online advertising that uses social media channels to deliver targeted commercial messages to potential customers

**source documents** written documents that provide evidence of a financial transaction

**three-dimensional (3D) printing** the production of a physical object from a digital design or model

**WorkSafe Victoria** a government agency that aims to reduce workplace injuries and support injured workers

## on Resources

 Digital doc: Key terms glossary (doc-29420)

### 4.13.3 Review questions

#### TEST your understanding

1. Describe two legal requirements of starting an online business.
2. Which government body is in charge of administering and collecting tax for the federal government?
3. Describe three federal taxes a business can expect to pay at some stage.
4. Explain what WorkCover insurance covers.
5. Describe two anti-competitive practices.
6. Explain two other practices that are illegal under the *Competition and Consumer Act*.
7. Outline two local government legal regulations that businesses must comply with.
8. How does the 'separate entity' principle of accounting relate to bank accounts opened by a business owner?
9. Outline three considerations for a business when deciding on which bank account to open.
10. Explain why it is important for a business to develop effective financial control systems.
11. Identify two control systems that a business owner might introduce when establishing a business.
12. Why is it important for a business to manage its cash flow?
13. How can undergoing an audit help a business?
14. Explain why it is important for a business to maintain accurate records.
15. Describe four record-keeping strategies a business might implement.
16. Outline the factors a business should consider when choosing an appropriate supplier.
17. Identify the benefits and limitations for a business in choosing socially responsible suppliers.
18. Outline the differences between a policy and a procedure
19. How do policies help a business achieve its objectives?
20. Identify three examples of policies.
21. Outline how a business can ensure that policies and procedures achieve compliance with legal requirements and establish business routines.
22. Explain what a customer database is.
23. Identify the costs and benefits of using a customer database.
24. Explain the difference between overseas suppliers and overseas retailers.
25. List the costs and benefits of using overseas suppliers.
26. Identify the costs and benefits of using overseas retailers.

### APPLY your understanding

27. Imagine you are about to start a business of your choice. Complete the following questions relating to your business and explain any factors that you would need to consider.
- (a) What is the name of your business? (Remember to explain the factors that you have considered.)
  - (b) What is the domain name of the business?
  - (c) Explain the bank account that you will open and outline which financial institution you will open the account with. (You can use the internet to compare rates and terms.)
  - (d) Describe two financial control systems and two record-keeping strategies that would apply to your business.
  - (e) Using the internet, describe the supplier that you would use for one of your inputs (include the price and specifications of the product as well as basic information about the supplier).
  - (f) Describe how you would develop one policy for your business.
  - (g) Explain why the policy you chose to develop is important to the success of the business.
  - (h) Identify three types of technology that your business would be likely to use.
  - (i) Discuss the potential for your business to expand into overseas markets.

### EXAM practice

28. Tess is establishing a new business that will produce organic cleaning products. As well as selling the product domestically, she hopes to export her products to Asia.
- (a) Explain why it is important that Tess's new business comply with legal requirements. **(2 marks)**
  - (b) Justify the use of one financial control system and one record-keeping strategy that would enable the success of Tess's new business. **(4 marks)**
  - (c) Outline two factors that Tess will need to consider when choosing appropriate suppliers. **(2 marks)**
  - (d) Tess has sourced suppliers that she knows are socially responsible. Explain the benefits and limitations of Tess using suppliers which meet the corporate social responsibility objectives of her business. **(4 marks)**
  - (e) Explain why it will be important for Tess to establish effective policies and procedures for her business. **(2 marks)**
  - (f) Evaluate the costs and benefits of Tess developing contact with overseas suppliers when establishing her business. **(5 marks)**

### on Resources



Digital doc: Missing word glossary quiz (doc-29421)



Digital doc: Crossword (doc-29422)

### study on

Unit 2

AOS 1

Topic 1

Legal, financial and global issues Sit topic test

## 4.13.4 School-assessed coursework

### OUTCOME 1

**Explain the importance when establishing a business of complying with legal requirements and financial record keeping, and establishing effective policies and procedures.**

### ASSESSMENT task — case study analysis

Read the following case study and then complete the questions.

#### Oak Valley Timber

Oak Valley Timber is a third-generation, family-run business operating in Tasmania. The founder, Bill Stevenson, started the timber company in 1948 with his friend Brett Smith, who died when struck by a falling tree several years later. Today the business has grown to employ over 800 workers across eight forests, providing quality timber to a variety of commercial customers. The business is still based in Tasmania but has operations in Victoria, South Australia, New South Wales and Queensland. CEO Jason Stevenson has recently inherited the leadership of the business from his father during a time of turmoil. The business is facing a number of significant problems that Jason must turn around.



- The number of workplace injuries is significantly higher than the industry average.
- There have been several reports of sexual harassment by the female workers (who are in the minority).
- Environmental lobby groups have accused the business of unsustainable logging practices.
- A staff survey recently highlighted that many staff feel unsafe at work and were unaware of how to reduce the risks associated with their jobs.
- The business is struggling to retain its best workers and productivity is falling as a result.
- A Facebook page has been created by environmentalists who are displeased with the unsustainable logging practices of Oak Valley Timber.
- A new free trade agreement with China has resulted in rising imports of bamboo, which have seen a fall in the price of Australian timber.

After being briefed on the problems faced by Oak Valley Timber, the CEO has asked you to provide guidance by addressing the following questions.

1. Outline two legal requirements that should have been considered by Oak Valley Timber when establishing the business.
2. Describe the possible implications of Oak Valley Timber failing to comply with legal requirements.
3. Explain two record-keeping strategies that Oak Valley Timber might use to improve its financial performance.
4. What are the consequences of the business continuing to operate in a way that is harmful to the natural environment?
5. What actions could the business take to reduce its negative impact on the environment?
6. The CEO of Oak Valley Timber has decided that the company's objectives will focus on producing sustainable timber. Describe two considerations that the business will now need to make when choosing appropriate suppliers.
7. Explain why Oak Valley Timber needs policies and procedures that comply with legal requirements.
8. Describe the procedures that Oak Valley Timber might put in place to address one of the workplace issues it is dealing with.
9. Do you think that developing effective policies might solve Oak Valley Timber's productivity problem? Justify your response.
10. Describe one global issue that must be considered at Oak Valley Timber.
11. Evaluate one technological issue affecting Oak Valley Timber.

### on Resources

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# CHAPTER 5

## Marketing a business

### 5.1 Overview

#### 5.1.1 Why it is important

Marketing is an essential way in which businesses can engage with customers, and with the wider community — but not all marketing attempts are successful. In November 2015, the Victorian Taxi Association decided to use Twitter to encourage cab users to share their experiences through the hashtag #yourtaxi. This was a marketing exercise with the aim of countering the growing influence of the ride-sharing company Uber. It was hoped that customers would provide positive feedback on the quality of service they had received from Melbourne taxi companies. Instead of positive stories, Twitter users posted many horror stories of rude drivers, dirty and poorly maintained cabs, refusals to take passengers for short trips, and a general lack of good service. While not the positive result hoped for, the exercise did provide the industry with food for thought.



#### A BLOOMING SUCCESSFUL MARKETER

Edible Blooms, an Australian-based gourmet gift company, was started in 2005 by Kelly Jamieson. Offering a twist on the usual flowers and gifts, the unique business specialises in edible bouquets made of chocolate, fresh fruit, confectionery and gourmet foods. Originally operating from one owner-operated outlet in Brisbane, the business has expanded rapidly and now has a national production and delivery network. It has one of the busiest gift websites in Australia, delivering over 1000 gift baskets per day throughout Australia and New Zealand.

With a background in marketing and business development, Kelly appreciates the importance of developing the right marketing mix for the business. Edible Blooms has developed a number of profiles of their typical customer base, and these are displayed prominently on the wall of its head office. Edible Blooms actively uses social media platforms, such as Facebook, Instagram and Snapchat, with at least two postings a day. This can increase to three or four postings during peak periods, such as the lead up to Valentine's Day, Mother's Day and Christmas. Facebook followers receive alerts on special offers and can engage in discussion on the site. Because most of the business's customers are women, and most users of Instagram are female, Edible Blooms uses Instagram to share photos and videos of the many different gift baskets and other products on offer. Kelly is also interested in pursuing younger consumers and uses Snapchat to reach this audience. The business concentrates on using these three channels well, rather than spreading across all social media, which could risk spreading its marketing resources too thinly.

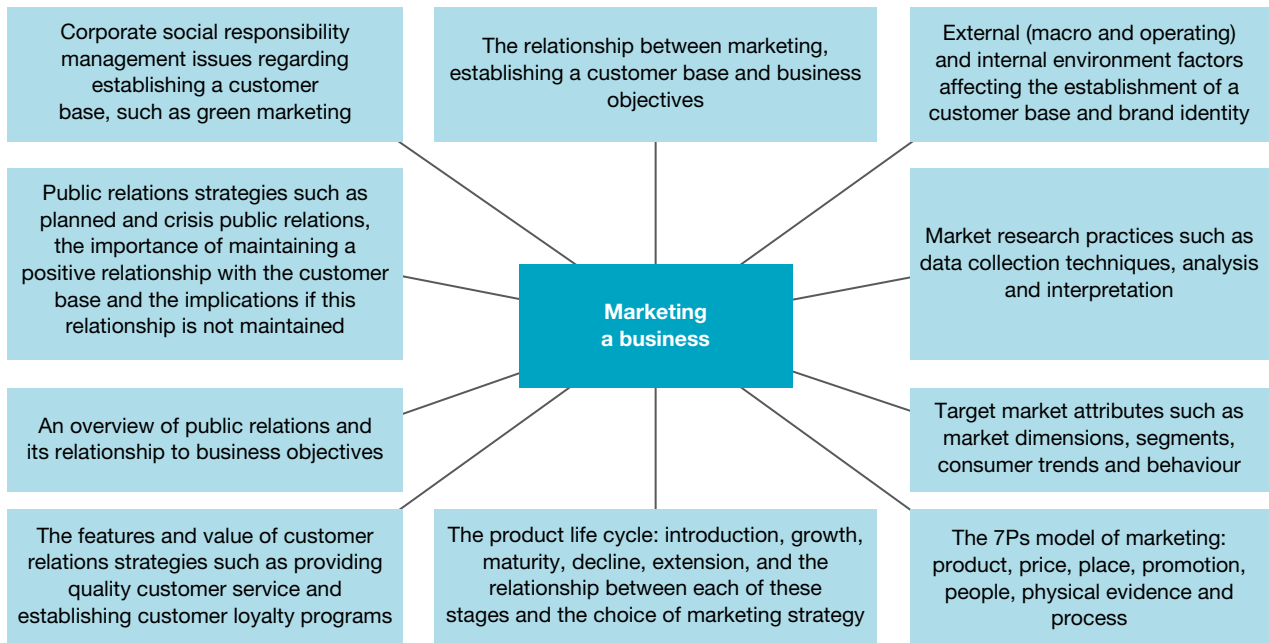
A combination of champagne and Swiss and Belgian chocolates is a typical example of the gifts marketed by Edible Blooms.



## 5.1.2 What you will learn

### Key knowledge

Use each of the points from the VCE Business Management Study Design below as a heading in your summary notes.



### Key skills

These are the skills you need to demonstrate. Can you demonstrate these skills?

- Define, describe and apply relevant business management concepts and terms
- Acquire, record, interpret and share business information and ideas
- Research and analyse case studies and contemporary examples of business management applicable to establishing marketing in a business
- Apply business management knowledge to practical and/or simulated business situations
- Evaluate the costs and benefits of establishing a customer base, marketing a business and establishing positive public relations
- Propose, analyse and justify the marketing and public relations strategies chosen for practical and/or simulated business situations

**Source:** VCE Business Management Study Design (2017–2021) extracts © VCAA; reproduced by permission.

### Resources

 **Digital doc:** Key terms glossary (doc-29424)

## 5.2 Marketing, establishing a customer base and achieving business objectives

**KEY CONCEPT** A market-focused business needs to create and market products that consumers will purchase, so that it can achieve its objectives.

Marketing is vital to the existence of a business. Just because someone invents a new product or improves an existing one does not guarantee customers will buy it. Without some form of marketing, customers may not even be aware of a product's existence, regardless of how 'record breaking', 'new and improved' or 'revolutionary' it may be.

Statistics reveal that more than 70 per cent of new products launched on the market fail in the first year of operation, mainly because of poor marketing. Businesses make few sales if they do not market their products successfully, eventually ending in failure.

At the same time, many products that would seem insignificant and unimportant have become best-selling 'essential' items as a result of a well-managed and professional **marketing plan**. Who would have ever thought that brown, sugary, fizzy water with addictive qualities would become the universal product it is today?

For a business to achieve its main objective of maximising sales and profit, it must develop and implement an effective marketing plan, as shown by Coca-Cola's success.

### COKE — A SUCCESSFULLY MARKETING PRODUCT

Coca-Cola was invented by Atlanta pharmacist John Pemberton in 1886. Originally, the product was developed as a patent medicine. It was believed at the time that carbonated water was good for the health and Pemberton claimed that Coca-Cola cured many diseases. These diseases included morphine addiction, indigestion, nerve disorders, headaches, and impotence. Coca-Cola was named after two of its main ingredients: kola nuts (a source of caffeine) and coca leaves.

In 1889, an Atlanta businessman named Asa G. Candler bought the Coca-Cola formula and the brand. He founded the Coca-Cola Company in 1892. The company heavily promoted Coca-Cola across the United States by displaying logos on posters, calendars, notebooks and bookmarks to reach large numbers of customers. Traveling salesmen passed out coupons for free drinks. Eventually, the Coca-Cola Company's marketing strategies led to the dominance of the world soft-drink market throughout the 20th century.

Coca-Cola's Coke soft drink was introduced to the Australian market in 1938, 50 years after its release in the United States. The first distinctively shaped bottles — themselves part of Coca-Cola's overall marketing strategy — were produced in that year by one of Sydney's oldest soft-drink factories. Australian consumption of soft drink was growing, but that did not guarantee the Coke product immediate success. Early sales representatives for Coca-Cola were lucky if a store owner bought a single bottle, let alone a case.

Coca-Cola largely owes its popularity to its successful advertising. Advertisements for Coke were initially aimed at an older age group — a reflection of the main target market selected in the United States. Over the years, the target market was modified to concentrate on teenage and young adult consumers. The company's marketing plan was so successful that the product has become Australia's market leader in the soft-drink market.

Coke is one of the most successfully marketed products in history. The name 'Coca-Cola' was registered in 1893 and 'Coke' was registered in 1945, but the familiar Coke bottle shape was not trademarked until 1977.





## 5.2.1 What is marketing?

**Marketing** is a total system of interacting activities designed to plan, price, promote and distribute products to present and potential customers. At the heart of these activities is the most fundamental question that all businesses should continually ask: ‘What do customers want to buy — now and in the future?’ This is the essence of marketing — finding out what customers want, then attempting to satisfy their needs.

Many people mistakenly believe that marketing is the same as advertising. This is because advertising is highly visible and everywhere, which makes it easy to associate the two. However, the definition reveals marketing to be a far more multifaceted activity.

For example, through its sophisticated marketing plan, Coca-Cola has built on its highly recognisable brand name. In its first year, about 10 servings of Coke were sold each day. Today, Coca-Cola is sold in every country in the world except Cuba and North Korea.

Marketing is a way of thinking. Everything a business does should be directed towards putting the customer at the centre of its thinking. To do this successfully requires adopting a customer-oriented approach to marketing.

Coca-Cola is one of the most heavily advertised products in the world, although advertising is just one of a number of marketing strategies. Advertising is used to attract potential customers by creating a desire for the product.



### DID YOU KNOW?

In Australia, Coca-Cola Amatil presently has about 60 per cent of the \$4.4 billion carbonated soft-drink market, compared to PepsiCo's 10 per cent share.

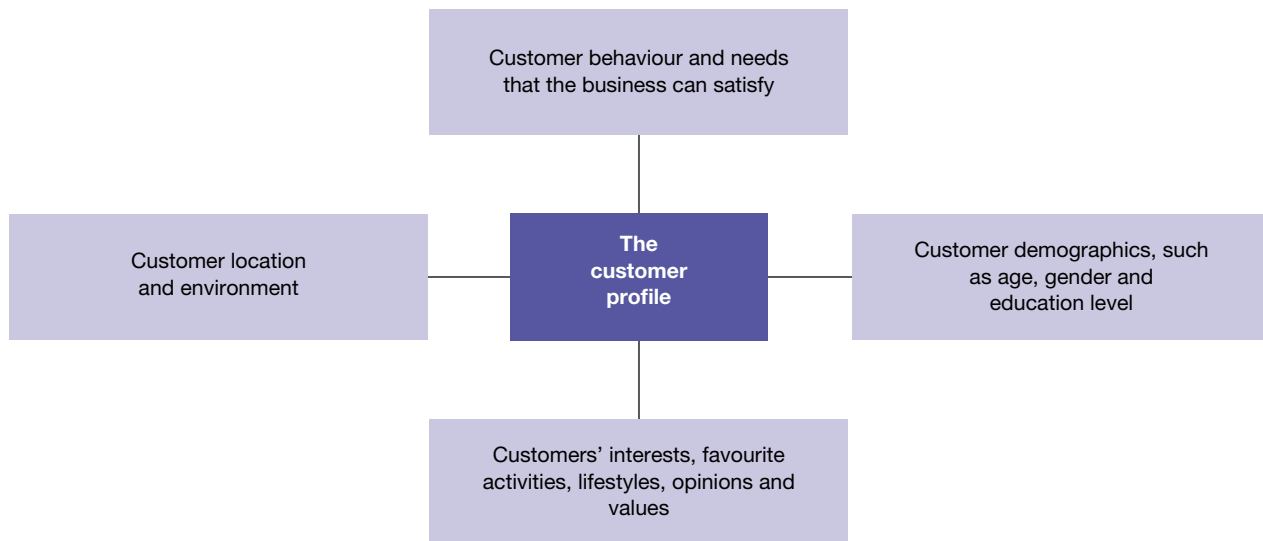
### EXAM TIP

The **Unit 2, Area of Study 2** outcome states that you need to ‘explain the importance of establishing a customer base and a marketing presence to achieve the objectives of the business’. This suggests that you should understand why establishing a customer base is important, why a marketing presence is important and how both can be used by a business to achieve its objectives.

## 5.2.2 Establishing a customer base

In setting up a new business, or improving the marketing performance of an existing business, it is essential to identify the **customer base**. This will involve some market research but it also requires the development of a clear idea of who it is that would be interested in buying the products or services offered. One way of doing this is to create a customer profile, which is a basic description of who the ideal customer might be. The following diagram provides an approach to developing such a profile.

## Creating a customer profile



Having identified the customer profile, it is important to ensure that:

- the product or service offered is one that is likely to be of particular value to that customer
- the marketing plan can maximise the likely connection between the product or service, and the target customer
- the product or service, and marketing approach, will be such that targeted customers will return for repeat purchases.

Many businesses recognise what is known as the 80–20 principle. This principle proposes that 80 per cent of sales are likely to come from 20 per cent of customers. This means that the 20 per cent of the customer base that are the loyal, repeat customers are the most valuable **market** the business can have. Ensuring that the marketing plan retains a connection with these customers is essential.

### DID YOU KNOW?

Some businesses go as far as to develop a customer persona. This is a fictional person that the business believes represents its typical customer. For example, the retail business Myer has a woman in her thirties named 'Eva' as its customer persona. 'Eva' is successful, fashion conscious, exercises regularly, values her family and enjoys a glass of bubbly to celebrate her purchases from the department store.

## 5.2.3 Marketing and business objectives

The major aim of a business is to make a profit, and the business owner seeks to achieve this through:

- increasing sales
- increasing market share
- expanding the size of the business.

A business is more likely to achieve these objectives if a significant number of customers become repeat customers. Customers will return if they are satisfied with the quality and price of the goods or services offered; therefore, an additional objective for a business is maximising customer service to contribute towards higher levels of customer satisfaction.

### Increasing sales

A key factor in achieving a profit is the revenue earned from sales. To increase sales, a business will want to use marketing to reach the largest number of consumers who display the characteristics of its customer profile,



and who therefore represent potential additional members of its customer base. Understanding the customer profile, and recognising those who could form part of the customer base, allows for marketing to be targeted efficiently.

For example, radio stations that play ‘golden oldies’ music from the 1960s often carry advertising for retirement villages and aged care facilities. This is because these businesses know that large numbers of people who listen to such radio stations are approaching retirement themselves, or have elderly parents who may require access to care. Effective marketing is not just advertising, but carefully selecting the means by which a business can reach potential members of its customer base.

### Increasing market share

All marketing plans aim to achieve a specified **market share** by better understanding and responding to the desires of the different target customers. Bauer Media Group dominates the young women’s magazine market, for example, with a significant percentage of Australian women aged 14–24 years reading either *Cleo*, *Dolly* (online magazine) or *Cosmopolitan*.

In any market dominated by only a few large businesses, such as the snack-foods market, increasing market share is of prime importance for each of the companies involved.

### Expanding the size of the business

Expanding the size of a business is likely to be a result of the customer base continuing to grow. This may result in a move to larger premises, or the opening of additional branch offices. One way of expanding the size of the business is to expand the range of products offered for sale.

Businesses are usually keen to increase their **product mix**, because this will increase profits in the long term. The same product mix will not remain effective for long because customers’ tastes and preferences change over time and demand for a particular product may decrease. The product mix for a florist business might include vases, cards, ribbons, candles and gifts.

To develop the ideal product range, businesses must understand customers’ needs. Each item in a product line should attempt to satisfy the needs of different target markets.

### Maximising customer service

It could be argued that the most important business objective is maximising **customer service**. High levels of customer service will result in improved customer satisfaction and a positive customer reaction to the products purchased. This establishes a sound customer base with the possibility of repeat purchases. Strategies for maximising customer service include: asking customers what they want; training staff and rewarding them for excellent customer service; anticipating market trends by conducting research; and finding out what competitors are offering and then reviewing the product mix. The old saying ‘the customer is always right’ is still valid today. Research has shown that one dissatisfied customer usually tells 11 potential others, who in turn will each tell another five. Such ‘word-of-mouth’ marketing has the potential to make or break a business.

Bauer Media Group magazines have an overall market share of 51 per cent of all magazines in Australia, with 64 per cent of the Women’s Lifestyle category and 53 per cent of the Youth category.



## study on

Unit 2

AOS 2

Topic 1

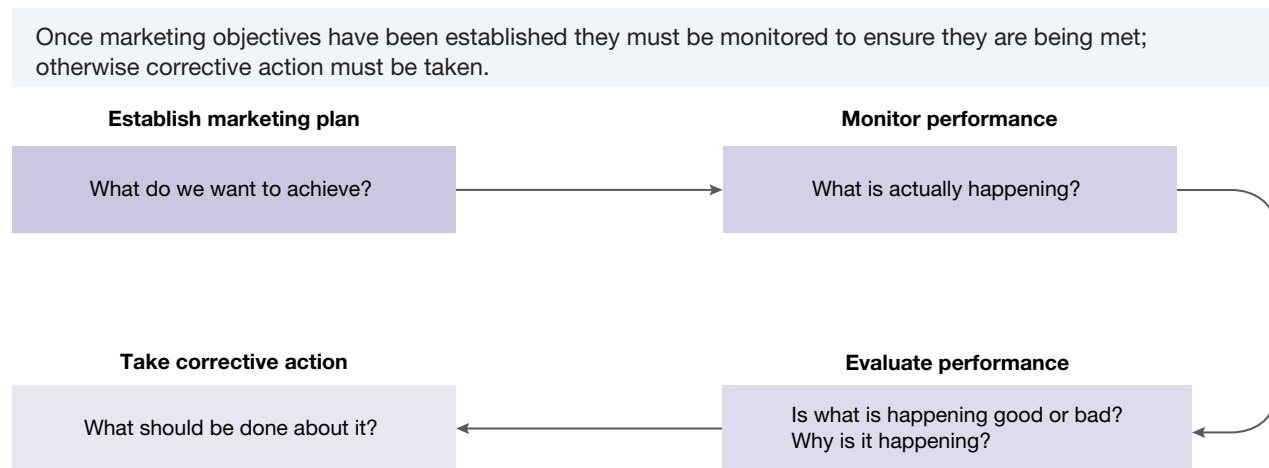
Concept 1

Marketing, customer base and business objectives Summary screen and practice questions

## 5.2.4 Evaluating the effectiveness of marketing in achieving objectives

Marketing objectives need to be able to contribute to the overall business objectives, and it is important to be able to evaluate marketing strategies to ensure they are actually achieving this.

The following diagram shows the steps the person responsible for marketing might take to evaluate whether marketing objectives are being met.



## 5.2.5 Performance indicators

Performance indicators are the means by which a business can measure its performance and evaluate the degree to which it is achieving its objectives. Let's now take a look at the three common performance indicators used to measure the success of marketing objectives and the strategies used:

1. sales analysis
2. market share analysis
3. marketing profitability analysis.

### Sales analysis

**Sales analysis** is usually the most common method of evaluation because sales reports are readily available in most businesses. By comparing forecast sales (what was expected) with actual sales (what happened), the business can determine the success of its marketing strategy.

#### DID YOU KNOW?

The use of computerised sales records has made the collection, storage, retrieval and analysis of sales data much easier. Computerised sales reports can be prepared showing:

- daily, weekly, monthly, quarterly and yearly sales
- product line sales
- sales for individual sales representatives
- company division sales
- any combination of the above.

### Market share analysis

Just as sales can be analysed, so too can a business's market share. By undertaking a market share analysis, a business can evaluate its marketing strategies compared with those of its competitors. This evaluation can reveal whether changes in total sales — either increases or decreases — have resulted from the business's marketing strategies or some uncontrollable external factor. If, for example, a business's total sales revenue

declined but its market share remained stable, then the marketer can assume that overall industry sales have fallen, perhaps in response to a downturn in the economy. However, if a business's total sales revenue and market share have declined, then the marketing strategies need to be reviewed.

### Marketing profitability analysis

Sales and market share analyses, while useful, do not present the full picture. A full understanding can be achieved only by analysing the marketing costs involved with each marketing strategy. Using a **marketing profitability analysis**, the business breaks down its total marketing costs into specific marketing activities, such as advertising, transport, administration, order processing and so on.

By comparing the costs of specific marketing activities with the results achieved, a business can assess the effectiveness of each activity. This evaluation also helps a business decide how best to allocate marketing resources in the future. For example, a marketing strategy that involves advertising on commercial television might cost well over \$100 000, so the net gain in sales from this type of marketing strategy will need to cover this cost. Many marketing strategies may be prohibitive to businesses because of their cost and so cheaper alternatives that also help increase sales may be used.

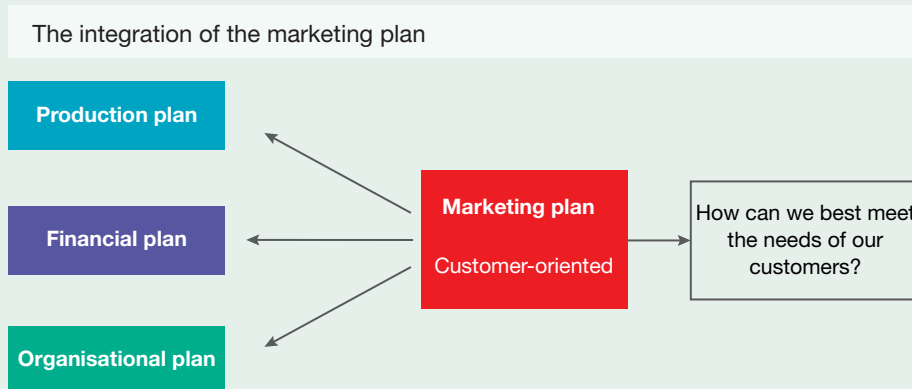
Media Monitors is a large company that observes our media channels 24 hours a day, providing daily reports that help businesses compare their media success to that of their competitors. This kind of information helps businesses evaluate the success of marketing strategies such as their advertising campaigns.



## CUSTOMER SATISFACTION AND THE MARKETING CONCEPT APPROACH

During the 1950s, businesses began to realise they were not solely producers or sellers, but also in the business of satisfying customers' wants. This shift to a customer-oriented approach brought significant changes to marketing, especially the need to undertake market research and develop a marketing concept.

The marketing concept is a philosophy that means all sections of the business are involved in satisfying a customer's needs and wants while also achieving the business's objectives. The business should direct all its policies, plans and operations towards achieving customer satisfaction. The marketing plan, therefore, needs to be integrated into all aspects of the business.



Let's take a more in-depth look at this. The marketing manager cannot work in isolation, and often has to work with other managers in the business to ensure the marketing plan is a success. For example, if the success of the marketing plan means having a product ready by a certain date, the production plan will need to be aligned to make sure that happens. If, for example, a business makes Christmas puddings, it is no good delivering the

puddings after 25 December! Financial planning must also connect with the marketing plan. Marketing costs money, and finances must be available if, for example, the business wishes to embark on an expensive advertising campaign. The marketing manager will also have to work with the human resources manager to ensure that the right staff are employed to create the business's product or service. The marketing concept is based on four principles. It must be:

- customer-oriented
- supported by integrated marketing strategies
- aimed at satisfying customers
- integrated into the business plan in order to achieve the business's objectives.

## 5.2 Activities

### TEST your understanding

1. Why do you think most new products fail shortly after they are launched?
2. How does this chapter's definition of marketing differ from the more popularly held view of marketing?
3. Complete the following sentences:
  - (a) The main emphasis in marketing today is the \_\_\_\_\_ -oriented approach.
  - (b) To assist establishing a customer base it can be useful to create a customer \_\_\_\_\_.
  - (c) A marketing plan lists \_\_\_\_\_ aimed at achieving particular market \_\_\_\_\_ in relation to a good or \_\_\_\_\_.
  - (d) The '80–20' principle suggests that \_\_\_\_\_ per cent of sales come from \_\_\_\_\_ per cent of customers.
4. How can a business use its customer profile to meet the objective of increasing sales?
5. Explain why a business may decide to increase its product mix.
6. Identify and explain two guidelines for maximising customer service.
7. How can a business use sales to determine the success of its marketing strategy?
8. Why should a business monitor its market share?
9. What does a marketing profitability analysis monitor?
10. The 'marketing concept' is a business philosophy adopted by many modern businesses. After reading the following three pairs of statements, choose the statement that best represents the business that has adopted the 'marketing concept' approach. Give reasons for your choice.
  - (a) Business A: 'We offer a means of transport, reliability and customer service.'  
Business B: 'We make cars.'
  - (b) Business A: 'If you order today we will attempt to deliver by next Monday.'  
Business B: 'If you order today we can deliver in time for you to meet your sales quota.'
  - (c) Business A: 'Our sales are falling. We will have to think about laying someone off.'  
Business B: 'Our sales are falling. We will have to undertake some market research to find out why.'

### APPLY your understanding

11. 'Businesses that neglect the importance of marketing will experience diminished sales and reduced profits.'  
Discuss this statement in approximately 200 words.
12. 'Coke's successful formula is its superior marketing strategies rather than the ingredients of its drink.'  
Outline whether you agree or disagree with this statement. Share your answers with the class.
13. 'There are only two ways in which to create and maintain outstanding business performance. First, take exceptional care of the customer and, second, develop new products. It is that simple.' How accurate is this statement? Give reasons for your answer.
14. 'Any business that fails to conduct a sales analysis will be unable to assess the success of its marketing strategies.' Discuss.
15. A business has a sales forecast of \$90 000 but achieves actual sales of only \$25 000. What does this signify? What should the business do next?

16. Examine the following market share results for Electronic Appliances Limited.

| Year | Sales revenue (\$'000) | Market share (%) |
|------|------------------------|------------------|
| 2016 | 280                    | 18               |
| 2017 | 250                    | 18               |
| 2018 | 330                    | 14               |

- (a) Explain how it is possible for sales revenue to decrease but market share to remain the same.  
(b) If you were the marketing manager, with which year's result would you be most pleased? Give a reason for your answer.

### EXAM practice

17. Define 'customer profile' and explain two elements that might be useful in creating a customer profile. **(5 marks)**
18. Darren runs a garden maintenance business and has carried out a marketing campaign in his own and neighbouring suburbs. Explain how each of the following may help him evaluate the success of that campaign:
- (a) sales analysis **(2 marks)**
  - (b) market share analysis **(2 marks)**
  - (c) marketing profitability analysis. **(2 marks)**

## 5.3 Internal and external environment factors affecting customer base and brand identity

**KEY CONCEPT** Factors in both the internal and external environments of a business can have an impact on its establishment of a customer base, and on its brand identity.

### 5.3.1 What is brand identity?

All businesses seek to appeal to their customer base, and to promote a positive **brand identity**. Brand identity, often referred to as the term 'brand', is the message that customers receive about the business and its product. These messages may include a name, term, symbol, design or any combination of these that identifies a specific product and distinguishes it from the products of competitors. In promoting its brand, a business will need to consider factors in both the internal and external environments that could affect that strategy. In some cases, the business can control some of these factors, and turn them to its advantage. In other cases, these are factors that are outside the business's control but which could affect the success of a marketing campaign.

### 5.3.2 The internal environment

As we have discussed, the internal environment of a business consists of the people working within that business, and the ways in which they interact with each other. The different internal environment elements that can affect the establishment of a customer base and brand identity, through a marketing strategy, include the following:

- *Owners and managers.* The leaders in a business need to have the skills to be able to develop a customer profile, or be able to hire a marketing manager with the necessary skills. The owners and managers would



be expected have a sound idea of the objectives of the business, and to be able to ensure that the marketing strategy is consistent with those objectives. If changes need to be made to be the marketing plan, it will be the leaders of a business that will need to recognise the need for changes, and to implement them.

- **Employees.** Details of the marketing strategy have to be instilled in the employees of a business so that the ways in which they act towards customers are consistent with that strategy. Friendly, polite and efficient from employees is an essential feature in establishing and expanding the customer base, and enhancing brand identity.
- **Culture and policies.** The beliefs, values and expectations within a business will form the basis of how business actually operates. A successful marketing strategy will become an integral part of the way business is done, and will be a vital part of its operations and processes. The business's reputation and values quickly become part of the brand identity. This needs to be positive to establish a sound customer base.

The business owner or manager needs to be able to develop a marketing plan that is consistent with the objectives of the business.



## study on

Unit 2 > AOS 2 > Topic 1 > Concept 2

Internal factors affecting customer base and brand identity Summary screen and practice questions

### 5.3.3 The external operating environment

Stakeholders in the operating environment can both influence the marketing strategy, and be influenced by it.

1. **Customers.** As the most important stakeholders in the operating environment, the needs and preferences of the customers are paramount. A marketing strategy that is not customer focused is doomed to failure.
2. **Suppliers.** The suppliers to a business have a vested interest in the success of a marketing strategy. As the providers of raw materials, products for resale and equipment, suppliers depend on the success of those businesses to which they sell their products. If the supplier provides goods for resale, the marketing strategy of the supplier will also influence the way in that the retailer markets those products. For example, a café that sells soft drinks will use the marketing material provided by the manufacturer of those drinks. An electrical store will use the marketing strategies of the various brands of electrical appliances it sells.

Winning the race for market share requires a marketing strategy that is more effective than competitors' strategies.



3. *Competitors.* Part of the importance of a marketing strategy is to distinguish the business from its competitors. The business owner must be aware of the marketing strategies used by competitors in order to develop a unique marketing plan, and create that point of difference. Depending on the size of the market, meeting the business objective of increasing market share is likely to take customers away from competitors. This means that the marketing strategy must be more effective than that of competitors if it is to expand the customer base and present a brand identity that has greater appeal.

### 5.3.4 The external macro environment

Any business owner developing a business plan must take into account the macro environment in which the potential customers are likely to be found. The business owner has little or no control over factors in the macro environment, but must be aware of the ways in which these factors can impact on it.

1. *Economic forces.* Periods of strong economic growth can be favourable times to establish a business or to expand the customer base. During such periods it is likely employment levels are relatively high and that the disposable income of potential customers is increased. A successful marketing strategy will tap into the greater levels of consumer confidence that can be present during times of economic buoyancy. For example, customers may be prepared to take on additional debt, so a marketing strategy that allows customers to make use of various financing options can expand the customer base by improving customer convenience. In more difficult economic conditions, a marketing strategy that emphasises value for money and lower prices than competitors is likely to have greater success.
2. *Legal forces.* As discussed in chapter 4, businesses are subject to a number of legal requirements. The *Competition and Consumer Act 2010* has made certain types of marketing practices illegal. It is not only important to ensure that marketing practices are ethical and socially responsible, but also a knowledge of the key provisions of the Act will ensure that the marketing plan does not include any illegal practices.
3. *Technological forces.* Technological advances can impact on the marketing plan in several ways. Making use of available technology to promote the business, through the use of a website presence, a dedicated phone app and the use of social media can be effective. The business should also ensure that it is using the latest technology in its operations to improve the customer experience. For example, having barcode readers to speed up the processing of purchases, and EFTPOS and credit card machines that allow the use of 'paywave' cards can improve customer convenience and be a useful marketing tool.
4. *Social forces.* Tapping into social trends and fashions can be powerful in a marketing plan. Being aware of the demographics of the area in which the business is located is also important. The business owner needs to be aware of the social issues that affect potential customers, and ensure that the marketing plan takes account of these.

#### DID YOU KNOW?

The Australian Competition and Consumer Commission (ACCC) can take legal action in the Federal Court against any business that uses marketing practices that are banned under consumer law. Penalties can be up to \$1.1 million for companies and \$220 000 for individuals. It pays to know what is legal and what is not!

#### study on

Unit 2 > AOS 2 > Topic 1 > Concept 3

External factors affecting customer base and brand identity Summary screen and practice questions

## 5.3 Activities

### TEST your understanding

1. Explain the role of business owners or managers in the establishment of a customer base for the business.
2. Why is the role of employees vital in the marketing of a business?
3. How can the culture of a business affect the development of its customer base?
4. Identify two factors in the operating environment of a business that can have an impact on the marketing activities of that business.
5. Give three examples to explain why a business owner must be aware of conditions in the macro environment when developing a marketing strategy.

### APPLY your understanding

6. Vanessa owns a café, and has been working on a new menu to be introduced next month.
  - (a) What role does she have in marketing this new menu to her existing customer base?
  - (b) How can she use the new menu to attract new customers?
  - (c) Identify and explain the training she would need to give her staff to ensure maximum positive impact on her customer base, and the enhancement of her brand identity.
7. Sam runs a bakery in a busy shopping centre. In each of the following situations, explain whether Sam's marketing strategy is being affected by the external operating environment, or the external macro environment.
  - (a) Sam sets up a Facebook page for his bakery, inviting his customers to become friends and comment on his bread products.
  - (b) One of the other bakeries in the shopping centre introduces cheese flavoured bread rolls into their product range, so Sam responds by introducing cheese and bacon rolls.
  - (c) Sam is able to find a milling company that can provide him with a low-gluten flour, so he decides to produce and market low-gluten bread.
  - (d) The local council introduces a rating system for food businesses and, after an inspection by the council inspector, Sam's business receives a rating of A+.

### EXAM practice

8. Explain how a business's competitors might influence its marketing strategies. **(2 marks)**
9. Sandra has opened a business selling high-quality chocolates, and she would like to charge relatively high prices to match the quality. Explain how each of the following factors in the external macro environment can influence her marketing approach:
  - (a) economic forces **(2 marks)**
  - (b) social forces. **(2 marks)**

## 5.4 Market research practices

**KEY CONCEPT** Market research is the process of gathering information to assist business owners in making informed decisions about the marketing of the business.

The collection and study of statistics and other relevant data help managers understand the needs of potential customers or clients as well as providing information on what business competitors may be doing.

Releasing a new product on to the market is risky. Working to help minimise the risk is the main purpose of market research. By collecting and assessing information about the needs and wants of consumers, a more accurate and responsive marketing plan can be designed and, therefore, the risk of market failure can be reduced. Market research attempts to identify and outline both marketing opportunities and problems, as well as evaluating the implementation of the marketing plan.

Without adequate, reliable and correct information, businesses expose themselves to market embarrassments which could result in their product failing to sell. To obtain accurate information, marketers usually follow a three-step approach. You will probably be familiar with this process because it uses similar steps to those needed to complete a research assignment.

The three steps of the market research process

| Step                                                             | Explanation                                                                                                                                                                                                                                                                          |
|------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>1 Determining information needs</b><br>↓                      | The problem is clearly and accurately stated to determine what needs to be measured and the issues involved. This is a crucial step.                                                                                                                                                 |
| <b>2 Collecting data from primary and secondary sources</b><br>↓ | At this stage the researchers know the facts that are needed and those that are already available. Plans must be made to gather missing data. Information may be collected by mail, telephone and personal surveys, as well as by personal observation or from private data sources. |
| <b>3 Analysing and interpreting data</b>                         | Facts by themselves do not always provide a solution to the marketing problem. They need to be analysed and interpreted to determine what they mean.                                                                                                                                 |

#### DID YOU KNOW?

A number of software packages are available for statistical analysis of market research data. As well, many businesses choose to outsource their marketing research to companies such as AC Nielsen and AGB McNair.

### 5.4.1 Determining information needs

It is often said that the recipe for effective decisions is 90 per cent information and 10 per cent inspiration. However, the information must be relevant to the situation or problem.

The best method to determine the relevance of data is to constantly ask questions concerning its ultimate use. Information is useful if it:

- results in marketing strategies that meet the needs of the business's target market
- assists the business to achieve its marketing objectives
- may be used to increase sales and profits.

Ideally, marketers should treat information in the same way as other resources within the business, and weigh up the costs of collecting information against the benefits it provides.

More businesses are undertaking marketing research activities. However, sometimes even the most sophisticated statistical and logical methods do not produce the correct answer.

#### DID YOU KNOW?

In the late 1950s, Xerox Corporation's market research indicated only a small market existed for an automatic photocopier. Luckily for Xerox, management had a 'gut feeling' that the researchers' conclusions were wrong and they decided to launch the product anyway. The photocopier was an instant success and the rest is history.

## 5.4.2 Collecting data tools and techniques

**Marketing data** comprise the information — usually facts and figures — relevant to the defined marketing problem. Normally, market researchers use a combination of two types of data: primary and secondary data.

### Primary data

**Primary data** refers to the information collected from original sources for the purpose of the specific research problem. This information can be collected by the business itself — a process that may be time consuming and expensive. Many businesses outsource this activity.

The main advantage of primary data is that their collection is directed at solving a specific marketing problem. Their main function is to find out exactly what the customer is thinking. There are three main methods used to gather primary data:

1. survey
2. observation
3. experimentation.

Free samples handed out in supermarkets can provide customer feedback on the product.



### The survey method

Conducting a **survey** means gathering data by interviewing people. Surveys may be carried out by:

- personal interviews — face-to-face interviews conducted in public places
- focus groups — small groups of people who meet with the researchers
- electronic methods of collection — telephone, mail and the internet
- questionnaires — a set of specific questions structured to obtain a response from the customer.

The main benefit of a survey is that it gathers firsthand information that provides details of customers' opinions. However, gathering information through surveys is becoming more difficult because respondent rates are declining.

### The observation method

Observation involves recording the behaviour of customers. No interviews are involved and direct contact with respondents is avoided. Instead, the actions of the customers are systematically observed. Such methods can raise serious ethical issues, especially regarding privacy.

Information may be gathered through:

- personal observation, such as when a researcher poses as a customer in a store
- mechanical observation, using camera, tape recorder or counting machines. The scanner and cash register at a store checkout counter, for example, can record data on sales and customers' purchase patterns.

This method of data collection has become very popular over recent years, especially with the development of computerised technology. Such observation methods can be highly accurate, but their main limitation is that they explain only *what* happened, not *why*.

### The experimentation method

Experiments involve gathering data by altering factors under tightly controlled conditions to evaluate cause and effect. Market researchers do this to determine whether changing one of the factors (a cause) will alter the behaviour of what is being studied (the effect). Experiments may be carried out in either the laboratory or in the field. This is called test marketing.

Most businesses will attempt to use a combination of the methods mentioned earlier to gather feedback on the preferences of both existing and potential customers. The following is an example of how one small business conducts market research.



## MIRACLE MESSAGE — MARKET RESEARCH TECHNIQUES

In my business I use a few simple, low-cost market research techniques to gather and filter out valuable information about the business's market and customers. The research provides me with feedback on how customers feel about my business and its products. The market research techniques include:

- asking suppliers about the social and economic changes they see in the marketplace
- tracking the location of customers by asking for postcode details when booking an appointment
- monitoring which products are gaining or losing popularity
- asking customers to participate in informal surveys measuring customer satisfaction
- reading industry journals and websites to identify changes in the external environment that might affect the business
- receiving a copy of readership details (demographics) from the local community paper in which the business advertises
- contacting customers who have not made a booking for about a three-month period to determine if there is a problem
- requiring employees to be good listeners and record negative and positive customer feedback.

With this information I am able to gain a better understanding of my customers' needs, understand their buying behaviour and consequently predict trends.

Without accurate and up-to-date marketing information, Andrew would be forced to use guesswork or intuition. In today's competitive business environment, this invites failure.



### DID YOU KNOW?

The use of 'sugging' — selling under the guise of market research — has contributed to increased consumer reluctance to respond to surveys.

## Secondary data

**Secondary data** comprise information that someone else has already collected. It is referred to as secondary because it is information that has been collected for some other purpose — for example, census data and household expenditure surveys gathered by government and private businesses. With the advent of computer databases, an abundance of secondary data is available to market researchers.

The two types of secondary data are:

- **internal data**, which is information that internal sources (that is, from inside the business) have already collected. Such data include financial statistics, annual management reports, research reports, customer feedback and sales reports.
- **external data**, which is published data from sources outside the business. Probably the best known are the numerous reports produced by the Australian Bureau of Statistics (ABS).

Usually, market researchers will make use of both internal and external sources of data.

### 5.4.3 Analysis and interpretation

Once the data have been gathered, conclusions need to be drawn. Raw data are of little value until analysed and interpreted. **Statistical interpretation analysis** focuses on the data that represent average, typical or deviations from typical patterns.

The first step in drawing conclusions (analysis and interpretation) is to tabulate the data — that is, display the information in table format. The use of a spreadsheet computer program greatly simplifies this task. Cross-tabulation allows comparisons to be made between individual categories. It could show, for example, how men

and women display different shopping habits, or differences between the purchasing behaviour of high and low income earners.

This interpretation will largely be based on the marketers' judgement, experience and intuition. For this reason, it is preferable to involve a number of people in the interpretation of data in order to gain a wider perspective and, therefore, avoid the error of personal bias.

## studyon

Unit 2

AOS 2

Topic 1

Concept 7

Market research practices Summary screen and practice questions

## 5.4 Activities

### TEST your understanding

1. Why would it be important to undertake market research if you are thinking of starting a new business?
2. List and explain the steps normally carried out in the market research process.
3. Complete the following sentences by selecting the correct term from the options below.  
relevant                  resources                  investigated  
achieving                  information                  objectives  
(a) Marketers should treat \_\_\_\_\_ in the same way as other \_\_\_\_\_ within the business.  
(b) Information collected must be \_\_\_\_\_ to the problem being \_\_\_\_\_.  
(c) Ultimately, relevant information will assist the business in \_\_\_\_\_ its marketing \_\_\_\_\_.
4. Distinguish between primary and secondary data.
5. Account for the increase in electronic scanners to collect data.
6. Outline the difference between internal and external secondary data.
7. Read the case study 'Miracle Massage' and answer these questions.  
(a) Classify the research techniques Andrew uses as either primary or secondary data sources.  
(b) Select which research technique you consider offers Andrew the most valuable information.  
Justify your selection.

### APPLY your understanding

8. Choose a business partner in your class. Assume both of you are managers in an ice-cream manufacturing business. How would you use different types of market research (surveys, focus groups, observations, ABS statistics or experiments) to determine customer reaction to a new type of ice-cream?
9. As the owner of a supermarket, you believe you could sell more strawberries by displaying them loose on a tray, rather than packaging them in punnets.  
(a) Describe an experiment to test this idea.  
(b) Outline difficulties in conducting this experiment.

### EXAM practice

10. Identify and explain two procedures that may be used to collect primary data through the survey method of market research. **(6 marks)**
11. Justin plans to set up a shop selling school uniforms and has a choice of renting premises in three different shopping centres. Explain how he might use external secondary data to help him decide which is the most appropriate location for his shop. **(4 marks)**

## 5.5 Target market attributes — market dimensions and segments

**KEY CONCEPT** A business segments its target market so it can better direct its marketing strategies to specific groups of customers.

### on Resources

 eLesson: Target market attributes (eles-2981)

### 5.5.1 Market segmentation

Few businesses can sell their products to the entire market — the market is just too big. For this reason, a business will divide the total market for its products into distinct market segments. A business that is marketing motor vehicles, for example, would not direct its marketing efforts towards every person in the total motor vehicle market. Some people might want only a sports car. Others might want a four-wheel drive. The business would direct its efforts towards a particular ‘segment’ of the total market for motor vehicles. Dividing a total market into particular groups who share one or more common characteristics is known as **market segmentation**. The elements used to identify market segments are known as **market dimensions**, and most marketing professionals identify four such dimensions:

- *demographic* — age, gender, occupation, education, religion, family size, ethnicity
- *geographic* — urban, suburban, rural, regional, climate, landform
- *psychographic* — lifestyle, socioeconomic group, motives, personality, consumer opinions and interests
- *behavioural* — regular user, first-time user, brand loyalty, benefits sought, usage rate.

Age and gender are two of the most widely used demographic variables for segmentation purposes. The marketing of sparkling and still beverages is typical of this. Coca-Cola, for example, targets 15- to 35-year-old males with the energy drink Mother. The more health-conscious adult market is served with Diet Coke, Deep Springs Natural Mineral Water or Nestea Iced Tea. The primary **target market** for Fanta is 13- to 16-year-olds. Mount Franklin is aimed at younger females and families, whereas for Powerade and Pump, the core market is 18- to 24-year-old males who are engaged in athletics—the ‘active consumer’.

### studyon

Unit 2 > AOS 2 > Topic 1 > Concept 8

**Market dimensions and segments** Summary screen and practice questions

### Target market selection

Once the market has been segmented, the business selects one of these segments to become the target market. For example, a rural supplies business would normally aim its promotion strategies at male, 25- to 60-year-old, rural-based farmers with middle to high incomes. An exclusive women’s fashion boutique in central Melbourne would have a target market of customers who are female, 25 to 50 years old and city-based professionals with a high income.

A business selects a target market so it can direct its marketing strategies to that group of customers, rather than the total market. This approach allows the business to better satisfy the wants and needs of the targeted group, and makes it easier for the business to increase sales and profits because it can:

- use its marketing resources more efficiently, which results in the marketing campaigns being more cost-effective and time-efficient

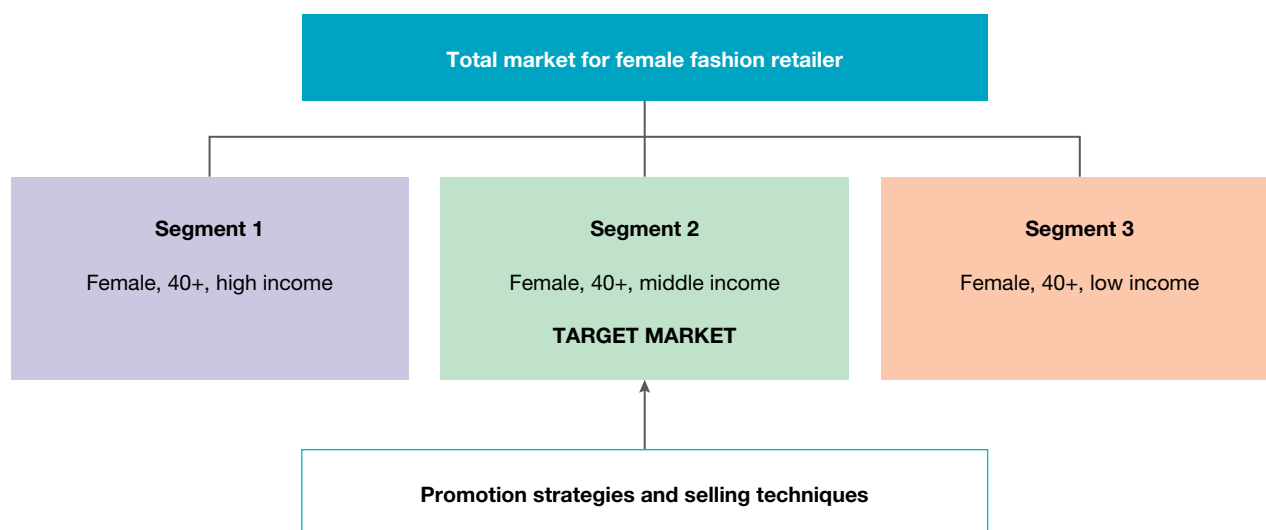
- use promotional material that is more relevant to the customers' needs, and is more likely to be noticed
- better understand the buying behaviour of the target market
- collect data more effectively and make comparisons within the target market over time
- refine the marketing strategies used to influence customer choice.

Sometimes, a business may be able to identify both a **primary target market** and a **secondary target market**. A business's primary target market will generate most of its revenue. These are the customers who are loyal to a particular business and make repeat purchases. As previously discussed, research has found that usually a small percentage of customers are responsible for the majority of sales. This is referred to as the 80–20 principle, according to which 80 per cent of sales comes from 20 per cent of a business's customer base. The secondary target market should not, however, be ignored, for while the number of customers may be small, it does provide an alternative in case there is a loss of customers from the primary target market.

Stationery retailer Smiggle ('between a smile and a giggle') has children and young teens aged from 4 to 14 as its primary target market. Its brightly coloured products are regarded as an essential fashion accessory by this age group. It is said that its secondary target market is the grandparents of young Smiggle fans!



Selecting a market segment to be the target market is important. In this example, the fashion retailer makes clothes for women over 40 years of age. The clothes are of a reasonable quality but would not be classed as 'designer' clothes. In this business, female middle-income earners are the main target market.



## Resources

- eLesson: Targeting a market — Roses Only (eles-1066)
- eLesson: Innovation creates change — Smiggle (eles-1053)

## Niche market

An extension of the market segmentation approach is that of the **niche market**, which is a narrowly selected target market segment. In a sense, it is a segment within a segment, or a 'micro-market'. For example, an exclusive fashion boutique can carve out a niche market and, therefore, avoid direct competition with large

department stores. In the past few years, some hotels have developed a niche market for their own ‘boutique’ beers, brewed on the premises. Such businesses market to a narrow, specific customer base.

The needs of customers in these markets are often neglected by large businesses because it is rarely profitable for them to alter their marketing mix for very small groups.

## THE PETS HOTEL — CATERING TO A TARGET MARKET

The Pets Hotel is an upmarket facility for both long-term and short-term boarding of dogs and cats. It is located in the suburb of Port Melbourne and allows pet owners to leave their pets on a single daycare basis, or for longer periods while the owners go on holidays.

### Size of target market

#### Potential

Statistics from the Australian Veterinary Association indicate that there are 20 dogs and 16 cats for every hundred people in Australia. Port Melbourne is located within the city of Port Phillip, but is easily accessible from the neighbouring municipalities of Bayside, Glen Eira and Stonnington. With a total population of over 460 000, this could mean that there are around 90 000 dogs and 70 000 cats in these four municipalities, assuming pet ownership is consistent with the national average.

#### Actual

The primary target market consists of people who are going away and need to board their pets for a period of time. The secondary market consists of people who need short-term daycare for their pet. The Pets Hotel has a daily rate for one-off stays, but also offers discounts to pet owners who need daycare on a regular basis. As the Pets Hotel also offers dog obedience training and grooming facilities, there is also a secondary market for pet owners wishing to take advantage of these services. For an additional fee, a dog can be taken for a walk around the local area — a useful service for busy dog owners who do not have time to walk their dog.

### Target market dimensions

#### Geographic

The area around Port Melbourne includes many apartments, and it is often difficult for an owner to leave a pet in an apartment while at work during the day. This makes the Port Melbourne location ideal for the daycare market. Port Melbourne is also close to the Melbourne CBD, so is in a handy location for pet owners working in the city.

#### Demographic

The municipalities within easy reach of the Pets Hotel include large numbers of families with children, a group that often has pets. There are also many apartment dwellers who may need daycare for a pet while they are at work.

#### Psychographic

Housing in the areas around Port Melbourne is expensive, so the area is considered quite affluent. The Pets Hotel offers a luxurious option that is likely to appeal an affluent market. This market segment is likely to consider cost less of an issue than lifestyle choices, and so will be prepared to pay for the additional quality of service this business offers. The additional services offered by the Pets Hotel are also designed to appeal to the busy pet owner who wants the best for their dog or cat.

#### Behavioural

By offering discounts for frequent users, the Pets Hotel targets regular and repeat users. For example, daycare for a dog will cost \$55 per day, but a monthly booking for this service costs only \$750, the equivalent of around 14 days’ worth of care at the daily rate.

The Pets Hotel offers upmarket pet accommodation in Port Melbourne for both daycare and longer stays.





## 5.5 Activities

### TEST your understanding

1. What is a market segment?
2. Outline the benefits of marketing to a specific target market.
3. Identify the primary and secondary target markets for the Pets Hotel.
4. What is the importance of these target markets to the Pets Hotel?
5. Explain how each of the market dimensions helps to identify the target market for the Pets Hotel.

### APPLY your understanding

6. Choose a business that is in your local shopping centre or operated by someone you know. Research the business and describe the following:
  - (a) What are the primary and secondary target markets of the business?
  - (b) What is the importance of these markets to the business?
  - (c) What variables does the business owner use to segment the target market?
  - (d) How does market segmentation help the owner to achieve long-term goals?

### EXAM practice

7. Differentiate between a primary target market and a secondary target market and give an example of each. **(6 marks)**
8. Meredith has set up a health-food store in a suburban shopping centre.
  - (a) Identify a possible target market for her products. **(2 marks)**
  - (b) Explain two possible advantages for her in identifying this target market before establishing a marketing strategy. **(4 marks)**

## 5.6 Target market attributes — consumer trends and behaviour

**KEY CONCEPT** If businesses are aware of the factors that influence the buying behaviour of consumers, they will be better placed to predict consumer trends, and how consumers might react to particular marketing strategies.

### 5.6.1 Consumer trends

Over time, consumer tastes and preferences change, particularly as consumers' lifestyles adjust to social, economic or environmental issues. Successful marketers will watch these social changes and trends closely to ensure they are in tune with changing consumer preferences.

For example, we regularly see stories in the media suggesting that much of our modern lifestyle is harming our health. Obesity is a growing problem, and eating unhealthy foods and not exercising are seen as a danger to wellbeing. As consumers become more aware of possible health issues, they are likely to look for healthy options when buying goods and services. Successful marketing of food products will attempt to highlight the healthy aspects of those products.

We see this most commonly in food packaging. Phrases such as 'low in cholesterol', '98 per cent fat-free' and 'no added sugar' are all designed to appeal to the health-conscious consumer. Packaging laws in

Australia require that all ingredients are listed on food packets, so we have a way of checking some of these claims and comparing different products. While not all health claims on food packaging are necessarily honest or accurate, marketers will try to appeal to the health-conscious consumer whenever possible.

Concerns about health also lead to new goods and services being introduced into the marketplace. Huge numbers of vitamins and other dietary supplements are on sale in pharmacies and supermarkets, and these are marketed with the health-conscious consumer in mind. In addition, gyms and personal trainers have increased in number as consumers try to adopt healthier lifestyles. An awareness of trends such as this will influence the type of products offered and the methods used to market them.

Most people are aware that environmental changes, such as global warming, and economic changes, such as the world oil price hikes in 2011, have profoundly altered consumer buying behaviour. This is especially evident in the global new car market. Many consumers have begun to demand more economical and environmentally responsible vehicles. If businesses are aware of the factors that influence consumer choice, they can predict consumer trends and how consumers may react to particular marketing strategies.

In addition to changes in consumer demand for products, there have been changes in the way we purchase those products. Online shopping has exploded in recent years, so having an online marketing presence has become essential for most businesses. Advertising on search engines such as Google allows a business to place its products before consumers using these search engines.

Consumer trends change with changing conditions. A world oil price increase influences car buyers' behaviour. As oil prices increase, sales of small and more efficient cars and motor scooters increase.



### 5.6.2 Consumer behaviour

Marketers closely examine the behaviour of consumers to understand what motivates an individual to purchase a particular product. As well, businesses try to influence **consumer buying behaviour** by developing a mix of marketing strategies.

While market research asks questions such as 'Who are our customers?', 'What do they buy?', 'When do they buy?' and 'How often do they buy?', customer behaviour asks 'Why do they buy?'.

Successful marketing begins with understanding why and how consumers behave as they do.



## CONSUMER BUYING BEHAVIOUR — 'I WILL TAKE THIS ONE, THANK YOU'

Over the years marketers have suggested numerous theories to explain what it is that persuades individuals to buy certain products. One of the most common ways of examining consumer buying behaviour is in terms of how consumers make decisions.

A consumer's buying behaviour will differ when they purchase different types of products. For low-priced, regularly purchased products, such as magazines or ice-creams, a consumer generally buys out of habit, involving very little research or decision-making effort. A consumer will use some decision-making effort for purchases made occasionally, or when more information is needed about the product, such as when purchasing clothing or footwear. When buying an expensive, unfamiliar product or a product that is seldom purchased, such as a motor vehicle or home, the consumer will use comprehensive decision making.

One of the main reasons for the difference in the level of involvement in the buying process is due to the level of perceived risk. As the level of perceived risk increases, consumer involvement levels are likely to rise. Ultimately, however, the decision-making process that almost everyone uses when making a purchase can be summed up in the following simple formula:

$$\text{Consumer choice} = \text{capacity to pay} + \text{attitude towards the brand}$$

### study on

Unit 2 > AOS 2 > Topic 1 > Concept 9

Consumer trends and behaviour Summary screen and practice questions

## 5.6.3 Factors influencing consumer behaviour

Four main factors influence consumer purchasing decisions: psychological influences, sociocultural influences, economic influences and government influences.

### Psychological influences

Four main **psychological factors** influence customer choice:

1. *Perception.* As individuals, we often act on our perceptions of reality rather than reality itself. Consequently, marketers are extremely aware that they must create a positive or favourable perception of their product in the mind of the customer. Customers will not normally purchase a product that they perceive as poor.
2. *Motives.* The main **motives** that influence customer choice include comfort, health, safety, ambition, taste, pleasure, fear, amusement, cleanliness and the approval of others. As it does with a customer's perception of the product, so advertising also attempts to influence an individual's motives to choose a product.
3. *Attitude.* **Customer attitude** towards a business and its products generally influences the success or failure of the business's marketing strategy.
4. *Personality.* To some extent, **personality** influences the types and brands of product that a person buys.

One image, different perceptions. The interpretation of this image depends on which way you view it. Most of what you can see appears impossible. Marketers are aware that they must create a positive perception about their product and its possibilities in the mind of the consumer.



### DID YOU KNOW?

Perceptions are created from a number of information inputs. These are the sensations received through taste, sight, sound, smell and touch. Perception is the process through which people select, organise and interpret information to create meaning.

## Sociocultural influences

There are four main **sociocultural influences** that affect customer choice:

1. *Family and roles.* All of us occupy different roles within the family and groups in the wider community. These roles influence buying behaviour. Although women's roles are changing, market research shows that most women still make buying decisions related to, for example, healthcare products, food and laundry supplies.
2. *Peer groups.* A customer's buying behaviour may change to be more in line with that person's **peer group** beliefs and attitudes.
3. *Social class.* In our society, the factors generally used to classify people are education, occupation and income. Social class, therefore, influences the type, quality and quantity of products that a customer buys.
4. *Culture and subculture.* **Culture** influences buying behaviour because it infiltrates all that we do in our everyday life. It determines what people wear, what and how they eat, and where and how they live. Subcultures differentiate themselves from a larger culture to which they belong (for example, hipsters are a subculture).

Skateboarders have developed their own sub-culture, with their own music ('skate punk'), a favoured style of clothing, and the all-important skate shoe.



## Economic influences

Economic forces have an enormous impact on consumers' willingness and ability to spend. During a boom, for example, consumers are willing to spend because they feel secure about their jobs and source of income. During a recession, consumer spending falls to a very low level.

### DID YOU KNOW?

In the period after the global financial crisis of 2008–09, average levels of savings in Australia rose to 10 per cent per household. People became more cautious about spending money. Marketing becomes a lot harder in these circumstances.

## Government influences

Governments use a number of economic policy measures to influence the level of economic activity. These policies directly or indirectly influence consumers' spending habits.

Of more direct and immediate impact is the influence of government regulations. Laws dealing with misleading and deceptive advertising, for example, protect consumers and influence business practices.

## 5.6 Activities

### TEST your understanding

1. Identify and explain two examples of consumer trends that have changed how products have been marketed.
2. List four factors influencing consumer behaviour and give an example of each.
3. (a) Explain how perception and motive influence consumer buying behaviour.  
(b) Why would market researchers study customer perceptions and motives?
4. How and why do marketers attempt to alter consumers' perception?
5. Distinguish between the sociocultural and psychological factors that influence customer choice.
6. Explain how family roles, such as 'carer' or 'provider', affect buying behaviour.

### APPLY your understanding

7. How do peer groups influence buying behaviour? Name some of your own peer groups and suggest how they influence your buying decisions.
8. In what ways might social class affect a person's buying behaviour?
9. Collect a number of print advertisements from a magazine. Suggest the psychological and/or sociocultural influence to which each advertisement is appealing.
10. Describe a subculture to which you may belong. Identify purchases that are unique to your subculture.
11. How might marketers manipulate consumers' buying behaviour? Give an example of such manipulation.

### EXAM practice

12. Max and his family sell fruit and vegetables at a suburban market. They market their products with labels such as 'organic' and 'produced with no greenhouse gas emissions'. Describe two ways in which this marketing strategy been influenced by consumer trends. **(4 marks)**
13. A football club markets a range of clothing in team colours. Explain how it is using sociocultural influences in its marketing campaign. **(3 marks)**

## 5.7 The 7Ps of marketing: product and price

**KEY CONCEPT** A business has to consider seven marketing elements to reach its target market: product, price, place, promotion, people, physical evidence and process (the 7Ps).

The 7Ps — product, price, place, promotion, people, physical evidence and process — are referred to as the **marketing mix**, and are central to a marketing plan. We will deal with the first two elements here.

### Resources

 **eLesson:** The 7Ps of marketing (eles-2982)

### 5.7.1 The 'product' element of the marketing mix

When you buy a book or digital camera you are purchasing a good. Goods are real, physical objects that can be touched and owned; they are *tangible*. Purchasing financial advice and tickets to sporting events is purchasing an *intangible* service for our use or enjoyment, not for our ownership. However, goods and services are both products. A **product** is a good, service, experience, idea or information that can be offered in an exchange for the purpose of satisfying a need or want. The relationship between a business and its customers is based mainly on the product.



## Tangible and intangible products

It is convenient to group products as tangible goods or intangible services. In reality, it is not quite so simple. Most products are combinations of tangible and intangible components. Dinner at an expensive restaurant, for example, provides tangible elements (food and drinks) and intangible elements (efficient service, live music and pleasant atmosphere). Consequently, when customers purchase products, they buy both the tangible and intangible benefits (attributes) — a *total product concept*. In other words, a product is a ‘collection of satisfactions’ that might include a variety of things such as the package, brand name, warranty and after-sales service.

The term ‘product’, therefore, is a much broader concept than most people understand. Usually when people talk about products, they refer to what a company produces, such as motor vehicles or entertainment. And yet the intangibles that come with these products are also important. They can be used to differentiate a business’s product from that of its competitor.

Often, with mass-produced products, it is on the differences in the intangible benefits that product competition is based. For example, cars are basically a means of transportation used to get from one place to another. However, if this was all they were, then there would be only one model. But a car contains a vast array of intangibles that are used to differentiate each model, such as image, reputation, style and safety record. Viewing the car in terms of a total product concept clearly shows that no two car models are exactly the same. All products, then, are a combination of tangible and intangible attributes.

Purchasers of a Mercedes Benz AMG GTS will buy a product that not only satisfies their needs but also provides intangible benefits such as a feeling of prestige, importance or influence.



## Product positioning

Some brand names, such as Rolex, Ferrari and No Frills, can immediately evoke an image of the product’s quality. This image gives the product its position within the market. **Product positioning** refers to the way a product image is developed.

Whenever a new product is launched, the marketers need to have clearly determined the desired positioning of the product. This will be achieved through the product’s name, price, packaging, style, promotion and channels of distribution. Combined, these individual characteristics create the image of the product.

## Product branding — symbols and logos

Read the list of popular brand names below and test yourself — what products do you associate with each brand name? Your score was probably 27 out of 27. You have just experienced the power of brand name recognition. The 27 businesses that market these brands have spent a lot of money making sure customers instantly recognise their brand name and the products associated with them. A brand name can be a powerful marketing tool.

Examples of popular brand names

|            |           |         |         |       |       |           |          |          |
|------------|-----------|---------|---------|-------|-------|-----------|----------|----------|
| Hurley     | Coca-Cola | Westpac | Samsung | Sony  | Coles | Woolworth | Roxy     | KFC      |
| Kellogg’s  | Doritos   | Holden  | Colgate | Apple | Rolex | Weet-Bix  | Vegemite | Arnott’s |
| McDonald’s | Mars      | Sorbent | Cadbury | Nike  | Tesla | Qantas    | Telstra  | Converse |

As discussed in subtopic 5.3, a brand is a name, term, symbol, design or any combination of these that identifies a product. A **brand name** is that part of the brand that can be spoken. It may include letters (BMW motor vehicles), numbers (308 Peugeot cars) or numbers and letters (PS2).

A **brand symbol** or **logo** does not have to duplicate the words in the brand name. The three-pointed star of the Mercedes-Benz symbol and Coke's distinctive narrow-waisted bottle are famous brand symbols. Some businesses encourage the instant recognition of their brand symbol rather than their brand name. Perhaps the most famous example of this technique is the 'golden arches' symbol used by McDonald's.

### Brand packaging

The **packaging** of a product is sometimes as important as the product itself to assist sales. Well-designed packaging will give a positive impression of the product and encourage first-time customers to purchase. Tasteful packaging can create an image of luxury, sensuality and exclusiveness, helping to promote the product. In addition, packaging helps preserve, inform, protect and promote the product.

With increasing community awareness of environmental pollution, marketers must also be sensitive to the problems caused by throw-away packaging. Approximately half of all household garbage consists of discarded packaging.

It takes 2.6 seconds for a consumer to choose one product instead of another, so the packaging has to be right. A design student from NSW won the *Southern Cross Packaging Design Awards* in 2015, conducted by the Packaging Council of Australia. Each part of her packaging can be used to construct a ramp, a racetrack and a garage for the small wooden cars inside.

Brand symbols or logos



## study on

Unit 2

AOS 2

Topic 2

Concept 1

Product Summary screen and practice questions

### 5.7.2 The 'price' element of the marketing mix

Many factors affect the **price** of a product. For example, the quantity of the product that is being supplied to the marketplace and the size of the consumer demand for the product will both affect the price. Many businesses have difficulty in selecting the 'correct' price for their products. A price set too high could mean lost sales unless superior benefits are offered. A price set too low may give customers the impression that the product is 'cheap and nasty'.

In any market, businesses will attempt to gain some control over the price by differentiating their products. Once this happens, the business has more leverage over the price. Clothes with designer labels are the result of product differentiation strategies. Garments with these labels carry higher prices than clothing sold under, for example, Target or Kmart brand labels.

Why can a brand such as Billabong set higher prices for its merchandise?



### 5.7.3 Pricing strategies

Several different factors can influence the prices a business sets for the goods and/or services it supplies. A business can use any one or a combination of the following strategies.

#### Recommended retail price

Recommended retail price (RRP) is the price recommended by either a wholesaler or the manufacturer of the goods being sold by a retail business. These prices are recommendations only, as it is illegal for any manufacturer or wholesaler to dictate the price at which any product can be sold to the public. However, the RRP can provide useful guidance to the retail business owner, particularly if they are starting a new business.

#### **DID YOU KNOW?**

A business may vary its marketing mix when it wants to reach different target markets.

## Percentage mark-ups

**Percentage mark-ups** are commonly used by large retail stores. The cost price is increased by a fixed percentage to arrive at the selling price. Assume a sporting goods store has a mark-up of 100 per cent. A tennis racquet is bought for \$200 and, with a 100 per cent mark-up, will have a selling price of \$400. The percentage price mark-up is usually calculated so that it will allow the business to cover costs as well as make a profit. For example, out of a 100 per cent mark-up, 80 per cent may be necessary to cover costs, leaving only 20 per cent as the net profit on the sale of the item.

Wholesalers or manufacturers provide retailers with an RRP, which provides guidance to the retail business owner.



## Price leadership and competition

To follow the prices set by another seller is to acknowledge that business as a price leader. For instance, in a shopping centre that has a number of shops selling the same items, the prices set by the most competitive of these shops may be used as a guide by the other shops. All businesses need to adjust their prices from time to time to ensure they are competitive when compared with the prices charged by other suppliers in the same market. Special promotions or weekly specials are often used to improve the competitive position of a business.

## What the market will bear

The most common example of this approach may be seen at an auction. Often it is difficult to place an exact value on a house, painting or racehorse, so an auction will be held and the people bidding for the item being auctioned determine its value. Not all businesses can sell their goods or services through an auction process, so determining prices based on what the market will bear often comes down to the experience and flexibility of the business owner. An ability to read and interpret consumer sentiment is an important entrepreneurial skill. Listening to customers, observing industry trends and the direction taken by competitors will inform the business owner and assist in determining market reactions. The flexibility to respond quickly to market expectations can be the difference between success and failure in business.

## Quotes

Some businesses find that setting a standard price for each product or job is not appropriate because of the nature of their business. A service business, such as a car mechanic, might find that the amount of labour and the cost of materials used vary between each job. Preparing a **quote** for each unique product or job may be a better way to determine the price. A quote is an estimate of the costs involved with an individual job, plus a certain amount so the business makes a profit. A quote can sometimes serve as a starting point for negotiating the price between the business and the customer.

## Price skimming

This strategy involves placing a high price on a new item, knowing that early purchasers will be willing to pay a high price for the new product. The price is then lowered after the initial sales to attract more customers. This approach is often used to sell new technology. When web 2.0-enabled smart TVs were introduced into the market they attracted a premium price. The price has gradually come down as volumes have increased.



## Penetration pricing

When a new type of product is introduced into the market, particularly one that is unfamiliar to a large number of consumers, a low price might be offered to attract new customers to try the product. This is known as penetration pricing. This strategy can also be used by a new business entering an existing market, as a means of luring customers away from established providers of the product.

## Premium pricing

Premium pricing is the practice of setting an artificially high price to increase the prestige of the product. It is designed to suggest to potential customers that the product is of a higher quality than its competitors.

## Bundle pricing (or price bundling)

Bundle pricing occurs when a business sells a package of goods or services for a lower total price than the individual price of each component of the bundle. For example, some fast food outlets will sell a meal that includes several dishes and a drink for a price lower than the price that would be charged if each item were purchased separately. Telecommunications companies also offer special deals to customers who have their landline phone, mobile phone and internet service with the one company.

## Psychological pricing

This is making the price look less than it is. Pricing a product at \$19.98 rather than \$20 is designed to appeal to the emotional rather than rational instincts of the consumer.

### DID YOU KNOW?

Levels of supply and demand for accommodation in the snow fields, for example, fluctuate dramatically between summer and winter seasons, and prices rise and fall accordingly.

## study on

Unit 2

AOS 2

Topic 2

Concept 2

Price Summary screen and practice questions

## 5.7 Activities

### TEST your understanding

1. Explain why marketers prefer to use the term 'total product concept' rather than simply 'product'.
2. Think of a product you recently purchased. Identify the intangible benefits you gained from the product.
3. Using examples, explain the importance of product positioning.
4. What image do the following products convey?
  - (a) No Frills tomato sauce
  - (b) Rolex watch
  - (c) Dolly online magazine
  - (d) Country Road clothing and accessories
5. Outline the relationship between 'brand', 'brand name' and 'brand symbol'.
6. Suggest reasons for businesses spending so much money attempting to establish a brand name and a brand symbol.
7. Outline the three major pricing methods.





### APPLY your understanding

8. When deciding on a brand name and brand symbol, what are some of the considerations that a marketer must take into account?
9. Select three differently packaged goods and explain why you think the manufacturers chose to package the goods in such a way.
10. As the manager of a shoe store, you have just received a delivery of new boots that cost you \$50 a pair. Your usual mark-up is 60 per cent. However, you find out that yours is the only store in town that will be stocking this fashionable product. What price will you set for the boots? Explain your decision.
11. All businesses attempt to maximise profits. Examine each of the pricing strategies covered in section 5.7.3 and identify two strategies which would best enable the business owner to achieve this goal. Provide reasons for your response.
12. Evaluate each of the following brand names. Indicate the strong points of each name:
  - (a) Nokia mobile phones
  - (b) LG electronic products
  - (c) Revlon cosmetics.
13. Use the **Packaging Council of Australia** weblink in the Resources tab to look at past winners of the packaging awards, both student and commercial sections. Analyse two of the designs and, for each one, write a brief (150-word) paragraph on how these address a marketing plan.

### EXAM practice

14. Distinguish between tangible products and intangible products. **(4 marks)**
15. Don has set up a carwash business in a wealthy suburb and hopes to attract the owners of prestige vehicles to his business. Identify one advantage and one disadvantage of using each of the following pricing strategies to attract new customers:
  - (a) penetration pricing **(4 marks)**
  - (b) premium pricing **(4 marks)**
  - (c) price bundling. **(4 marks)**



#### Resources



Weblink: Packaging Council of Australia

## 5.8 The 7Ps of marketing: place and promotion

**KEY CONCEPT** The seven marketing elements are product, price, place, promotion, people, physical evidence and process (the 7Ps).

The third 'P' of the marketing mix (product, price, place, promotion, people, physical evidence and process) is 'place'. This is about making the product available to the customer, wherever the customer chooses to purchase it. It can refer to a physical location, such as a shop, or an online location, such as a website that enables the customer to purchase the product online. It can also refer to the business's ability to perform a service at the customer's home. Customer access to the product is achieved using **distribution channels**.

### 5.8.1 Distribution channels

A distribution channel is a way of getting the product to its customer. This process usually involves a number of intermediaries or 'go betweens', such as the wholesaler, broker, agent or retailer. Apart from the retailer, the other intermediaries are often invisible; that is, the customer knows little about their role and operation. There are four traditional types of distribution channel:

1. *Producer to customer.* This is the simplest channel and involves no intermediaries. Virtually all services, from tax advice to car repairs, use this method.
2. *Producer to retailer to customer.* A retailer is an intermediary who buys from producers and resells to customers. This channel is often used for bulky or perishable products such as furniture or fruit.
3. *Producer to wholesaler to retailer to customer.* This is the most common method used for the distribution of consumer goods. A wholesaler is an intermediary who buys in bulk from the producer, then resells in smaller quantities to retailers.
4. *Producer to agent to wholesaler to retailer to customer.* An agent distributes products to wholesalers but never owns the product. Agents are paid a commission by the producer. Usually agents are used for inexpensive, frequently used products. Businesses are always looking for different ways

to distribute their products. **Non-store retailing** is gaining in popularity. Methods such as door-to-door selling, mail-order catalogues, party-plan merchandising and vending machines have been used for a number of years. However, with rapid changes in electronic communication, businesses are beginning to exploit types of **e-marketing** (electronic marketing) as alternative methods. As more people shop online, the traditional distribution channels will be modified. Some retailers and wholesalers may be bypassed as customers deal directly with manufacturers. The practice of customers ordering online direct from the manufacturer has resulted in the rapid growth of parcel delivery services, both government-owned (Australia Post), as well as private providers.

An intricate network of transportation and warehousing is required for the efficient movement of the product from the producer to the final consumer.



#### Channel choice — market coverage

How a business chooses the distribution channel best suited to its product depends largely on the location of the business's market or **market coverage**.

A business can decide to cover the market in one of the three following ways, the difference being the intensity of coverage:

1. *Intensive distribution* occurs when the business wishes to saturate the market with its product. Customers can shop at local outlets to purchase the product. Many convenience goods, such as milk and newspapers, are distributed in this way.
2. *Selective distribution* involves using only a moderate proportion of all possible outlets. Clothing, furniture and electrical appliances are often distributed using this method. The customer is prepared to travel and seek out a specific retail outlet that stocks a certain brand.
3. *Exclusive distribution* is the use of only one retail outlet for a product in a large geographic area. This method of distribution is commonly used for exclusive, expensive products.

### DID YOU KNOW?

A survey about what influences a customer's purchases found 41 per cent of respondents mentioned a friend's recommendation and 28 per cent said advertising.

## study on

Unit 2

AOS 2

Topic 2

Concept 3

Place Summary screen and practice questions

### 5.8.2 The 'promotion' element of the marketing mix

People usually associate **promotion** with marketing because it involves the business communicating directly with the customer.

To achieve the objectives of informing, persuading and reminding, a promotion campaign attempts to:

- attract new customers by raising awareness of a particular product
- increase brand loyalty by reinforcing the image of the product
- encourage existing customers to purchase more of the product
- provide information so customers can make informed decisions
- encourage new and existing customers to purchase new products
- change individuals' behaviour through information or persuasion.

Many people confuse promotion with advertising because of its visibility and frequency. However, advertising is just one of the four elements of the promotion mix. A **promotion mix** is the various methods used in a business's promotional campaign. When developing a promotional campaign, businesses can choose from three methods: personal selling, publicity and public relations, and advertising.

#### Personal selling

The major advantage of **personal selling** is that the message can be modified to suit the individual customer's circumstances. Complex and technical products in particular require the personal contact of a sales representative to familiarise the customer with the product.

The success of the marketing plan often depends on the competency of the business's sales force, without which sales and revenue would soon decrease.

#### Publicity and public relations

**Publicity** differs from advertising in that it is free and its timing is not controlled by the business. As with the other promotion methods, the main aim of publicity is to enhance the image of the product. A business will use publicity to raise awareness of a product, highlight the business's favourable features and help reduce any negative image that might have been created.

**Public relations** are those activities aimed at maintaining a favourable relationship between a business and its publics. It is the role of public relations personnel to design, implement and manage the publicity events of the business.

Promotion reminds target markets about products and events. This vehicle was used to promote a French bank during the Tour de France 2013.



## Advertising

Given the myriad of products available, **advertising** is an essential tool for successful marketing. In Australia, businesses spend approximately \$12 billion a year on various forms of advertising.

The main advantage of advertising is that it provides businesses with the flexibility to reach an extremely large audience or focus on a small, distinct target market.

Advertising may take many forms, from buying time on national television or radio to internet banner advertisements and inexpensive leaflets. Sometimes a business will undertake an extensive advertising campaign involving a number of **advertising media** in order to create a saturated coverage of a wide target market. Advertising through social media has grown enormously in recent years. The Interactive Advertising Bureau (IAB) is an association of Australian online advertisers. In September 2017, IAB reported that the value of online advertising had grown by \$799 million to be worth \$7.6 billion for the 2016–17 financial year. Online advertising now accounts for 50 per cent of all advertising expenditure in Australia. This has had a devastating effect on the profits of traditional advertising media, such as newspapers and free-to-air television.

This is quite an eye-catching advertisement. Which current advertisement has most impressed you? What product is it advertising? You can probably answer these questions easily. This is because you have been influenced by advertising. Everywhere you look businesses are using advertising to influence consumer buying behaviour.



## study on

Unit 2

AOS 2

Topic 2

Concept 4

Promotion Summary screen and practice questions

## 5.8 Activities

### TEST your understanding

1. Devise a marketing channel for the sale of:
  - (a) a daily newspaper
  - (b) a washing machine
  - (c) an imported motor vehicle.
2. From the following products, determine those that are intensively, selectively or exclusively distributed:
  - (a) Coke
  - (b) Ferrari motor vehicles
  - (c) Billabong clothing
  - (d) Streets ice-cream
  - (e) LG televisions
  - (f) CDs
  - (g) rare coins.
3. Suggest reasons why a business would select an exclusive rather than an intensive distribution strategy.
4. What is the main role of promotion?
5. Distinguish between personal selling and advertising.



6. Why do some marketers prefer to use personal selling as a promotional strategy?
7. 'Advertising is what you pay for and publicity is what you pray for.' What does this mean?

### APPLY your understanding

8. Recently, you were elected to serve as a promotional organiser for a soccer tournament. The tournament will match several well-known celebrity teams from New South Wales against the best local players. Tickets will sell for \$30 per person and your goal is to attract a large number of supporters. All proceeds will be given to a local charity. As you develop a promotional plan, what segmentation variables will be most important? Outline the buying motives you will use to appeal to your target market.

### EXAM practice

9. Define the term 'distribution channel' and provide an example. **(4 marks)**
10. Chris has started a business selling books online. He has set up a Facebook page where his customers can provide reviews of the books they have read. Explain how each of the following contributes to his marketing mix:
  - (a) place **(3 marks)**
  - (b) promotion. **(3 marks)**

## 5.9 The 7Ps of marketing: people, physical evidence and process

**KEY CONCEPT** The seven marketing elements are product, price, place, promotion, people, physical evidence and process (the 7Ps).

The final three elements of the marketing mix are people, physical evidence and process.

### 5.9.1 People

All the people involved in the business can have an impact on the marketing mix. The owners and managers establish a culture that can either have a positive or negative effect on perceptions of the business, and the products or services it offers. All businesses have a culture, whether it has been deliberately planned and implemented, or whether it has simply evolved over time.

A culture that has evolved to include poor practices or indifferent service can be a disaster for marketing, so it is important that leaders in the business set the standard, and ensure it is followed. All business owners want their business name, products, services and brand to have the highest possible reputation. Maintaining this reputation is in the hands of the staff. It is essential they be trained with the appropriate skills, be motivated to provide good service, and have a positive attitude towards the products or services they are selling. Customers will often judge the business by the staff that serve them as much as by the quality of the product, so employees need to be well-suited to the role they play in the marketing mix.

Staff need to be trained so that they have a strong knowledge of the products being marketed.





Customers are themselves an important part of the ‘people’ element of the 7Ps. Satisfied customers are the best possible advocates for a business. They will talk to their friends and recommend businesses that have given them good quality products and services. Providing good after-sales service can assist. Every customer is a potential return customer, and as such is an important part of the marketing mix.

## study on

Unit 2

AOS 2

Topic 2

Concept 5

People Summary screen and practice questions

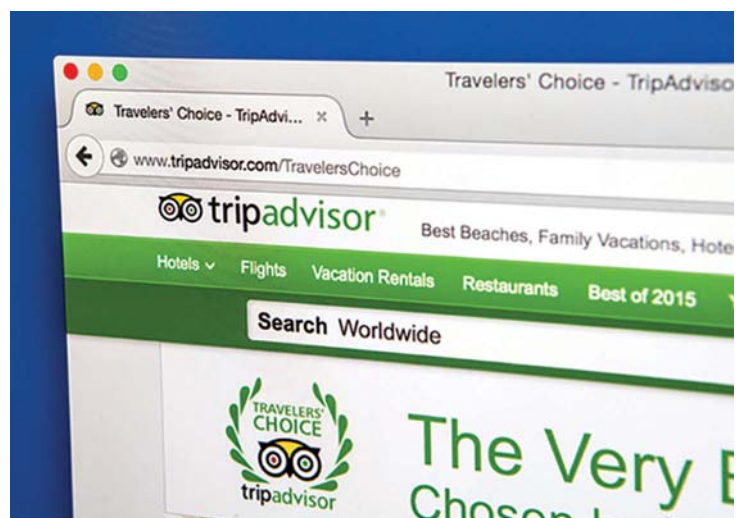
### 5.9.2 Physical evidence

A customer will often not be completely familiar with the detailed features of a product or service they are buying. For example, the customer who walks into an electrical store to buy a new refrigerator may be replacing one that is more than 10 years old, and so may be unaware of the features available in newer models. Demonstrating these features, providing a detailed explanation and information, and helping the customer to compare different brands and models can provide the evidence the potential customer needs to make the best choice.

Physical evidence also refers to the physical state of the business premises, and the physical state of a website or online presence. A clean and well-presented location can be reassuring to the customer that high standards are observed, while an untidy or dirty premises does not inspire such confidence. The state of the online presence is also important. A website that is simple to navigate, with clear links to different products and services, as well as clear contact details and a secure ordering system, will always win over a website that is messy and hard to navigate.

Providing access to feedback from customers can also be a way of providing physical evidence to potential customers. The hospitality industry now has a number of review websites such as Zomato and Gourmet Traveller, and holiday destinations and accommodation are regularly reviewed on sites such as TripAdvisor. Encouraging satisfied customers to use independent review websites can provide valuable evidence that can influence the decisions made by potential customers. Some companies, such as those in the building industry will often provide the contact details of previous customers who can act as referees for the quality of products and services the business has provided.

Review websites can provide evidence that may influence potential customers.



### DID YOU KNOW?

Worldwide accommodation reviewing website TripAdvisor receives 250 million reviews and 160 million submissions every minute. It is claimed that the combination of positive and negative reviews on TripAdvisor has led to 6.4 billion dollars being spent on upgrades to American hotels in response to these reviews.

## 5.9.3 Process

All businesses set up operating systems and processes as part of the way they do business. Customers want to know that the systems a business uses to provide its products and services actually work. The total purchasing experience is important in achieving customer satisfaction. Do customers have to wait a long time to be served? Are there long queues at checkouts? Can goods ordered online be guaranteed delivery within a reasonable time? All these questions relate to the processes and systems used by the business in carrying out its operations.

Customers will often want access to a variety of methods of payment, such as cash, EFTPOS, PayPass or PayWave, credit cards, as well as deferred payments such as lay-by and Afterpay. Ensuring all these processes are available and working efficiently will enhance the marketing of the business. Even simple things such as answering a telephone promptly, having a reliable message system, and responding to messages within a reasonable time can be process issues that can make a difference between gaining or losing a customer. All systems and processes need to be designed to maximise the benefit for the customer, not just for the convenience of the business or its staff.

Convenient methods of payment, such as PayPass or PayWave, provide an efficient process to assist in the marketing strategy.



## 5.9 Activities

### TEST your understanding

1. Why is a positive culture in a business an important element in marketing?
2. How can staff in a business contribute to the positive marketing of the business?
3. Outline two reasons why physical evidence is an important part of the marketing mix.
4. Give two examples of systems and processes that could be used to market a business.

### APPLY your understanding

5. Identify the issue or issues that exist in each of the following business situations, and suggest a solution for each.
- (a) A waiter in a restaurant gets into an argument with a customer when the customer claims the waiter brought him the wrong meal.
  - (b) A staff member in an auto parts retailer is unable to explain the features of a GPS system when a customer asks him difficult questions.
  - (c) A potential customer walks out of a clothing shop when she can find no-one to help her determine the correct size for a pair of jeans she wishes to buy.
  - (d) Long queues form at the counter of a shop at lunchtime as only one person is on duty at the cash register.
  - (e) On checking the Zomato website, a café owner discovers that one of his competitors has more than 50 favourable reviews, while his own business is only mentioned twice.
  - (f) A business owner is told by a friend that many locals are avoiding her hairdressing business because it always looks messy and untidy.

### EXAM practice

6. Explain how 'people' and 'process' can be closely related as elements in a business's marketing mix. **(4 marks)**
7. An online business sends an email to all customers after goods have been delivered to their homes. This email directs the customers to a survey website where they are invited to rate the quality of the service they received from the business. Explain how this business is making use of 'physical evidence' as part of its marketing mix. **(4 marks)**

## 5.10 APPLY YOUR SKILLS You've got the product but no-one knows about it yet!

### PRACTISE YOUR SKILLS

- Define, describe and apply relevant business management terms
- Research and analyse case studies and contemporary examples of business management applicable to establishing marketing in a business
- Propose and justify the marketing strategies chosen for practical and/or simulated business situations

### MICHELLE GILES AND QUICK-FIRE CLAY

Michelle Giles had never lost faith in the idea. Three years of hard work was about to be rewarded. By the end of the day, the patent application would be finalised, giving her sole rights to her invention, Quick-fire Clay.

As a potter, Michelle had always been conscious of the high cost of operating the kiln. She had tried alternative energy sources, but the best she could manage was to reduce the energy bill to 38 per cent of total costs. She decided to think a little more creatively — if she could not further reduce the energy costs, then perhaps she could reduce the time the clay needed to be in the kiln. Inventing a clay that required only half as much firing time would reduce her operating costs.



After spending three years in experimentation and mortgaging her house to help pay for research and development, Michelle was about to make Quick-fire Clay her exclusive product. She had managed to develop a clay-based material that required only half the normal firing time. Another unexpected benefit was that the material became less fragile and did not shatter when dropped. Michelle knew she had a product that would be in great demand and make her a lot of money. Not wanting to lose the right to her invention, she decided to apply for a patent. She left the Patents Office feeling optimistic about the future and enjoyed a celebratory meal at a nice restaurant. She believed her product to be a great success.

Michelle failed to realise, however, that while the first stage — developing a new product — was complete, the second stage was just about to begin — the successful marketing of her product. Although she had a world-first, proven product, very few people knew about it. Michelle was about to discover that products do not ‘sell themselves’. Without customers, a product — even one that is revolutionary, efficient, record-breaking and exciting — is useless. Many inventors like Michelle have failed, even though they had an excellent product. They lacked customers, and no customers means no profit. Michelle had a lot to learn about successfully marketing her product.

‘Without customers, a product ... is useless.’



## 5.10 Activities

### TEST your skills

1. A patent is a government approved document that gives a person sole rights to their invention and stops others from using it, copying it or selling it without permission. Why do you think Michelle was wise to patent Quick-fire Clay?
2. Part of marketing is having a good product, which has features that consumers want. What is so special about Quick-fire Clay?

### APPLY your skills

3. Michelle’s business objective is to make \$100 000 worth of sales in her first year of business.
  - (a) Identify all the marketing strategies that you believe may help Michelle to achieve this objective.
  - (b) The task word (sometimes referred to as command word or instructional word) ‘propose’ generally requires you to put forward an idea, argument, or suggestion for consideration or action. This involves writing a little more than simply just identifying or suggesting something. The task word ‘justify’ requires you to show how the statement or statements that you have made are correct or to provide evidence to support your argument.  
Propose one marketing strategy that could be used to support Michelle in achieving her business objective and justify the use of this strategy.
4. Michelle has undertaken research and development to make a product she knows customers will want. She will most likely need to do some market research to find out where her customers are so she can let them know about her product. If you were Michelle, where would you start with your market research?
5. The **Business Victoria — Develop a new product or service** website is one Michelle might consider visiting for ideas on how to promote her product. Use the weblink to this site in the Resources tab to find out more about the commercialisation phase of an invention (that is, getting a product on the shelves). What advice can you give Michelle regarding the best strategy to raise awareness of her exciting new product?

## on Resources

 **Weblink:** Business Victoria — Develop a new product or service

## 5.11 EXTEND YOUR KNOWLEDGE The target market and the marketing mix

**KEY CONCEPT** It is important to identify the target market and then decide the right marketing mix.

### THE PETS HOTEL – THE MARKETING MIX

As we saw in section 5.5.1, the Pets Hotel provides both short-term and long-term accommodation for pets in Port Melbourne. Let's now look at the marketing mix for this successful business.

#### Product mix

The Pets Hotel offers daycare and longer-term accommodation for dogs and cats. It also provides a number of additional services for pet owners. These include:

- taking the dog for an 'adventure walk' around Port Melbourne
- providing the pet with supervised play time with other pets
- extra 'cuddle time' for both dogs and cats
- special treats
- photo shoots of the pet while in care
- dog obedience training
- spa and grooming treatments.



#### Pricing

The Pets Hotel has a set weekly rate for long-term overnight stays for both cats and dogs, as well as a daily rate for daycare. Discounts apply to the daily rate for pet owners who wish to access regular daycare. Extra services each carry a separate additional fee, so pet owners can decide how many of these services they wish to access during their pet's stay.

#### Place

The Pets Hotel is centrally located in Port Melbourne, only a short distance from the CBD, and is easily accessible from the inner south-eastern suburbs of metropolitan Melbourne. It includes individual suites for each pet, as well as central play areas where pets can socialise.

#### Promotion

As well as a website that is easy to navigate, the Pets Hotel uses Facebook, Twitter, YouTube, Pinterest, Google Plus and Instagram to post photos and videos of activities within its facility. It also uses websites such as Time Out Melbourne, which promotes a variety of Melbourne-based activities, and business promotion websites such as True Local.

#### People

The Pets Hotel is owned by two families who have a combined 35 years' experience in pet care. All employees have knowledge and expertise in dealing with animals, as well as a passion for working with animals. They are also expected to be welcoming and friendly towards pet owners.

#### Physical evidence

The Pets Hotel offers tours of its premises to all prospective customers to give them an opportunity of seeing the facility in operation. It also publishes testimonials on its website.





## Process

The Pets Hotel outlines its rules and procedures clearly on its website, so potential customers know exactly how the business operates. It has an online booking process, and even a mobile phone app that allows customers to make bookings and check on their pets at any time of the day. Pets Hotel claims that pets will never be returned to customers in a dirty or untidy state, so it clearly has processes in place to keep pets clean and well groomed.

## 5.11 Activities

### TEST your understanding

1. Does the Pets Hotel offer tangible or intangible products? Explain your answer
2. Identify two pricing strategies the Pets Hotel might use and explain why each of these might be appropriate.
3. Explain how this business has used social media as a key part of its marketing mix.
4. Why is the 'people' element of the marketing mix so important for the Pets Hotel?
5. Explain how the Pets Hotel uses physical evidence as part of its marketing mix.

### EXTEND your understanding

6. The product mix of the Pets Hotel includes its basic product and a number of optional extras. What might be the purpose of including these extras in the product mix?
7. What type of brand identity are the owners of this business trying to establish by the use of the brand name 'The Pets Hotel'?
8. Many pet boarding businesses operate in outer suburban and semi-rural areas. What might be the benefits of its inner suburban location for the Pets Hotel?
9. Process is particularly important in encouraging customers to return to a business. Explain how the processes operating at the Pets Hotel might encourage customer loyalty.

## 5.12 The product life cycle

**KEY CONCEPT** A product passes through a number of stages in its life cycle. These include the introduction, growth, maturity, decline and extension.

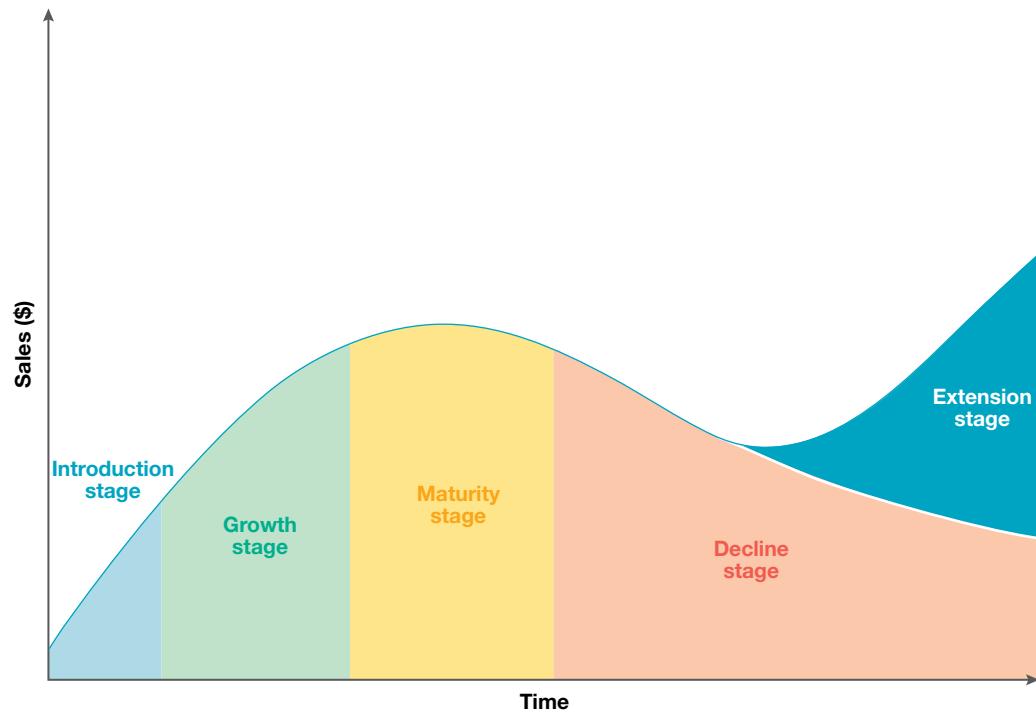
Every product has a **life cycle**, from the time it is introduced to the market, until it is eventually overtaken by an updated version or a complete replacement.

### 5.12.1 Product life cycle

A business must be able to launch, modify and delete products from its range in response to changes in the product life cycle. Failure to do so will result in declining sales and reduced profits.

All successful products go through a life cycle, from the introduction into the market, gradual growth in sales, a period of maturity when sales are at a maximum, through gradual decline as the consumer tastes change or new products come on to the market to replace it. In some cases, a product can be diverted from its decline if new markets are found, or the product is modified or diversified in some way to attract a new customer base. The following graph shows the progress of this life cycle over time.

## The product life cycle



The product life cycle will have an influence on the manner in which a product is marketed. Changes in marketing strategy for each of the different stages are described below.

### Introduction stage

The introduction stage is the period during which a new product is launched into the market. In this stage, the business tries to increase consumer awareness and build a market share for the new product.

- *Product:* The brand and reliability are established.
- *Price:* The price is often noticeably lower than competitors' prices in order to gain a market foothold.
- *Distribution:* Distribution is selective, which enables consumers to gradually form an acceptance of the product.
- *Promotion:* Promotion is directed at early buyers and users, and communications seek to educate potential customers about the merits of the new product.
- *People:* Staff are trained to explain the new product to customers, highlighting any innovative features not previously available.
- *Physical evidence:* Detailed information about testing of the new product and verifiable evidence of its unique features are provided.
- *Process:* Warranties and after-sales service are highlighted as a reassurance to customers trying the new product for the first time.

New technologies such as cloud computing are currently at the introduction stage, with the full potential market yet to be developed.



## DID YOU KNOW?

3M Corporation is a multi-billion dollar US business that has a history of introducing new products. It was the first to invent sticky tape and has continued to innovate with products such as the Post-it® Super Sticky Notes, optical films for LCD televisions and new family Scotch-Brite® cleaning products.

## Growth stage

The growth stage is a time when the product begins to increase sales to customers. In this stage, brand acceptance and market share are actively pursued by the producers of the product.

- *Product:* The product's quality is maintained and improved and support services may be added.
- *Price:* The price per unit of production is maintained as the business enjoys increased consumer demand and a growing market share.
- *Distribution:* Distribution channels are increased as the product becomes more popular.
- *Promotion:* Promotion now seeks a wider audience.
- *People:* Satisfied customers can be more easily relied on to provide testimony about the quality and value of the product.
- *Physical evidence:* As the product becomes more mainstream, more evidence of its successful use in a variety of situations can be provided.
- *Process:* After-sales service and customer follow-up processes become entrenched in the business.

The market for smart-phones and tablets is in the growth stage, with frequent updates to the size, weight and features of the products.



## Maturity stage

The maturity stage occurs when the product is fully accepted into the market and when sales reach their peak. In this stage, sales plateau as the market becomes saturated.

- *Product:* The product's features and packaging try to differentiate it from those of competitors.
- *Price:* The price may need to be adjusted downwards to hold off competitors and maintain market share.
- *Distribution:* Incentives may need to be offered to encourage preference over rival products.
- *Promotion:* Promotion continues to suggest the product is tried and true — it's still the best.
- *People:* Staff need to be able to direct customers to the unique features of the product that differentiate it from competitors.
- *Physical evidence:* Customers are likely to be more aware of the product and its competitors, so additional evidence of the product's unique features may be necessary.
- *Process:* All systems and processes dealing with the sale and service of the product are firmly established.

Sales in plasma screen televisions have reached maturity and may start to fall as 3D televisions improve on the existing product.



## Decline stage

A product will reach the decline stage when it no longer appeals to the customer. This may be because it has been superseded by newer, or more technologically advanced, competitors or because customer tastes have changed. During this stage, sales begin to decline as the business faces several options:

- *Product:* The product is discontinued. The business sells the inventory and cuts losses by selling the product to another business. (Some businesses try to rejuvenate their product by making improvements.)
- *Price:* The product's price is reduced to sell the remaining stock.
- *Distribution:* Distribution channels are reduced and the product is offered to a loyal segment of the market only.
- *Promotion:* Promotion is discontinued over time.
- *People:* Staff may be empowered to offer special deals to clear surplus discontinued stock.
- *Physical evidence:* Information may still need to be provided to assure customers the product is still functional, even though it may have been superseded by newer products.
- *Process:* Business systems and processes still need to be efficient and customer focused.

The old analogue television set has passed the decline stage, and is no longer for sale since Australia switched to digital television.



### Extension stage

Instead of going into decline, some products can be revived, and begin a new cycle of growth and eventual maturity. This is the extension stage. It can occur when a product is marketed into new locations, such as through export to other countries. It can also occur through product diversification and enhancement.

### Expansion through export

There are three major reasons why Australian businesses have increased their number of **exports** over the past decade. First, from the 1980s the federal government initiated policies and trade agreements to integrate Australia's economy more fully with the rest of the world. Second, the Australian domestic market is relatively small. With a population of approximately 25 million, businesses that wish to expand are forced to export. Third, the rapid expansion in e-business, which has mainly been brought about by the development of the internet, has made exporting easier and has opened the doors for many small-to-medium businesses to sell direct to consumers across national borders.

### Expansion through diversification

**Diversification** involves both new products and new markets and is done to spread the risks encountered by a business. This strategy is based on the principle of 'not putting all your eggs in one basket'.

Diversification can occur at two different levels:

- *Product diversification.* A business may decide to increase the range of products sold. For example, the John West company, having reached a position of maturity in the sales of plain canned tuna, expanded its product range to include snack meals that combine cooked rice with the tuna, and a variety of different flavours.
- *Geographic diversification.* This refers to operating in different locations both domestically and globally. Having a number of locations helps minimise the risk of business failure should one market suffer a decrease in sales.

John West expanded their range of tuna products to include rice and flavourings.



## Why do products decline?

Products end for various reasons. These include the changing public perception of what is fashionable at certain times. New technologies are constantly being introduced and with them come new products, replacing old ones. New products also sometimes reduce demand for older ones.

Consumer behaviour is dramatically changing as a result of events such as the global financial crisis and the problems associated with the need to reduce carbon emissions and greenhouse gases in order to prevent even more devastating climate change. Consumers expect products to be more environmentally friendly. Some businesses will grasp this opportunity to create new, greener and more ecologically sustainable products, while other products will disappear.

Today, Detroit car manufacturers are a good example of large-scale manufacturers throughout the world that are confronted with the unpleasant reality that consumers are more globally aware. They will no longer continue buying unsustainable products the way they once did.

### THE VOLKSWAGEN BEETLE — PRODUCT LIFESPAN 1933–2003

Today, the VW Beetle is considered fondly as a highly successful product from a bygone era. The first Beetles were far too noisy, inefficient and uncomfortable for the current vehicle consumer. However, it was possibly one of the most successfully marketed and famous cars ever built.

In 1933, Adolf Hitler ordered Ferdinand Porsche to develop a German *volks-wagen*, which means ‘people’s car’. The car was first built by Porsche’s chief designer and went on to become the longest running, most produced, single-design production motor vehicle in history.

During the introduction phase, the car was a basic vehicle capable of transporting two adults and three children at 100 km/h. The car was to cost about the same as a small motorcycle. After World War II, in 1945, the VW factory was handed over to the British to control.

The car was called a *kafer* (meaning ‘beetle’) by the Germans, which explains its popular English nickname. The British army ordered 20 000 Beetles and production rose to 1000 per month. In 1957, a new larger rear window proved to be very popular with consumers. Sales continued to climb.

During the growth phase, there were small improvements made to road handling and engine power and, in 1955, the one-millionth Beetle was made at the German plant. The Beetle was far superior in performance and reliability to its competitors in the compact car market.

The maturity phase began in the early 1960s when side and front windows were enlarged. A newer, more powerful 1300 cc engine was added to distinguish the Beetle from competitors like the Morris Mini Minor.

In 1973, the Super Beetle was given a curved windscreen. Innovative advertising campaigns and a reputation for toughness and reliability helped the Beetle surpass the production levels of the famous Model T Ford. The Beetle was now being produced in factories all over the world, including Australia. By 1973, production had passed 16 million cars with huge sales on every continent. Incredibly, by 1992, 21 million Beetles had been built. The popularity of the VW Beetle began to decline as rival small car manufacturers from Japan and the US eventually overtook the Beetle in terms of technology. Attempts by VW engineers to improve the model’s popularity had failed and the Beetle’s worldwide sales began to fall.

Production stopped in Germany in 1978 but continued in Brazil and Mexico until 2003. A new luxury version has since been produced, but it is much more expensive and has only the body shape as a reminder of the original.





**on Resources**



eLesson: The life cycle of a business — Crothers family soft drink business (eles-1065)

## 5.12 Activities

### TEST your understanding

1. Use the stages of a product's life cycle (introduction, growth, maturity, decline and extension) as your headings and under each heading write a brief sentence to demonstrate how the VW Beetle passed through each stage.
2. What key strategies did VW use to enable the Beetle to sell so successfully over such a long life cycle?
3. Describe the target market the Beetle's makers and promoters were aiming at.
4. How did the Beetle's competitors eventually end its reign?
5. Outline why Australian businesses have become more export-oriented over the past decade.
6. What is the purpose of diversification?
7. Explain the difference between product diversification and geographic diversification.

### APPLY your understanding

8. After researching on the internet, write a 250-word report on the stages in a product's life cycle. You may choose any product.
9. Interview a person born in the two decades after 1945. Ask them these questions:
  - (a) What is a product you fondly recall that no longer exists?
  - (b) What was the logo used to promote the product?
  - (c) Can you describe the advertisements?
  - (d) Was the product useful to you?
  - (e) Was the product expensive?
  - (f) What became of it? Why did it decline?

Write a brief report (less than 250 words) on the interview. Alternatively, use the interview as the basis for a 5-minute PowerPoint or visual presentation to the rest of your class.
10. Businesses do expand through tapping into lucrative export markets. However, special consideration has to be given to local customers' tastes. For example, in some restaurants in the New England region of the United States, McDonald's offers the McLobster. Explain why export businesses need to ensure that they deliver a product that suits their overseas customers.
11. Harvey Norman Holdings Limited is an example of a company that sells a diverse range of products. Make a list of the different types of products it sells.

### EXAM practice

12. Explain why all successful products go through a life cycle of introduction, growth, maturity and decline. **(4 marks)**
13. Eugene has run a business installing TV antennas on the roofs of people's houses for 20 years, but is now finding fewer customers need his product, as more people are streaming programs online.
  - (a) At what stage in the life cycle is Eugene's product? Explain why. **(3 marks)**
  - (b) Explain one way in which Eugene can revive his business into an extension stage. **(3 marks)**

## 5.13 Customer relations strategies

**KEY CONCEPT** The returning customer is essential to any business. Adopting customer relations strategies that encourage occasional customers to become regular customers can be the difference between success and failure in business.

Good customer relations involves more than just ensuring staff are friendly and helpful in their dealings with customers. Most competitors will be doing this much, and so it does not differentiate the business sufficiently. Superior customer relations involves an enhancement of the customer experience, so that your business becomes the automatic destination of choice for anyone seeking the products or services you sell.

### 5.13.1 Providing quality customer service

Establishing superior customer relations will require a proactive approach. A successful business owner will invest in training staff, so that they are not only friendly and approachable, but also highly knowledgeable about all products sold. Such a business owner will also ensure that every aspect of the business is customer friendly, with clear signage pointing customers to different product ranges, uncluttered product display, and staff members who are alert and ready to offer assistance before they have to be asked. Being proactive means anticipating possible problems before they arise, and having all the systems and processes in place to prevent those problems occurring. Quality service does not just happen by accident, but has to be planned in detail, with clear guidelines for staff to follow, and a culture that puts the customer first.

### 5.13.2 Seeking customer feedback

Businesses will attempt to assess levels of customer satisfaction in a number of ways. The return of customers on a regular basis is usually a sign that the customer believes they are receiving value for money. A business can also seek feedback from its customers. Businesses today often collect the email addresses of customers, and then send them surveys to allow them to provide feedback. Online businesses regularly send emails asking, 'How did we do?' soon after goods ordered online have been delivered. Such emails will include a link to a short survey on which the customer can rate the product received. Businesses today are also increasingly using social media to gather feedback from customers. A business's website often contains a link to a Facebook page, where customers are invited to comment on the quality of goods or services received.

### 5.13.3 Complaints, returns and refunds

Good customer relations means welcoming complaints and using them as a basis for improvement. Handling complaints effectively can lead to a better understanding of customers' expectations, improved customer satisfaction and loyalty, and a reputation that will attract more customers. It is better to have customers telling the business owner how to improve than having

Customer complaints should be welcomed, and seen as a basis for improvement.



them make negative comments only to their friends. A successful complaints-handling system will include the following features:

- the ability to deal with complaints immediately, and keep the customer informed if the resolution of the problem is likely to take more than 48 hours
- a simple process for customers to complain and clear communication that complaints will be welcomed
- a procedure by which detailed information on types of complaints is kept and fed back into business processes to make changes where necessary.

While there is a legal requirement to offer refunds or replacement products in some cases when goods are returned, it is not necessary in every case — such as when a customer simply changes their mind. Going beyond simple legal requirements by having a flexible returns and refunds policy can enhance customer relations.

If the return of goods is dealt with in a reluctant or argumentative way, it is highly likely that a customer has been lost forever. Being willing to listen to the reasons a customer wishes to return a product, being sympathetic to those reasons and offering replacement products, possibly at a discounted price, will encourage the customer to return in the future. Staff should be empowered by the owner or manager to use their judgment in achieving the best outcomes in these situations.

### 5.13.4 Customer loyalty programs

How often have you been asked at the supermarket checkout whether or not you have a ‘Flybuys’ card? Flybuys is a customer loyalty program offered by Coles supermarkets, Kmart, Target and related retail outlets. Customers earn points based on the amount of money they spend in one of these shops. The program was originally designed to reward customers with frequent flyer points to be used for airline travel, but has now been expanded to allow these points to be spent on a wide variety of different goods.

Woolworths supermarkets have a rewards program that allows customers to use points to receive discounts on their grocery shopping. Both major supermarket chains have agreements with service stations for discounts on petrol purchases. All of these are customer loyalty programs designed to keep customers coming back to the same store. While these are all programs offered by large businesses, even small businesses can offer customer loyalty programs. For example, a simple card that is stamped at every visit, so that discounts are offered after a particular number of visits, can be used by almost any type of business, such as cafés, bakers, butchers or newsagents.

### 5.13.5 The online presence

Today when anyone mentions the name of a business, the immediate response of most people is to ‘check out the website’. The fact that we can do this instantly on our mobile phones makes a customer-friendly website a necessity for just about every business. If you can’t examine a website before you visit a business, you will probably instead visit an alternative that has a user-friendly online presence. An informative, easy-to-navigate website is an essential part of the customer relations strategy.

A business can also set up a mailing list database to send emails or text messages to update regular customers with details of special deals or discounts. Customers value regular updates to websites. They will quickly be turned off by information that is out of date.

### 5.13.6 Catering to a multicultural market

Australia is a multicultural nation, with 26 per cent of the population born overseas and 49 per cent having at least one parent born in a country other than Australia. A business operating in an area where large numbers of potential customers have a first language other than English can reap the benefits by hiring staff with an ability to communicate in languages spoken by the community. Prominent signage can alert potential customers that the language they are most comfortable with is spoken within the business. Demonstrating sensitivity to a variety of different cultures will ensure that customers return frequently, and will value the recognition the business shows them. They will also speak positively to their friends, attracting new customers.

## 5.13 Activities

### TEST your understanding

1. Explain what it means to take a proactive approach to quality customer relations.
2. Why can receiving customer complaints be seen as a positive for a business?
3. How should a business approach the issue of customers returning goods for a refund or a replacement?
4. What is the purpose of a customer loyalty program?
5. Why is it important for a business to have a user-friendly website?
6. What steps can a business owner take to connect with a local multicultural community?

### APPLY your understanding

7. Using the internet or library, research the circumstances in which a business is legally required to provide a refund for any goods returned by customers.
8. Develop a customer-friendly returns and refunds policy that a business could provide as information for its employees and customers.
9. Design a simple complaints form that a business could use. It should provide space for customer information and details of the products or services involved as well as space for feedback to the owner or manager suggesting possible changes or improvements.
10. Create a suitable customer loyalty program for a hairdressing business.

### EXAM practice

11. Explain how customer loyalty programs can work as a marketing strategy. **(3 marks)**
12. A customer has returned a toaster to Helen's electrical store, complaining that it has stopped working after only two weeks. Explain how Helen can deal with this issue in a manner that will provide the most positive outcome for her business. **(5 marks)**

## 5.14 An overview of public relations and its relationship to business objectives

**KEY CONCEPTS** Good public relations, or PR, not only creates a favourable image but can also help the business achieve other business objectives, such as increased sales.

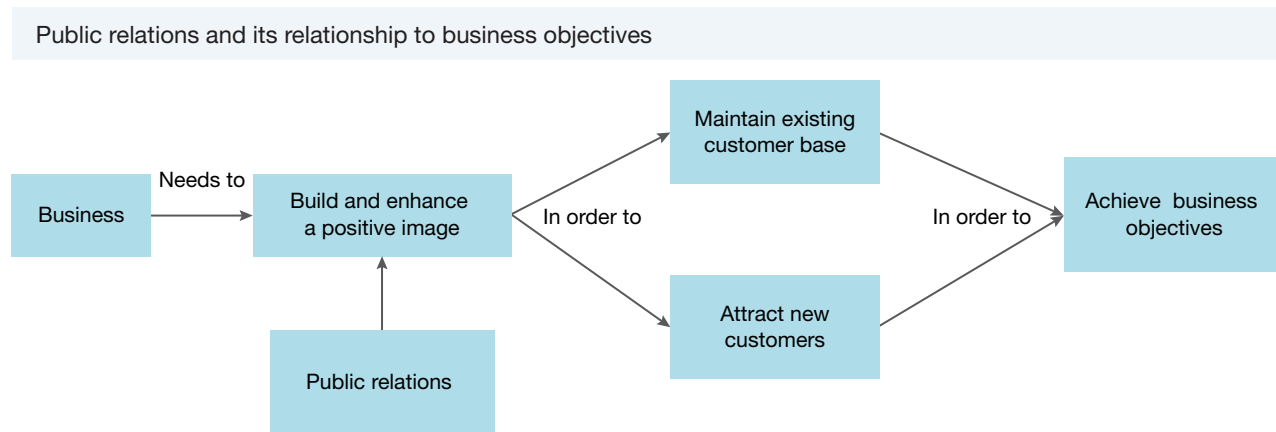
### 5.14.1 What is public relations?

Public relations is the planned and sustained effort to establish and maintain goodwill and mutual understanding between a business and its publics. The purpose of public relations (PR) is to project a positive image of the business to the outside world through planned communications strategies and tactics. Specifically, public relations involves the following activities:

- developing good relations with various groups — **publics**
- handling, or heading off, unfavourable stories or rumours that could damage the business's image
- generating favourable publicity

- maintaining a certain level of positive public perception
- enhancing a particular image, such as innovation, reliability or honesty.

When effectively managed and integrated with all aspects of a business's operations, public relations is capable of achieving favourable attitudes towards a business and this influences consumers' purchasing behaviour. In turn, this should lead to increased sales and the achievement of other business objectives such as improving profit and increasing market share.



### 5.14.2 The function of public relations

Public relations combines a number of marketing and sales techniques and presents one consistent public image, having long-term benefits. Clear messages, for example, about a business's policy on customer care, environmental issues, ethical business practices, or nutritional value of ingredients, can directly affect sales in a substantial way.

There are four major ways in which public relations activities can assist a business in achieving its objectives:

1. *Promoting a positive image*: reinforcing the favourable attitudes and perceptions consumers have regarding the business's reputation
2. *Effective communication of messages*: using advertising, sales promotions, publicity and personal selling to convey information about the business and its products
3. *Issues monitoring*: protecting sales by providing an early warning of public trends that could affect the business's sales. Remedial action can be taken before much harm is done to sales.
4. *Crisis management*: protecting a business's reputation as a result of negative or unfavourable rumours and adverse publicity, which if left unchecked might result in a loss of sales.

### 5.14.3 The importance of image

Imagine that you entered a café and found a dirty floor, flies, an unshaven server wearing dirty clothes and mess everywhere. You would probably leave because of the business's poor **image**. Now look at the photo of the café at right — it illustrates cleanliness and friendly service.

The key to a successful image is that the public view the business the way the business intends. A business's success in projecting its image will have enormous consequences for its long-term success in the marketplace.

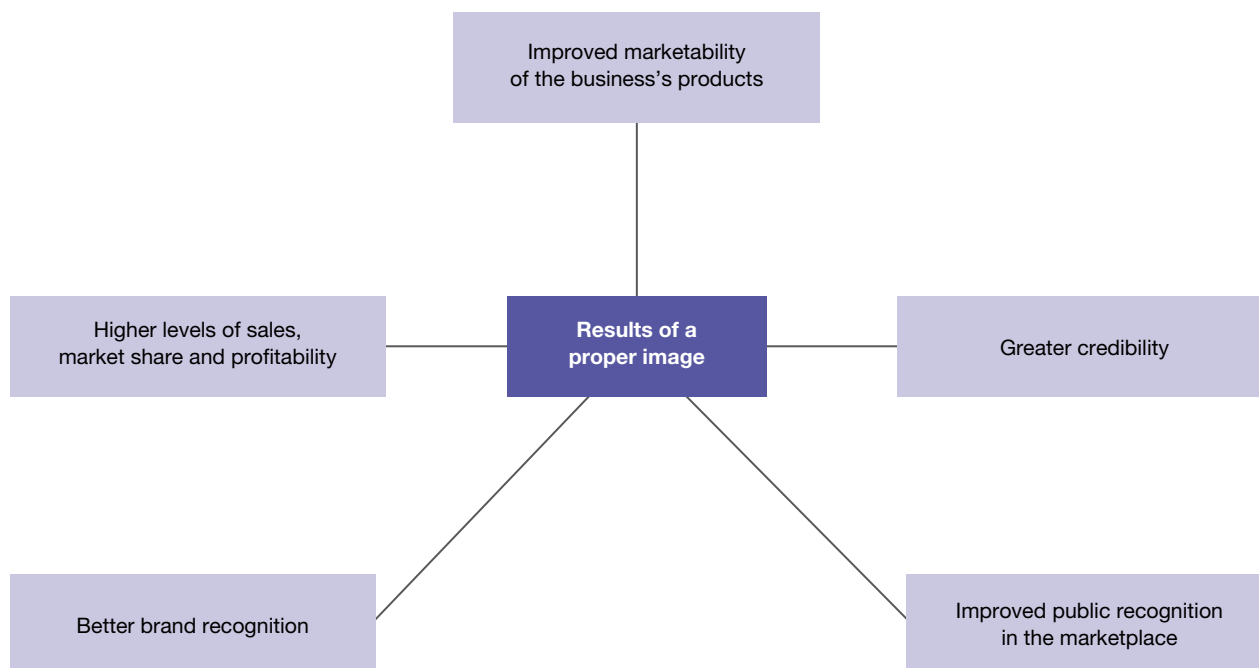
The proper image for a business is not produced by accident. It needs to be developed and managed carefully. A proper image results in the benefits shown in the diagram on the following page.

Some cafés offer excellent customer service, a large range of products and a friendly atmosphere.





### How a proper image benefits a business



### DID YOU KNOW?

When Toyota decided to enter the luxury car market, dealers upgraded their 'image' by developing new, more glamorous showrooms to highlight their new luxury product range.

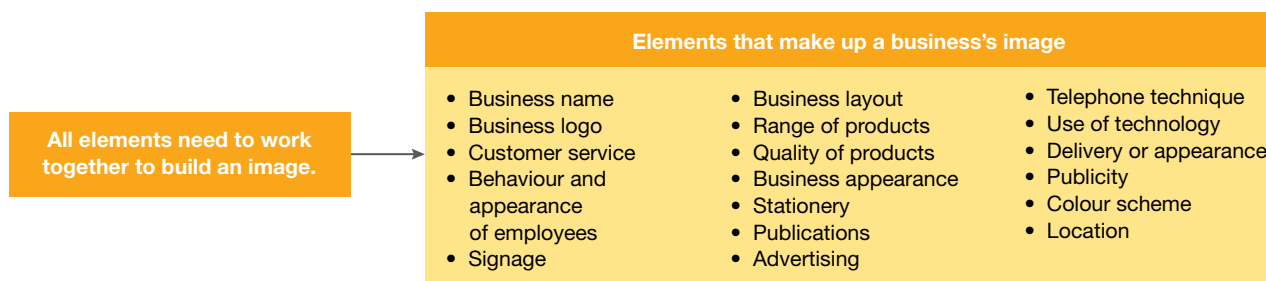
'When a consumer is confronted with so many different brands to select from, whether it be toothpaste, clothes or cars, the business's image is often the deciding factor in determining which specific brand to purchase.'

—Raell McKenzie, public relations consultant

## 5.14.4 Elements of the image

There are many elements that combine to create a business's image — and it is crucial that all elements are working together to create a unified image. Unfortunately, one dysfunctional element can result in a negative image being presented. As a member of a school, for example, you have probably been told that 'the actions of a few' can create a poor image of the school in the eyes of the community.

### The main elements that combine to create a business's image



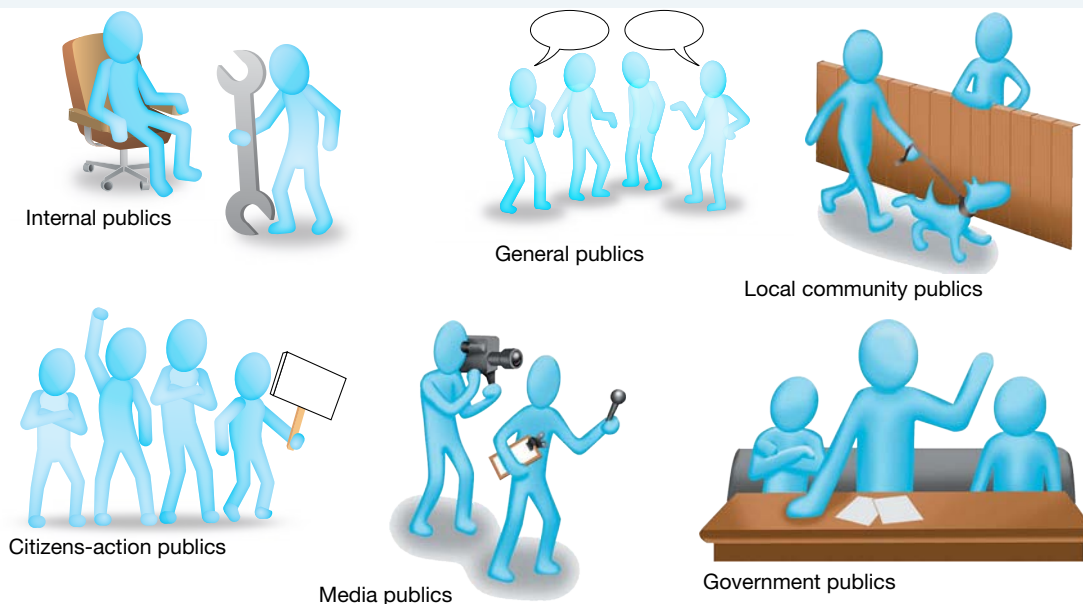
### 5.14.5 Characteristics of the publics

A business will communicate with and project its image to its publics. 'Publics' are stakeholders. They are groups that the business interacts with and that have a vested interest in what the business does.

The various publics can be grouped into six main types:

1. *Internal publics.* A business's internal publics include its employees and managers. They expect fair pay and conditions, a safe working environment and access to training and development. Good employee morale helps develop and maintain a positive image with the external publics.
2. *General publics.* The general publics' feelings towards a business can affect its customers' attitudes. Society expects fair and honest business practices and ethical, responsible decisions.
3. *Local community publics.* This public is of crucial importance for a small business because it represents local residents and neighbourhood organisations. They expect the business to be a good 'corporate' citizen.
4. *Citizens-action publics.* A business's practices may be scrutinised by action groups, such as environmental organisations. They expect a business to operate in an environmentally sustainable manner.
5. *Media publics.* Media publics include print and electronic news reporting organisations. They expect accurate information and access to informative sources.
6. *Government publics.* There are three levels of government, each with its own regulations. Governments expect a business to abide by their laws.

Types of public



#### DID YOU KNOW?

- The publics of a gymnasium would include customers, trainers, administrative staff, suppliers, the media, the local government and the local community. Your school's publics would be students, parents, school council, teaching and administrative staff, the government and local community.
- One of the main differences between marketing and public relations is that public relations is about communicating and building relationships with all of the business's publics, whereas marketing focuses on the activities associated with selling products to customers.

#### study on

Unit 2

AOS 2

Topic 1

Concept 5

Public relations Summary screen and practice questions

## 5.14 Activities

### TEST your understanding

1. Outline the purpose of public relations.
2. What activities does public relations involve?
3. Explain in your own words the relationship between public relations and business objectives.
4. List four ways that public relations can assist a business to achieve its objectives.
5. Why should all businesses be concerned with their image?
6. Complete the following table by using a few words to describe the image of the businesses listed. The first entry has been completed for you. Share your answers with other members of the class and discuss any differences.

| Business    | Image                            |
|-------------|----------------------------------|
| 1 Arnott's  | Quality, dependable, flavoursome |
| 2 Billabong |                                  |
| 3 Telstra   |                                  |
| 4 Ford      |                                  |
| 5 Pizza Hut |                                  |

7. Identify the benefits of a business projecting a positive image.
8. In pairs, list the elements that combine to create:
  - (a) a positive image of your school
  - (b) a negative image of your school.
9. Identify the publics for the following businesses:
  - (a) an ice-cream store
  - (b) Lansvale Landscaping
  - (c) Sendall and Walsh, solicitors
  - (d) the local community daycare centre.
10. Match each definition with the type of public it describes.

| Definition                                            | Type of public          |
|-------------------------------------------------------|-------------------------|
| (a) Print and electronic news reporting organisations | Internal publics        |
| (b) Local resident and neighbourhood organisations    | Media publics           |
| (c) The broader society                               | Citizens-action publics |
| (d) Employees and managers                            | Local community publics |
| (e) The three levels of regulators                    | General publics         |
| (f) Groups that may scrutinise a business's behaviour | Government publics      |

### APPLY your understanding

11. In groups of three or four, list the various public relations activities your school uses to communicate with parents. Choose a spokesperson to share your group's comments with the rest of the class. You can begin your list with the following items:
  - newsletters
  - formal assemblies.
12. Report on a business whose performance you believe does not align with its image.
  - (a) Identify the reasons for the business's 'image credibility gap'.
  - (b) Suggest solutions to overcome this failing.
13. Businesses can spend lots of money researching and developing a logo to reinforce their image. Nike's 'swoosh' logo, for example, projects an image of quality, spark, energy and youthfulness. Collect and paste into your notebook 10 business logos. Next to each write the name of the business and then list the image the symbol projects.

14. (a) In pairs or small groups, select three publics associated with a small business that you know and brainstorm how the business's failure to fulfil its responsibilities might impact on these publics and ultimately the business.
- (b) Present your information to the class, either as a written report or an oral presentation. You may wish to use a multimedia package to assist you in preparing your report or presentation.

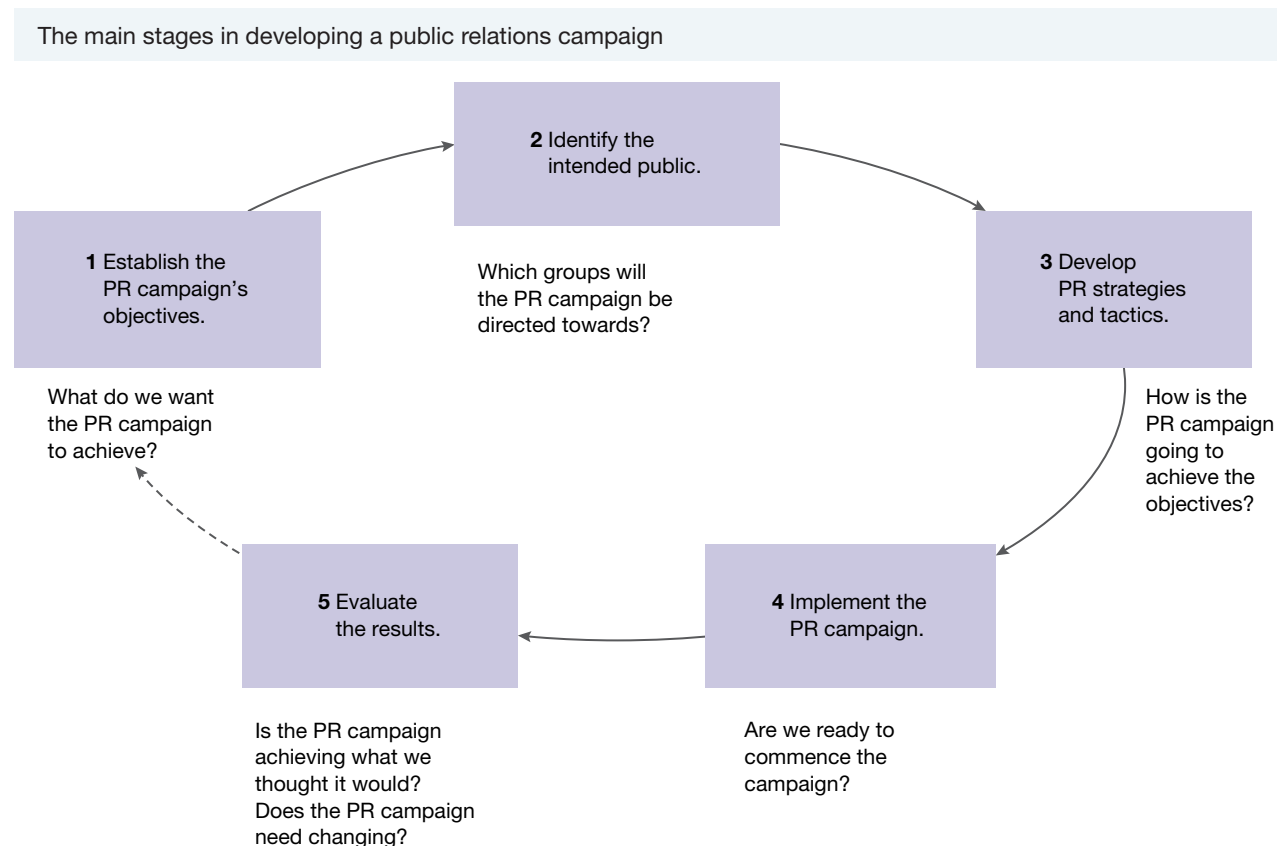
### EXAM practice

15. Identify three different types of public and explain how each can affect the image of a particular business. **(9 marks)**
16. Danny runs a plumbing business. He requires his employees to wear uniforms with his business logo, and expects them to arrive at each job clean and well groomed. Outline two benefits that his business may gain from this emphasis on maintaining a positive image. **(6 marks)**

## 5.15 Public relations strategies

**KEY CONCEPT** A business may plan a public relations campaign to enhance its image, but may also have to respond to a crisis situation that threatens to undermine that image.

Businesses embarking on a **public relations campaign** should begin by initially establishing their public relations objectives and strategies. The following diagram shows that a public relations campaign is developed in several stages. These stages may vary in number and the order in which they are implemented, depending on the business's resources, products and publics.



### DID YOU KNOW?

Public relations communication should be integrated with the business's other promotional strategies.

## 5.15.1 Planned public relations

The five main development stages in a planned public relations campaign are outlined below.

### Stage 1 — Establish public relations objectives

Objectives outline what the campaign is trying to achieve. They should be developed using the S.M.A.R.T. principle. That is, objectives should be:

- Specific
- Measurable
- Attainable
- Relevant
- Time-bound.

For example, Meat and Livestock Australia, an umbrella body for Australian meat producers, wanted to promote the sale of meat products. It hit upon a strategy in 2006 when it hired ex-footballer and media personality Sam Kekovich to promote eating lamb on Australia Day, January 26. Each year since then, a new campaign has been devised to encourage people to eat lamb on this day, making Kekovich a recognisable symbol of the campaign and aligning the eating of lamb with Australia Day celebrations.

### Stage 2 — Identify the intended publics

The public relations campaign 'target' group is the publics towards whom the public relations strategies and tactics are directed. The intended publics for the Meat and Livestock Australia campaign are people who celebrate the Australia Day public holiday by getting together with friends and family for a barbecue. While there has been much discussion in recent years about the appropriateness of January 26 as a day of celebration, the campaign does not engage with this debate. Its intended publics are those who plan to have a barbecue on the day, and it aims to convince them to use lamb products.

### Stage 3 — Develop specific public relations strategies and tactics

There is a wide range of **media** from which a business can select. It is important to select the most appropriate and effective media for the chosen publics. For example, a business can choose from the following media:

- electronic and/or print media advertising
- competitions
- guest speakers
- letterbox drops
- brochures, pamphlets
- information videos
- direct mail
- email messages
- media releases
- news conferences
- community involvement programs
- noticeboards and posters
- notices on its website
- social media such as Facebook and Twitter
- staged events and stunts.

Creativity is essential. A business must examine the costs and benefits of each of these media to select the most suitable media mix.



## 'LAMB SIDE STORY' — THE 2018 MEAT AND LIVESTOCK AUSTRALIA CAMPAIGN

In 2018, the Meat and Livestock campaign for Australia Day featured a *West Side Story*-inspired theme. Two groups of dancers, representing the political 'left' (dressed in red), and political 'right' (dressed in blue) come into conflict in the street outside a house where a lamb barbecue is being prepared. They eventually put their differences aside and agree that eating lamb brings them together, with the slogan 'You never lamb alone'. The campaign was launched on January 11, 2018 and appeared on TV, in cinemas, online and on social media for two weeks.



### DID YOU KNOW?

Communication objectives will emphasise increasing product awareness, improving public attitudes or conveying a positive image.

## Stage 4 — Implement the public relations campaign

An action plan is devised to make sure the implementation runs smoothly. For Meat and Livestock Australia, the public relations manager would devise an action plan detailing the schedule of public relations activities, areas of individual responsibility, media contact details and a calendar of event dates. This would be distributed to all public relations committee members, the marketing manager, business group managers, executive managers and staff.

## Stage 5 — Evaluate the results

A public relations campaign's success should be measured in terms of its original objectives, before, during and/or after the campaign ends. A public relations manager should at least be able to estimate whether any change occurred in the attitudes or behaviour of the publics. Meat and Livestock Australia can measure the effectiveness of its campaign by examining changes in the quantity of lamb sold during the period of its campaign. In 2016, sales of lamb products rose by 36.9 per cent in the two weeks leading up to January 26, when compared with average sales across the rest of the year. Its campaign video was watched more than 5.5 million times online and generated 1274 pieces of media coverage, which delivered a cumulative audience of over 404 million. While many of the advertisements featured in the campaign have been controversial over the years, this has possibly added to its ongoing success.

### 5.15.2 Maintaining a positive relationship with the customer base

Ultimately, successful public relations contributes towards a positive relationship with the business's identified customer base. A planned public relations campaign will always have this as its key objective. It is this positive relationship that supports the 80–20 principle, and ensures that the business will always have a base of loyal customers. Failure to maintain this relationship will undermine customer loyalty, and leave the business relying on a far less reliable flow of customers. The positive customer relationship can be tested when unplanned events occur that might damage the business's reputation. As well as a planned public relations strategy, a business needs to be prepared to deal with crises that may occur and threaten the positive relationship with the customer base.

### 5.15.3 Crisis situations

Sometimes, despite their best intentions, businesses may be faced with crisis situations that need to be managed as smoothly as possible. Crises may be brought on by such events as a workplace accident, a dishonest employee, an unsafe product or some other negative event. Such events will generate considerable unfavourable publicity, the effect of which can be sudden and dramatic.

Businesses can implement quality control procedures, safety programs, regular inspections and so on to reduce the risk of a crisis occurring. This is part of the **risk management** process. However, it is impossible to avoid all negative experiences. While crises cannot always be anticipated, and some undesirable consequences may occur regardless of the business's best efforts, some general principles should be followed. The role of the public relations manager will be to develop these principles into a plan.

### 5.15.4 A crisis communication plan

In the face of a crisis, it is much better to initiate than to react. Consequently, it is essential that the business pre-establishes a **crisis communication plan** that outlines how the appropriate staff members will handle unfavourable publicity and deal with news personnel when a crisis occurs. In these days of intense public scrutiny and investigative journalism, it is more important than ever to be prepared with messages that can be presented to internal and external publics in a timely, ordered and open manner.

When a crisis occurs, a business has two priorities that must both be managed effectively:

1. bringing the crisis under control — limiting the damage
2. dealing with the intense media (and public) scrutiny.

This is the purpose of the crisis communication plan.

#### DID YOU KNOW?

- Many consumers expect businesses to be socially responsible and this is now a big part of public relations and image building.  
'People don't really care how much you know until they know how much you care.' — Mark McNight
- The key to preventative public relations is prior planning.

### Elements of the crisis communication plan

Although each crisis is different, there are a number of common elements in dealing with such events:

1. *Determine the appropriate target publics.* Publics, such as the news media, that the business wants to reach should be established as soon as a crisis occurs.

2. *Essential information should be communicated to all affected publics.* In order to avoid accusations of a cover-up, an open and honest approach is often recommended by those who have been through a crisis. The messages should be simple enough for all the publics to understand. A 'no comment' or a mysterious silence only fuels the imagination. The media should be kept informed as more information is gathered. All employees should also be kept informed on a regular basis. It can be very damaging if internal audiences first hear about the facts, or alleged facts, in the media.
3. *Get the facts.* All the necessary information should be gathered and tested to make sure of its authenticity and reliability. All allegations should be thoroughly investigated. It is counterproductive to hope that no-one will learn about them.
4. *Responses should be given as quickly as possible.* Indecisiveness may worsen the situation and suggest a cover-up. Alternatively, hasty or impractical decisions may make the situation worse in the long run.
5. *Be prepared to answer questions.* While it is not possible to predict all the questions that might be asked, there are some common questions which will probably arise:
  - What happened?
  - Where did it happen?
  - When did it happen?
  - Why did it happen?
  - Who is affected?

Anticipating such questions results in more thoughtful responses.

6. *Provide regular updates.* Use press releases and conferences to keep the media informed of any developments. Avoid the temptation of talking 'off the record' to a journalist as it may eventually be reported.
7. *Establish a chain of command.* Decisions should be clear and the decision maker given adequate authority to act.
8. *Establish a crisis communication team.* A team of company personnel representing all aspects of the business should be assembled and briefed on the situation. The team should appoint an official spokesperson to deliver necessary information to the publics. This will avoid conflicting messages being communicated and assure the publics that they are receiving accurate information. The designated spokesperson should possess good communication skills and have a comprehensive understanding of all the issues involved. Technical experts may be needed to explain difficult terms. Their presence also creates an air of authority in times of crisis. It is crucial that there is cooperation and not conflict between the communication team members.
9. *Monitor the progress of the crisis communication plan.* Once the crisis communication plan has been put into action, it must be carefully monitored and then corrective action taken if needed.
10. *Evaluate the effectiveness of the crisis communication plan.* After the crisis has subsided, representatives from all aspects of the business should revisit the crisis management plan, and identify any weaknesses or shortcomings that need to be altered to more effectively respond to any future crisis situations.

A 'no comment' reply can suggest a cover-up. It creates a perception of guilt when there may be none.



In 2010, one of the engines on a Qantas 380 airbus blew. The pilots of flight QF32 were praised for their quick thinking when they made an emergency landing in Singapore. Qantas, however, was criticised for its slow response to the crisis. Passengers were tweeting about the incident well before Qantas could even release a statement.



## DID YOU KNOW?

A well-known US food business had to respond to a crisis when a video of one of its employees picking his nose and then placing his fingers in the food he was making spread like wildfire online. According to PR experts, if a business faces and deals with a crisis as soon as it occurs this will reduce the bad publicity generated.

## 5.15 Activities

### TEST your understanding

1. What is the first stage in developing a public relations campaign and why is it important?
2. What do the letters S.M.A.R.T. represent?
3. Using the S.M.A.R.T. method devise the public relations objectives to achieve the outcomes described for the following businesses:
  - (a) A veterinarian wants to encourage local residents to have their pets microchipped.
  - (b) A health and fitness centre wants to raise community awareness of the importance of regular exercise.
4. Identify the publics for one of the businesses listed in question 3.
5. If you were the public relations manager for Tourism Australia, which media would you select as your:
  - (a) first preference
  - (b) second preference?
6. Why is it necessary to develop an action plan during the implementation stage?
7. What method would you use to evaluate the success of the public relations campaign for the business you selected in question 3?
8. Outline the effects of negative publicity.
9. Why is it essential that a business has a crisis communication plan?
10. What is the purpose of a crisis communication plan?
11. List and explain the 10 elements of a crisis communication plan. Justify why each element is important.

### APPLY your understanding

12. Use the **Hughes PR** weblink in the Resources tab to select a case study of a planned public relations campaign. Read the case study and answer the following questions.
  - (a) What was the name of the business the public relations campaign was designed for?
  - (b) What were the objectives?
  - (c) List the tactics and strategies used.
  - (d) Identify the targeted publics.
  - (e) How was the campaign evaluated?
13. Assume you are the public relations manager for Tourism Australia. In groups of three or four, create each of the following for a campaign promoting Australia. You may wish to use desktop publishing software to produce text and graphics.
  - (a) A media release
  - (b) A poster
  - (c) A speech
  - (d) An email
  - (e) A direct mail letter
  - (f) An online advertisement on Tourism Australia's website
14. Use the **Hughes PR** weblink in the Resources tab to select and read a case study of a public relations campaign designed to deal with an unplanned business situation (a crisis).
  - (a) What was the name of the business for which the public relations campaign was designed?
  - (b) What were the objectives?
  - (c) List the tactics and strategies used.
  - (d) Identify the targeted publics.
  - (e) How was the campaign evaluated?
15. Using newspapers, magazines and/or the internet, locate an article reporting on a business facing negative publicity.
  - (a) Identify the cause of the negative publicity.
  - (b) Outline the response(s) of the business to the situation.

- (c) List the publics who would be affected by the business's present difficulties.
  - (d) How would you advise the business to minimise possible damage?
16. Your local newspaper has reported that a group of students from your school has been caught shoplifting. In groups of three or four, prepare a crisis communication plan for your school, which, if implemented, would minimise the damage caused by this article. Use the 10 steps outlined in section 5.15.4 to help you complete your plan.

### EXAM practice

17. Define the term 'public relations campaign' and explain why a business may engage in such a campaign. **(4 marks)**
18. A number of customers at Tim's restaurant have been admitted to hospital with food poisoning and this has been reported in the media. Tim needs to implement a crisis communication plan.
- (a) Explain the two main priorities of a crisis communication plan. **(4 marks)**
  - (b) Outline two elements that should be included in such a plan. **(4 marks)**

### Resources

 **Weblink:** Hughes PR

## 5.16 APPLY YOUR SKILLS Achieving success in public relations

### PRACTISE YOUR SKILLS

- Propose, analyse and justify public relations strategies chosen for practical and/or simulated business situations

### 5.16.1 Crisis management

#### ENGAGING THE MEDIA IN A CRISIS

When a crisis happens, the media will be there reporting it. In a crisis, your overriding communication challenge is to demonstrate you are the best source of information. Treating the media as the enemy or trying to block them won't stop them reporting. It will just make them hostile. Share market analysis shows organisations that communicate effectively are best placed to weather the storm, and some simple rules will help.

1. *Tell the truth, tell it early, tell it often.* Right from the start show that you are willing to communicate. Get a statement out there within 15 minutes of the crisis. Brief the media on what you do know and keep reminding them of the core facts. Without trying to 'spin', keep pumping out relevant information and updates.
2. *Pick the panic.* Work out what people are worried about, even if it's irrational, and address those concerns. Forget the technical aspects of the crisis and focus on the emotions.
3. *Apologise and keep apologising.* A well-crafted and sincere apology shows you 'get it' and gives you the right to speak. Lawyers will try to stop you but you can acknowledge the public's concern without creating a legal liability.
4. *Respect the media's role as part of the solution. They are not your enemies.* Work with journalists to get critical information to your stakeholders; they are after a story, not a scalp.
5. *Plan for the inevitable.* Eighty-three per cent of organisations will face a crisis and it will wipe up to 30 per cent off the bottom line. A crisis plan is an essential investment.



6. *Develop credible, agile spokespeople.* Communicating to the media in a crisis is one of the toughest challenges a leader will face, but it is part of the job description. Get the tools you need before you need them.
7. *Don't play the blame game and never blame the victim.* It always backfires and makes you look bad. Focus on your reputation and being part of the solution.

**Source:** G Stackhouse, Clarity Business Solutions Pty Ltd 2009, in 'Resources — Public Relations Institute of Australia', [www.pria.com.au](http://www.pria.com.au).

Use the tips on crisis management in this article and in this chapter to test how well you react in a crisis. If you have ever watched the television program *Thank God You're Here*, you will know what to do, but here are the steps.

1. In groups of four devise a crisis situation. It might be a rat's leg found in a meat pie or a door that falls off a moving train. Write a clear description of the crisis and give it to your teacher.
2. When each group has handed in a crisis description, your teacher will allocate to every group a different group's crisis to deal with.
3. Elect someone from your group to be the PR 'front person' (or PR manager). The members of the group will then be told by your teacher what the crisis is. You now have five minutes to plan your parts in the roleplay. This should include finding any props needed, deciding on roles (e.g. who is going to pull the rat's leg out of the pie, who is going to be seen on television talking about what happened). Don't forget to work out who your publics will be, and how you will communicate information to them.
4. Role-play the crisis.

## 5.16.1 Activities

### TEST your skills

1. What is the best way to deal with the media when facing a crisis?
2. List the steps that your group followed to prepare for your roleplay. To what extent did they resemble the recommended elements of a crisis communication plan?

### APPLY your skills

3. It is most likely there were some very funny moments in each roleplay. Your job now is to write a short report about how the PR manager handled the crisis, how your group performed and how the crisis might have been handled better.

## 5.16.2 Critical safety messaging

### SUCCESSFUL 'DUMB WAYS TO DIE' CAMPAIGN

Metro Trains operates Melbourne's suburban railway network. Research suggested that people were risking their lives at train stations and level crossings. The problem for Metro was how do you tell people, particularly young people, that they are doing silly things, without blaming them? They created the 'Dumb Ways to Die' campaign.

The 'Dumb Ways to Die' music video asks people to be safe around trains and features cartoon characters dying in increasingly stupid ways, such as swimming with piranhas.

Trains kill the last three characters, because of unsafe behaviour. A story about the campaign video was leaked to the media several days early and within two days it was on the front page of Reddit. The video went viral, with millions of YouTube views, and the song was released on iTunes. The campaign appeared in newspapers and on



outdoor advertising, radio, Facebook and Tumblr. Merchandise, including posters, stickers, badges and soft toys, followed.

The campaign won several international awards. According to Metro Trains, it also delivered as a public safety message, reducing 'risky or dumb behaviour' such as walking or driving around lowered boomgates.

## **on** Resources

 **Weblink:** Dumb ways to die

### 5.16.2 Activities

#### TEST your skills

1. Describe the problem that Metro Trains tried to solve.
2. How did the 'Dumb Ways to Die' campaign seek to educate people about train safety?

#### APPLY your skills

3. Is this an example of planned or unplanned public relations?
4. The task word (sometimes referred to as command word or instructional word) 'analyse' generally requires you to identify the main features of concepts and terms and then examine them closely or show how the parts relate. In many cases, it will involve explaining the relationship between concepts or terms. Analyse the success of the 'Dumb Ways to Die' public relations campaign.

### 5.16.3 Socially and environmentally responsible messaging

#### DO YOU DRINK DILMAH TEA?

Many of us have seen the advertisements on television for Dilmah Tea. We probably know this brand of tea because the advertisements personally introduced the family members of the business and invited us very politely to try their tea. The image the company portrays is that of a family business where the tea is 'picked, perfected and packed' where it is grown, in Sri Lanka. One successful public relations strategy employed by the company is to promote the ethical aspect of its operations: it is a supporter of underprivileged communities in Sri Lanka, victims of domestic violence, and other causes such as helping families displaced by the 2004 Boxing Day tsunami.

Many businesses also see the importance of promoting their products as environmentally sound or 'eco-friendly'. For example, Gloria Jean's serves its Rainforest Alliance coffee blends and Nando's uses recyclable materials in its packaging.



### 5.16.3 Activities

#### TEST your skills

1. What factors distinguish Dilmah Tea from other brands of tea on the market?
2. Meeting the people who own and run a business, whether it be through television commercials or magazine advertisements, can be a successful PR strategy. Why do you think this is the case?
3. Besides Dilmah Tea, name one product that claims to be 'eco-friendly'. Why must that business be careful to ensure that the claims it makes about its products are true?

### APPLY your skills

4. The task word (sometimes referred to as command word or instructional word) 'propose' generally requires you to put forward an idea, argument, or suggestion for consideration or action. This involves writing a little more than simply just identifying or suggesting something. The task word 'justify' requires you to show how the statement or statements that you have made are correct or to provide evidence to support your argument. Other than promoting the ethical aspect of its operations, propose and justify one public relations strategy Dilmah Tea could use to maintain its positive image.
5. Use the **Dilmah Tea** weblink in the Resources tab to find out more about Dilmah Tea, a company that endeavours to be ethical and socially responsible. Explain how the company is socially and ethically responsible and how this translates to good PR.

### on Resources

 Weblink: Dilmah Tea

## 5.17 EXTEND YOUR KNOWLEDGE When things don't go according to plan

**KEY CONCEPT** It's a public relations nightmare, but with some good sense and management, a business can still recover from unplanned, negative events.

### 5.17.1 Recovering from negative public relations

#### AUSTRALIAN MINING COMPANY IMPLICATED IN MUDSLIDE DEATHS

On 5 November 2015, a mine tailings dam in south-eastern Brazil burst, sending millions of litres of toxic mud and mine waste into local rivers, destroying villages, killing 19 people and injuring many others. The mine and dam were operated by Samarco, a company jointly owned by Australia's BHP and Brazilian company Vale. Questions were immediately raised about the safety of the dam and what precautions had been taken to avoid such a disaster. Naturally, much of the blame would be apportioned to the two joint-venture partners, BHP and Vale, with the risk of severe reputational damage to both companies. In an attempt to limit the public relations damage, the BHP Board of Directors met immediately to determine their approach. CEO Andrew Mackenzie attended a press conference, during which he promised that the incident would be fully investigated and that financial compensation would be offered as soon as possible. Mackenzie then flew to Brazil to inspect the damage firsthand.

The mudslide destroyed the town of Bento Rodrigues in Brazil, killing 19 people.



Within two weeks, Samarco offered \$366 million in compensation to villagers and others affected by the mudslide. Half of this was to be paid immediately, with the rest to follow in a month. Despite this offer of compensation, the Brazilian government commenced legal proceedings against Samarco, Vale and BHP. It pointed out that the entire Rio Doce river system had been severely polluted by the disaster, and that it could cost as much as \$US1.5 billion to clean up and restore the river system. In addition, criminal charges were laid against a number of former Samarco executives in October 2016, including five current and three former BHP employees. As a result of the tragedy, BHP shares tumbled to their lowest price in 20 years. Although BHP was very proactive in attempting to limit the PR damage to its reputation, the severity of the disaster made that almost impossible.

In March 2016, an agreement between BHP, Vale, Samarco, the Brazilian federal government and the relevant Brazilian state governments saw the establishment of the Renova Foundation, a body charged with managing the repair and compensation of the area affected by the dam collapse. Funding for the organisation was to come largely from the mining companies, and to this end, BHP and Vale have contributed many more millions of dollars to assist with environmental, social and economic rehabilitation. In December 2017, BHP announced that it had agreed to allocate a further \$US181 million (with over 60 per cent going to the Renova Foundation) for ongoing repair works. Final settlement of the Brazilian government's legal claims against the mining companies was still under negotiation in early 2018.

### 5.17.1 Activities

#### TEST your understanding

1. Why was Australian mining company BHP implicated in a deadly mudslide in Brazil?
2. Outline the steps taken by the BHP board of directors immediately following the disaster to attempt to deal with the issue.
3. Why did the Brazilian government commence legal proceedings against the mining companies involved in the disaster?
4. What is the Renova Foundation? In what ways is BHP supporting the activities of this organisation?

#### EXTEND your understanding

5. Outline the actions BHP took that were designed to have a positive PR impact.
6. The results of the dam failure were massive environmental damage and significant loss of life. Are there some occasions where the damage is so great that no amount of crisis management can help save the reputation of a business? Outline your view, giving reasons for your opinion.
7. The mining companies have contributed large sums of money and are likely to have to continue to do so. How important is financial compensation as part of a crisis management plan? Give reasons for your answer.

### 5.17.2 Managing public relations

#### FOUR DEATHS AT GOLD COAST THEME PARK

An accident on a ride at Gold Coast theme park Dreamworld on Tuesday October 25, 2016 resulted in the deaths of four adults and injuries to two children. A vacant raft on the Thunder River Rapids Ride became stuck, and a second raft carrying the four adults and two children collided with it, flipped over, and caused the occupants to become trapped in the ride machinery. The deaths immediately raised the issue of ride safety, both at Dreamworld and at other similar theme parks.

Dreamworld had hired Newgate Communications to manage its public relations issues, but there was immediate disagreement between Newgate and Dreamworld management in relation to the appropriate crisis management approach. As a result, Newgate's advice was not followed,



and Dreamworld found itself in a public relations nightmare. Dreamworld is owned by Ardent Leisure, but initially the parent company left the crisis management to the Dreamworld CEO. This suggested that the management of the parent company failed to appreciate the seriousness of the incident. Eventually the CEO of Ardent Leisure, Deborah Thomas, took over as spokesperson, but much of the damage had already been done. Ardent Leisure's share price dropped over 20 per cent in the two days following the accident.

Another of Ardent Leisure's mistakes was to proceed with its annual general meeting (AGM) on the Thursday after the tragedy. Annual bonuses for Ms Thomas and other executives were to be put to shareholders for a vote, and the Board had recommended a bonus of \$860 000 for Ms Thomas. Approving a bonus of this size for the CEO two days after such a tragedy further heightened the impression that the company was insensitive to the loss of life that had occurred at Dreamworld. The AGM could have been postponed to a later date or, even if had been held, it would have been appropriate to postpone the vote on the CEO's bonus. After a media outcry, Ms Thomas agreed to give up the bonus, but the impression was that this was only a response to poor publicity and therefore not genuine. At a press conference Ms Thomas was left embarrassed when she was unable to answer questions about why the company had not contacted the families of the victims after the accident.

The company announced that it would open Dreamworld to hold a memorial service for the victims on the Friday after the accident, but were left looking foolish when police announced that this could not occur because the park was still a crime scene. In the midst of all the turmoil, the Chairman of Ardent Leisure, Neil Balnaves, resigned from his position, with no explanation to shareholders or the public. Several days after the incident it was also revealed that Dreamworld had attempted to suppress a report on ride safety in July 2016, barely three months earlier. Dreamworld was closed until December 2016 while safety checks were conducted on all rides. The Thunder River Rapids Ride was permanently closed and fenced off.

### 5.17.2 Activities

#### TEST your understanding

1. Outline the sequence of events that created such a huge crisis for Ardent Leisure.
2. Ardent Leisure did not follow the advice of its crisis management advisors.
  - (a) Identify and explain three serious mistakes the board of Ardent Leisure made during the crisis.
  - (b) Outline a series of steps that the board and CEO of Ardent Leisure could have taken to manage the crisis more sensitively.

#### EXTEND your understanding

3. Why was the release of the news that Ardent Leisure had attempted to suppress a safety report three months before the accident so significant in the crisis management efforts of the company?
4. In the case of the Samarco tragedy, the CEO of BHP (the parent company) became the spokesperson in all matters relating to the incident, and even flew to Brazil to inspect the damage. In the Dreamworld example the CEO of the parent company, Ardent Leisure, did not appear until several days after the incident. Explain why it is important for the CEO to take charge in these situations.

## 5.18 Corporate social responsibility issues in establishing a customer base

**KEY CONCEPT** As is the case with all business practices, the use of marketing to establish a customer base involves making decisions that should be based on socially responsible principles.

Most marketing decisions can be judged to be ethical or unethical, legal or illegal. Sometimes, however, it is not so clear. What one person may consider reasonable could be totally unreasonable to another person. For example, some people think it is unethical to directly advertise unhealthy food products to children while others think it is fine. The concept of 'reasonable' limits is open to interpretation.



Marketing managers should never forget that the business exists as a result of its customers. By satisfying customers, a business may operate profitably. Dishonest or unethical marketing managers ultimately drive customers away. Failing to satisfy community expectations that businesses should set high ethical standards is very poor marketing practice.

### 5.18.1 Criticisms of marketing

Critics of marketing believe it lacks a strong code of professional conduct and sometimes blurs the lines between what is ethically right and wrong. The main ethical criticisms of marketing include:

1. *Creation of needs — materialism.* Businesses use sophisticated and powerful promotional strategies (particularly advertisements) to persuade and manipulate customers to buy whatever the business wants to sell. These promotional strategies create needs, many of which are artificial, by playing upon an individual's emotions, which results in **materialism**.

2. *Product placement.* The use of **product placement** in entertainment (e.g. television shows) is generally subtle, such as a can of Coca-Cola seen when a refrigerator door is opened, while at other times products are prominently displayed. Critics argue that, because of its 'concealed' nature, this type of advertising blurs the line between what is advertising and what is entertainment.

3. *Stereotypical images of males and females.* In most advertisements it tends to be the male who uses the power tools, or who watches sport with his mates. Females, on the other hand, are portrayed preparing meals, cleaning the house or caring for the children.

4. *Use of sex to sell products.* There is often an overuse of sexual themes and connotations to sell products. Unrealistic images are portrayed as attainable. Although many people are sceptical of such claims, advertisements that use sex appeal can have a subtle and persuasive impact.

5. *Truth and accuracy in advertising.* Advertising can represent real ethical dilemmas for marketers. False or misleading advertising is not only unethical, it is also illegal. However, the use of terms such as 'special', 'great value', 'low fat', 'light' and 'once in a lifetime offer' can be interpreted in many different ways.

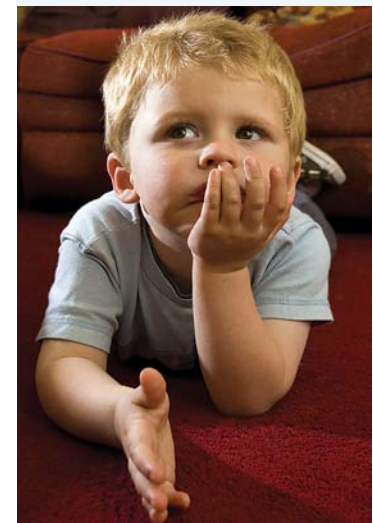
6. *Invasion of privacy.* The tracking of web users and using this information to target them with advertisements may breach consumer privacy laws. In 2010, the California-based data exchange company BlueKai had the computer addresses and 'purchasing intent' for about 8 million Australians who used the internet to search for information about holidays, motor vehicles and online shopping.

7. *Sponsorship deals.* Much attention is being given to the ethical issues related to company sponsorship arrangements, especially those involving schools. Two ethical issues raised include direct marketing to children and the overcommercialisation of schools.

More goods and services can lead to an improvement in our material standard of living, but may not lead to an improvement in our non-material standard of living. Non-material living standards might be measured by increased leisure time, a clean environment and personal happiness.



One in three television advertisements during children's program times in Australia is for food that is high in fat, sugar and salt. Some think there should be more regulation of food advertising to curb obesity. What do you think?



8. *The marketing of junk food to children.* The marketing of junk food — which is often portrayed as an essential part of a balanced diet — is strongly criticised by nutritionists and health advocates, especially as childhood obesity rates approach epidemic proportions. Kellogg's Coco-Pops O's, for example, promoted as a source of fibre, has 33.4 grams of sugar for every 100 grams.

### DID YOU KNOW?

Businesses are keen to use product placement because it allows them to reach savvy but advertisement-weary consumers. The James Bond films pioneered the promotion of automobiles using product placement. In the movie *Spectre*, Bond is seen using Globe Trotter luggage, a Sony Xperia Z5 mobile phone, Macallan whisky, an Aston Martin car, Heineken beer, an Omega Seamaster 300 watch, Tom Ford clothing, and Vuarnet sunglasses. Companies pay millions for product placement in Bond films.

### 'SPECIAL' — WHAT DOES IT MEAN?

What precisely does the word 'special' mean when it is displayed above a product for sale? Most customers would take this to mean the item is for sale at a cheaper than normal price. However, this may not necessarily be the case. The marketer may interpret the word 'special' to mean that the product has a distinct or particular character, that it can perform a particular function, or that it is different from what is ordinary or usual. The two interpretations can easily be confused. If the marketer uses this word attempting to knowingly mislead customers, then this would be classified as unethical behaviour. If the marketer wants to advertise the fact that the product is available at a bargain price, then the words 'on special' would have a clearer meaning.

When consumers discover that advertisements are untrue or inaccurate, they may feel cheated and stop buying the product. They may also decide to complain to the relevant government agencies, in which case the bad publicity this generates can do untold long-term damage to a business's reputation.

Marketers sometimes use words so ambiguous that the consumer will assume the advertiser's intended message. These 'weasel' words — deliberately misleading or ambiguous language — are by their nature vague and allow the marketer to deny any intention to mislead or deceive.



### DID YOU KNOW?

Other criticisms of marketing practices are:

- High advertising costs are passed on to the customers in higher prices.
- Advertising wastes resources.
- The desire to make money overrides ethical considerations.

## 5.18.2 Socially responsible marketing

In addition to ensuring a customer focus, a business can take some specific steps to market its products or services in a manner that is of genuine benefit to the community. Examples include community sponsorships and green marketing.

### Community sponsorships

Engaging with the local community and supporting local organisations can be a positive and socially responsible means of marketing a business. Many businesses provide sponsorship for local sports teams, both through cash donations, as well as through the donation of equipment or facilities. In return, the business can display signage at the relevant sports ground or clubrooms, and may also display a sponsorship certificate at its own business premises. Local businesses also help sponsor activities at schools and other community organisations. Not only does the business gain exposure for its brand name, but the local community also benefits.

## Green marketing

As society becomes more aware of environmental issues, marketing products and services that minimise environmental damage is likely to increase the chances of business success. Simply claiming to be ‘environmentally friendly’ or ‘recyclable’ does not necessarily qualify as green marketing. It would be expected that the business might incorporate the following:

- product modification, to ensure the raw materials used are sustainable
- changes to the production process to minimise environmental damage through waste products
- changes to packaging to encourage recycling
- modified advertising practices, such as no longer using junk mail pamphlets or flyers.

Governments are increasingly legislating to tighten environmental controls on business, so it is not in the interests of business success to ignore environmental issues. It makes greater sense to get ahead of likely government regulation and explore green alternatives before being forced to do so. Businesses found to be operating in a way that is environmentally harmful invariably attract bad publicity. Competitors are likely to be improving their environmental impact and customers will look favourably upon environmentally friendly initiatives, so exploring green marketing should be a priority for all businesses.

### study on

Unit 2

AOS 2

Topic 2

Concept 6

**Socially responsible marketing** Summary screen and practice questions

## 5.18 Activities

### TEST your understanding

1. Why is it sometimes difficult to decide whether a marketing strategy is ethical or unethical?
2. In a recent survey of 350 Australian and overseas marketing managers, 64 per cent responded ‘yes’ to the question: ‘Is it reasonable behaviour to bend the law if you do not actually break it?’ How would you answer this question? Explain your response.
3. You have been asked by your manager to place a ‘special’ sign on a number of items, but the price is not to be lowered. Is this an ethical or unethical practice? As an employee, what could you do? Compare your answer with that of other class members.
4. ‘Marketing creates needs, it does not satisfy existing ones.’ Discuss.
5. Select which two criticisms of marketing you think are the most important. Give reasons for your answer.
6. In groups of three or four, critically analyse the ethical issues involved in:
  - (a) advertising to young children during morning television programs
  - (b) using sexual overtones and imagery in advertisements
  - (c) the use of celebrity figures to recommend products.
7. Explain the benefits to a business of engaging in community sponsorship.
8. Outline the types of activities that a business should engage in as part of a green marketing strategy.
9. Many businesses claim to be environmentally friendly, but it is little more than ‘spin’ designed to make them look good. Develop a list of questions you could ask a business owner to determine whether or not the business is genuine in its environmental credentials.

### APPLY your understanding

10. ‘Advertising can get people into a store, but it can’t make them buy.’ Discuss.
11. Use the **Australian Marketing Institute** weblink in the Resources tab to examine the association’s marketing code of ethics, and then answer the following questions:
  - (a) What is the purpose of a code of ethics?
  - (b) Identify the four guiding principles of the code of ethics.
  - (c) State the penalty for any AMI member found to be in violation of the code of ethics.

### EXAM practice

12. Explain why product placement may be regarded as an unethical marketing method. **(2 marks)**
13. An online betting company offers to donate money to a number of local basketball clubs in return for the clubs displaying its logo on the team shirts. Explain the corporate responsibility issues that arise from such an arrangement. **(4 marks)**

### on Resources

 **Weblink:** Australian Marketing Institute

## 5.19 APPLY YOUR SKILLS: Establishing a customer base, marketing and establishing positive public relations

### PRACTISE YOUR SKILLS

- Define, describe and apply relevant business management concepts and terms
- Apply business management knowledge to practical and/or simulated business situations
- Evaluate the costs and benefits of establishing a customer base, marketing a business and establishing positive public relations

### MARKETING SUPERANNUATION

In 1992, the Australian government set up a compulsory superannuation system, known as the 'superannuation guarantee' system. Under this system, employers are required to contribute an amount equivalent to 9.5 per cent of employees' wages and salaries. The guarantee applies to all employees over 18 years of age earning more than \$450 per month. The aim of the scheme is to provide retirement income for Australian employees, and thus reduce reliance on the government-provided Age Pension. Employers are required to make superannuation guarantee payments into a designated superannuation fund. Most employers will select a particular fund and make all their contributions to that fund on behalf of their employees. These are known as default funds. Employees also have the right to select their own fund and request that their employer make contributions to that fund.

Australians have over \$2.2 trillion dollars invested in superannuation, so there is a great deal of competition between more than 500 superannuation funds operating in Australia. There are several types of funds, but the main two are:

ISA is the umbrella organisation that represents and markets the products offered by industry superannuation funds.





- *retail funds, run by banks and other financial institutions.* The owners of these funds seek to make a profit from managing the funds by charging various fees and commissions. The majority of retail funds are owned by the four big banks, which seek to return a profit to their shareholders.
- *industry funds, run by unions and employers in particular industries.* These are run on a not-for-profit basis, so charge much lower fees for the management of their funds. There are 16 major industry funds in Australia, including funds such as Hostplus (for hospitality industry employees), Hesta (for employees in the health industry) and Cbus (for building industry employees). Most were originally set up as default funds for the relevant industries.

Attracting employers to nominate a particular fund as their default fund is a major marketing exercise for many superannuation funds. Likewise, attracting employees to choose a particular fund involves a great deal of marketing activity.

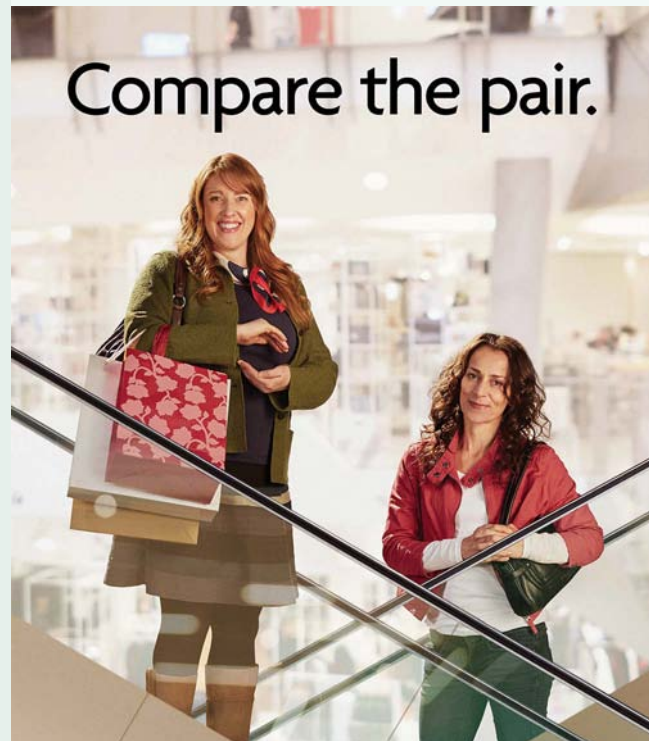
### Super funds accused of aggressive marketing

In January 2017, the Australian Securities and Investment Commission (ASIC) announced that it would review the activities of up to 50 retail superannuation funds. It believed that many of these had been targeting employers with aggressive marketing and inducements to encourage them to sign up to their funds as default funds. In 2015, the umbrella organisation that represents industry funds, Industry Super Australia (ISA), had carried out research into the activities of retail funds owned by the four big banks. They accused the four banks, CBA, NAB, ANZ and Westpac, of offering businesses inducements, such as cheaper interest rates on business loans, reduced insurance premiums, and even tickets to major sporting events, in return for those businesses switching to the bank's retail fund as their default fund. Such inducements would be illegal, and the banks denied the accusations.

### Industry funds record promotion spend

In the financial year 2016–17, industry superannuation funds spent more than \$37 million on media promotion. This included \$9.4 million spent by ISA, the umbrella organisation for the 16 industry funds. Many of the advertisements were of the 'Compare the pair' type, which compared the likely superannuation payouts of two workers on the same income who were making the same contributions — one to an industry fund the other to a retail fund. The campaign pointed out that because of lower fees, industry funds would provide a considerably higher payout at retirement. The advertisements were designed to encourage those in an industry fund to remain with that fund, and to convince those in a retail fund to switch. Spending on promotion by industry funds was 54 per cent higher than that of retail funds for that period of time. Representatives of the industry funds justified this expenditure by pointing out that many employees are largely uninterested in superannuation and need to be educated about making more informed choices.

In the Industry Super advertisements, contributors to industry super funds hold their hands in a manner that replicates the industry super logo.





## 5.19 Activities

### TEST your skills

1. What alleged marketing activities by retail super funds did ASIC investigate?
2. What was the likely objective of these alleged activities?
3. Explain the key message behind the ISA marketing and public relations campaign.
4. How did ISA representatives justify this expenditure on marketing and PR?

### APPLY your skills

5. Identify the customer base that the retail funds were attempting to appeal to with their alleged marketing activities.
6. (a) Identify the costs and benefits of establishing a customer base.  
(b) The task word (sometimes referred to as command word or instructional word) 'evaluate' generally requires you to consider both sides of an issue, and then provide an overall conclusion or judgement related to which argument is the more persuasive and why. Using the information you have listed in part (a), evaluate the costs and benefits of establishing a customer base.
7. In addition to the customer base, which additional publics' attitudes towards retail funds might be affected by the alleged activities of these funds?
8. If the allegations were true, and information about these activities became public, what impact might they have on the retail funds' image?
9. Outline a process that retail funds could use to deal with this impact on their image.
10. (a) Identify the costs and benefits of establishing positive public relations.  
(b) Using the information you have listed in part (a), evaluate the costs and benefits of establishing positive public relations.
11. What is the target market of the ISA 'Compare the pair' campaign?
12. Outline two costs and two benefits of the \$37 million spent by industry funds on media promotion.
13. (a) Identify the costs and benefits of marketing a business.  
(b) Using the information you have listed in part (a), evaluate the costs and benefits of marketing a business.

## 5.20 Review

### 5.20.1 Summary

#### The relationship between marketing, establishing a customer base and business objectives

- Marketing involves:
  - ♦ creating a product or service that a consumer wants, at a price that he or she can afford
  - ♦ raising awareness of the product or service (promotion)
  - ♦ distributing the product or service so that it reaches the customer at the right time and location.
- It is important for a business to identify its customer base (i.e. the type of person who is likely to purchase its product).
- Business objectives are goals the business wishes to achieve. In order to achieve business objectives, marketing objectives and strategies must be established. Market strategies should take into account objectives such as increasing sales, increasing market share, expanding the size of the business and maximising customer service.
- Relevant performance indicators, such as sales performance, movements in market share and changes in market profitability, should be monitored and evaluated by effective managers.

### External and internal environment factors affecting the establishment of a customer base and brand identity

- In promoting a positive brand identity, a business will have to consider both external and internal factors.
- Internal factors, such as the business owner, employees and business culture, can affect the successful establishment of a customer base.
- The development of a customer base can be affected by factors in the external operating environment, such as customers, suppliers and competitors.
- Factors in the external macro environment, such as economic, government, technological and social forces can also impact on the establishment of a customer base.

### Market research practices

- Market research involves determining what information needs to be discovered, the collection of primary and secondary data, and the analysis and interpretation of the collected data.
- Market research is the process of gathering information to assist business owners in making informed decisions about the marketing of the business.

### Target market attributes — market dimensions and segments

- Market segmentation divides the consumer market according to demographic, geographic, psychographic and behavioural dimensions.
- A business will usually select a particular segment to become its target market.
- The target market provides the major source of revenue, while smaller, less significant segments may make up the secondary target market.
- A business may also target a niche market.

### Target market attributes — consumer trends and behaviour

- Successful marketers need to be aware of changes in social trends and consumer lifestyles to ensure they are maintaining or extending their customer base.
- Businesses will also need to be aware of factors affecting customer behaviour, including psychological influences, sociocultural influences, economic influences and government influences.

### The 7Ps of marketing

- A business will have a product to sell to its customers. This product can be a good, service, experience, information or idea.
- A business will seek to create a brand identity for its products to differentiate itself from competing businesses.
- Pricing the product is important to both maximise sales and to ensure the business makes a profit.
- Place is an important part of the marketing mix, as it refers to the ability of the business to deliver the product to the customer wherever they choose to purchase it.
- Promotion is the means by which the business communicates with both existing and potential customers and can include both advertising and public relations.
- People, particularly employees, are an important part of the marketing mix because their interactions with customers can influence customer loyalty.
- Physical evidence is an important part of the marketing mix as it refers to the information provided by a salesperson, the physical state of a business premises and access to feedback from existing customers.
- Businesses need to have processes and operating systems in place that make it easy for the customer to make purchases.

### The product life cycle: introduction, growth, maturity, decline and extension

- Products have a life cycle that passes through the stages of introduction, growth, maturity, decline and extension.
- Extension strategies are strategies that extend the life of a product by increasing demand for it; they can include exporting the product or diversifying and finding new markets.

### Customer relations strategies

- Business owners and managers should be proactive in providing quality customer service.
- Customer relations strategies can include treating complaints and requests for refunds and replacements in a positive manner.
- Businesses can also use customer loyalty programs, an online presence and connecting with the multicultural community as customer relations strategies.

### Public relations and its relationship to business objectives

- Public relations that is effective promotes favourable attitudes and goodwill towards the business from the 'publics' that have a vested interest in the business.
- Public relations is a two-way communication process between a business and its clients or customers.
- Successful public relations will have a positive impact on areas such as customer relations, sales and profits as well as inform the public about new products.
- Unlike advertising, which uses paid messages to a business's publics via the mass media, public relations generates positive ideas through unpaid third parties such as press releases, talkback radio or celebrity comments, editorials or journalists' views, which are presented as facts.
- Image is hard won and easily lost. It can be achieved through various means, including logo and business 'look', customer service, employee behaviour and appearance, quality of products, public interface and advertising.
- Public relations plays a major role in creating and maintaining the image of a business.
- 'Publics' that scrutinise businesses can be internal, general, local, media, citizens-action or government groups.

### Public relations strategies

- Good public relations will guard against the negative impact of future contingencies that may arise in the quality or supply of some products sold by the business.
- The S.M.A.R.T. principles can be applied to ensure that the objectives developed for a public relations campaign are specific, measurable, attainable, relevant and time-bound.
- There are five main development stages in a public relations campaign: establish objectives; identify intended publics; develop specific strategies and tactics; implement the campaign; and evaluate the results.
- Planned public relations campaigns involve such things as advertising, posters, news conferences, and the use of social media.
- Negative press can have a negative impact on the image and profits of a business.
- Unplanned public relations campaigns are the result of such things as oil spills, food poisonings, pollution fraud or other unforeseen negative events. Businesses can prepare for such events by establishing a command chain, selecting a 'crisis team', fully briefing a spokesperson, and by anticipating questions and thoroughly preparing honest and full responses with a view to minimising potential damage to the image of the business.

### Corporate social responsibility management issues

- Those involved in marketing need to be aware that it is an activity that is often criticised, as many believe it lacks a strong code of conduct. Therefore, it is important not to act in a way that confirms these criticisms.
- Socially responsible marketing can include the sponsorship of community organisations and highlighting the positive environmental elements of the product being marketed.

## 5.20.2 Key terms

**advertising** a paid, non-personal message communicated through a mass medium

**advertising media** the many forms of electronic and print communication used to reach an audience

**brand** or **brand identity** a name, term, symbol, design or any combination of these that identifies a specific product and distinguishes it from its competition

**brand name** that part of the brand that can be spoken

**brand symbol** or **logo** a graphic representation that identifies a business or product

**consumer buying behaviour** the decisions and actions of consumers when they purchase goods and services for personal or household use

**crisis communication plan** outlines the policies and procedures to follow when handling unfavourable publicity and news personnel when a crisis occurs

**culture** all the learned values, beliefs, behaviours and traditions shared by a society

**customer attitude** a person's overall feeling about an object or activity

**customer base** the group of customers who might be expected to purchase a business's goods and services

**customer service** responding to the needs and problems of the customer. Central to this response is making sure the desired product is delivered at the appropriate place at the right time.

**distribution channels** the routes taken to get the product from the factory to the customer

**diversification** when businesses vary their range of products or their field of operations

**e-marketing** the practice of using the internet to perform marketing activities

**exports** goods or services sold by one country to individuals, businesses or governments in another country with the aim of extending sales and market penetration

**external data** published data from outside the business

**image** how a business is perceived by the world at large, especially consumers

**internal data** information that has already been collected from inside the business

**market** the number of all actual and potential buyers of a product

**market coverage** the number of outlets a business chooses for its product

**market dimensions** those broad elements that allow a potential market segment to be identified

**market segmentation** when the total market is subdivided into groups who share one or more common characteristic

**market share** the business's share of the total industry sales for a particular market or product

**marketing** 'the process of planning and executing the conception, pricing, promotion and distribution of ideas, goods and services to create exchanges that satisfy individual and organisational objectives' (American Marketing Association)

**marketing data** the information — usually expressed as facts and figures — relevant to the defined marketing problem

**marketing mix** the combination of seven elements — product, price, place promotion, people, physical evidence and process (the 7Ps) — that make up the marketing strategy

**marketing plan** a document that lists activities aimed at achieving particular marketing outcomes in relation to a good or service. The plan provides a template for future action aimed at reaching marketing objectives, such as establishing a customer base

**marketing profitability analysis** a method used by the business to break down its total marketing costs into specific marketing activities

**materialism** an individual's desire to acquire more possessions

**media** the assorted public relations communication strategies available to convey the image to the selected publics

**motives** the reasons that individuals do something

**niche market** a narrowly selected target market segment

**non-store retailing** retailing activity conducted away from the traditional store

**packaging** the development of a container and the graphic design for a product

**peer group** a group of people with whom a person closely identifies, adopting their attitudes, values and beliefs

**percentage mark-up** increase to the cost price by a fixed percentage to give the selling price

**personal selling** the activities of a sales representative directed to a customer in an attempt to make a sale

**personality** the collection of all the behaviours and characteristics that make up that person

**price** the amount of money the customer pays to be able to enjoy a product

**primary data** the facts and figures collected from original sources

**primary target market** the market segment at which most of the marketing resources are directed

**product** is a good, service, experience, idea or information that can be offered in an exchange for the purpose of satisfying a need or want

**product life cycle** the stages a product passes through: introduction, growth, maturity, decline and extension

**product mix** the total range of products offered by a business

**product placement** the inclusion of product advertising in entertainment

**product positioning** the development of a product image compared with the image of competing products

**promotion** the methods used by a business to inform, persuade and remind a target market about its products

**promotion mix** the promotion methods a business uses in its promotional campaign. Methods include personal selling, advertising, and publicity and public relations.

**psychological factors** influences within an individual that affect his/her buying behaviour

**public relations campaign** a series of public relations activities undertaken to achieve a specific objective

**public relations** the planned and sustained effort to establish and maintain goodwill and mutual understanding between a business and its publics. It involves the activities aimed at creating and maintaining favourable relations between a business and its publics.

**publicity** any free news story about a business's products or services

**publics** groups that the business interacts with and that have a vested interest in, or impact on, the business's ability to achieve its objectives

**quote** an estimate of the costs involved with an individual job, plus a certain amount so the business makes a profit

**risk management** the process of identifying the risks to which a business is likely to be exposed and determining the best way to deal with them

**sales analysis** uses sales data to evaluate the business's current performance and the effectiveness of the marketing mix

**secondary data** information that some other person or business has already collected

**secondary target market** usually a smaller and less important market segment

**sociocultural influences** forces exerted by other people that affect customer behaviour

**statistical interpretation analysis** the process of focusing on the data that represent average, typical or deviations from typical patterns

**survey** gathering data by asking questions or interviewing people

**target market** a group of customers with similar characteristics who currently purchase the product or may do so in the future



## Resources



Digital doc: Key terms glossary (doc-29424)

## 5.20.3 Review questions

### TEST your understanding

1. Outline the importance of marketing to a business.
2. What is meant by the term 'customer base'?
3. 'Marketing is a waste of money!' Discuss the merits of this statement.
4. If you wanted to sell snow gear and skis, describe your likely target market, using as your guide the information in section 5.5.1 that illustrates common elements or dimensions for segmenting target markets.
5. Distinguish between primary and secondary target markets and give an example of each.
6. Name a factor you believe is currently influencing consumer behaviour and explain, in business terminology, in what market you think this influence is occurring and why.
7. What is an item of significance to you that you purchased recently? Were you satisfying a need or a want? What 'psychological influences' may have affected your choice?



8. Why should the marketing strategies change as a product advances through the stages of its life cycle?
9. Why is it important for businesses to undertake market research?
10. Identify the intangible benefits that products may contain.
11. Briefly outline the four marketing elements that make up the marketing mix.
12. How does having a clear understanding of the target market improve the efficiency of the marketing plan?
13. Predict what may happen to the level of sales if a product's packaging does not match its position.
14. Which advertising media do you consider to be the most effective if a business wants to communicate with a niche market? Give reasons for your answer.
15. How do government policies and regulations influence the marketing environment?
16. Explain whether you consider product placement to be an ethical or unethical marketing strategy.
17. Which is your favourite breakfast cereal? As a marketing manager, how could you increase its market share? Present two sound business marketing ideas and justify how each idea could improve the market share of the product you have chosen.
18. Why do many businesses engage the services of professional media monitors?
19. In pairs, list the elements that combine to create:
  - (a) a positive image of a business
  - (b) a negative image of a business.
20. Identify the publics for the following businesses:
  - (a) your local convenience store
  - (b) an employment agency
  - (c) your local dentist.
21. Devise the public relations objectives for an engineering factory that wants to improve its image within the local community because of residents' concerns that it may be a major source of air pollution.
22. A crisis has occurred. List the elements of the crisis communication plan that should be activated within:
  - (a) one day
  - (b) three days
  - (c) one week.

### APPLY your understanding

23. Develop a strategic marketing plan for your school's tuckshop. Explain how it could maximise its customer service. Predict what major problems it would face in trying to expand off campus.
24. In the 1960s, after Volkswagen management introduced a marketing plan to build and sell their Beetles in Australia, what performance indicators could the VW managers have implemented to monitor the degree of success of their plan?
25. Research the spending patterns of your household by listing, with a responsible adult member, the most expensive 10 items paid for in the past 2 months. State whether these items were goods or services. Does your research support the fact that the bulk of household expenditure is on the services provided to families rather than on goods?
26. What product has your household purchased online in recent times? Online shopping has its benefits and dangers. Make a list of the pros and cons of shopping on the internet.
27. Do you believe internet shopping will expand in the future? What implications would your predictions have for current shopping practices?
28. Imagine you have been appointed public relations officer for your school.
  - (a) Outline your role by referring to the tasks you would perform.
  - (b) Research the personal qualities and skills you would need in order to perform this task effectively.
  - (c) How would you change the current public relations activities undertaken by your school?

29. The local paper has accused a local sporting club of allowing rough play that has resulted in an opposition player being hospitalised. Prepare a crisis communication plan to minimise the damage to the sporting club.

### EXAM practice

30. Ace Legal Solutions is a firm of solicitors operating in the Melbourne CBD. Realising that many people who need legal advice don't want to travel into the city centre, the owners decide to set up two branch offices in suburban shopping centres — one in the northern suburbs, and one in the south-eastern suburbs.
- (a) What would be the potential customer base of each of the new branches? **(2 marks)**
  - (b) Identify one factor in the external environment that could have an impact on the marketing strategy needed to establish the new branches. Explain what that impact might be. **(4 marks)**
  - (c) Explain how the business owners could use the three-step process to market research to help them develop a market plan. **(6 marks)**
  - (d) How might each of the following influence the marketing mix to be used by the legal firm in marketing the services offered by its new branches?
    - Price **(2 marks)**
    - Place **(2 marks)**
    - People **(2 marks)**
    - Physical evidence. **(2 marks)**
31. Explain how a business might use market segmentation to help it identify its target market. **(5 marks)**
32. All products go through different stages of a life cycle.
- (a) Explain each of the four main stages of the product life cycle. **(4 marks)**
  - (b) Analyse two ways in which a product can be revived and enter an extension stage. **(4 marks)**
33. Chloe has established a bakery in a suburban shopping strip. She is keen to establish a favourable image for her business.
- (a) Identify two elements that can make up a business's image and explain how each would contribute to that image. **(6 marks)**
  - (b) Evaluate the costs and benefits of Chloe establishing positive public relations. **(5 marks)**
34. One of Chloe's customers has discovered a dead cockroach in a birthday cake that she has sold. She needs to implement a crisis communication plan.
- (a) Explain the term 'crisis communication plan'. **(2 marks)**
  - (b) Propose and justify two public relations strategies for responding to the crisis at Chloe's business. **(6 marks)**



### Resources



Digital doc: Missing word glossary quiz (doc-29425)



Digital doc: Crossword (doc-29426)

### studyon

Unit 2

AOS 2

Topic 1

Marketing concepts Sit topic test

Unit 2

AOS 2

Topic 2

The marketing mix (7Ps) Sit topic test

## 5.20.4 School-assessed coursework

### OUTCOME 2

**Explain the importance of establishing a customer base and a marketing presence to achieve the objectives of the business, analyse effective marketing and public relations strategies and apply these strategies to business-related case studies.**

### ASSESSMENT task — case study analysis

Read the following case study and then complete the questions.

#### Enviro-Safe Demolitions

Enviro-Safe Demolitions is a house demolition company operating across the Melbourne metropolitan area, as well as in some regional centres. The business specialises in demolishing older houses in popular suburbs, making way for new units and townhouses on the larger blocks of land often found in these suburbs. The growth in the development of this type of housing has led to a high demand for demolition services by builders and developers and increasing numbers of demolition businesses entering the market. Enviro-Safe has been in the business for 20 years but is feeling under pressure from new entrants into the demolition industry.



1. What is the customer base of Enviro-Safe Demolitions?
2. Identify two business objectives of Enviro-Safe Demolitions and explain how each of these might affect the business's marketing plan.
3. The owners of the business wish to carry out some market research. Outline one method of market research that could be used and explain the benefits of using that method.
4. Does this business offer a tangible or an intangible product? Explain your answer.
5. Explain how this business has used branding as a means of creating an image of the product it offers.
6. Propose an appropriate method for pricing Enviro-Safe Demolitions' product. Justify your answer.
7. Analyse the significance of the element of 'place' in the marketing mix of Enviro-Safe Demolitions.
8. Identify two methods that this business could use to promote itself to potential customers.
9. Explain how Enviro-Safe Demolitions can use each of the following in its marketing mix:
  - (a) people
  - (b) physical evidence
  - (c) process.
10. Explain two strategies that Enviro-Safe Demolitions could use to ensure excellent customer relations.
11. Evaluate the costs and benefits of Enviro-Safe Demolitions marketing its business.
12. Many people in well-established suburbs are unhappy about older houses being demolished to make way for multistorey flats and units. The owners of Enviro-Safe Demolitions want to use a public relations strategy to maintain a positive image. Explain how they can use the following stages to develop such a PR campaign:
  - (a) establish the objectives
  - (b) identify the intended publics
  - (c) develop the PR strategies and tactics
  - (d) implement the PR campaign
  - (e) evaluate the results.
13. Part-way through the demolition of a nineteenth-century house, the local newspaper reveals that the house is the birthplace of a former prominent state premier. The local community campaigns to have house added to the heritage list and preserved. The reputation of Enviro-Safe Demolitions is put at risk because the local campaigners describe the company as 'vandals'. Devise a crisis communication plan that will help maintain the good reputation of the company.

### on Resources

 Digital doc: School-assessed coursework (doc-29427)

# CHAPTER 6

## Staffing a business

### 6.1 Overview

#### 6.1.1 Why it is important

For Frank Russo of Rainbow Meats, the key to business success is the ability to attract and keep great staff. The business currently employs 80 staff across five stores, including a number of apprentices. In almost 40 years, Rainbow Meats has never had to advertise for staff — the strength of the brand has meant there are always people who want to work there. This gives Frank the opportunity to select the best employees, who will become the face of the business in its dealings with customers.

Frank is committed to the growth of the business through new ideas and a proactive approach to improvement. But for those ideas to work, having quality staff is essential. In this chapter you will be studying the staffing needs of the business; strategies for staffing a business, including recruitment, selection and induction; the legal obligations that must be addressed; and the relationship between employers and employees within a business.



#### AMICUS — EMPLOYER OF CHOICE

Each year, Australian Business Awards are presented to businesses that achieve excellence in a number of categories. One of these categories is 'Employer of Choice'. The concept is centred on the idea that some employers are so good to work for that potential employees would be keen to work for them. Employers of Choice would be likely to attract large numbers of applicants whenever they have a vacancy. In 2017, one of the businesses awarded an Employer of Choice Award was Amicus, a business that creates and fits out offices and other workplaces for a variety of clients. Amicus employs around 70 people, including project managers, estimators, various furniture and furnishing consultants, sales staff, as well as administrative staff, such as accounts staff and human resource experts.

Amicus won an Employer of Choice Award because of its workplace culture. Management maintains a very positive and supportive atmosphere for all employees, and the personal and professional development of all staff is a major priority. All employees receive ongoing support to advance their careers within the business as well as access to training and educational opportunities.

Amicus places a strong focus on employee health and wellbeing. The company's wellbeing program includes providing access to guest speakers on topics such as diet and exercise, as well as more sensitive topics, such as dealing with the death of a family member. Staff are given access to in-house yoga sessions and gymnasium challenges. As part of the team-bonding process, and to promote health and fitness, staff are also encouraged to enter in fun runs and other similar activities.

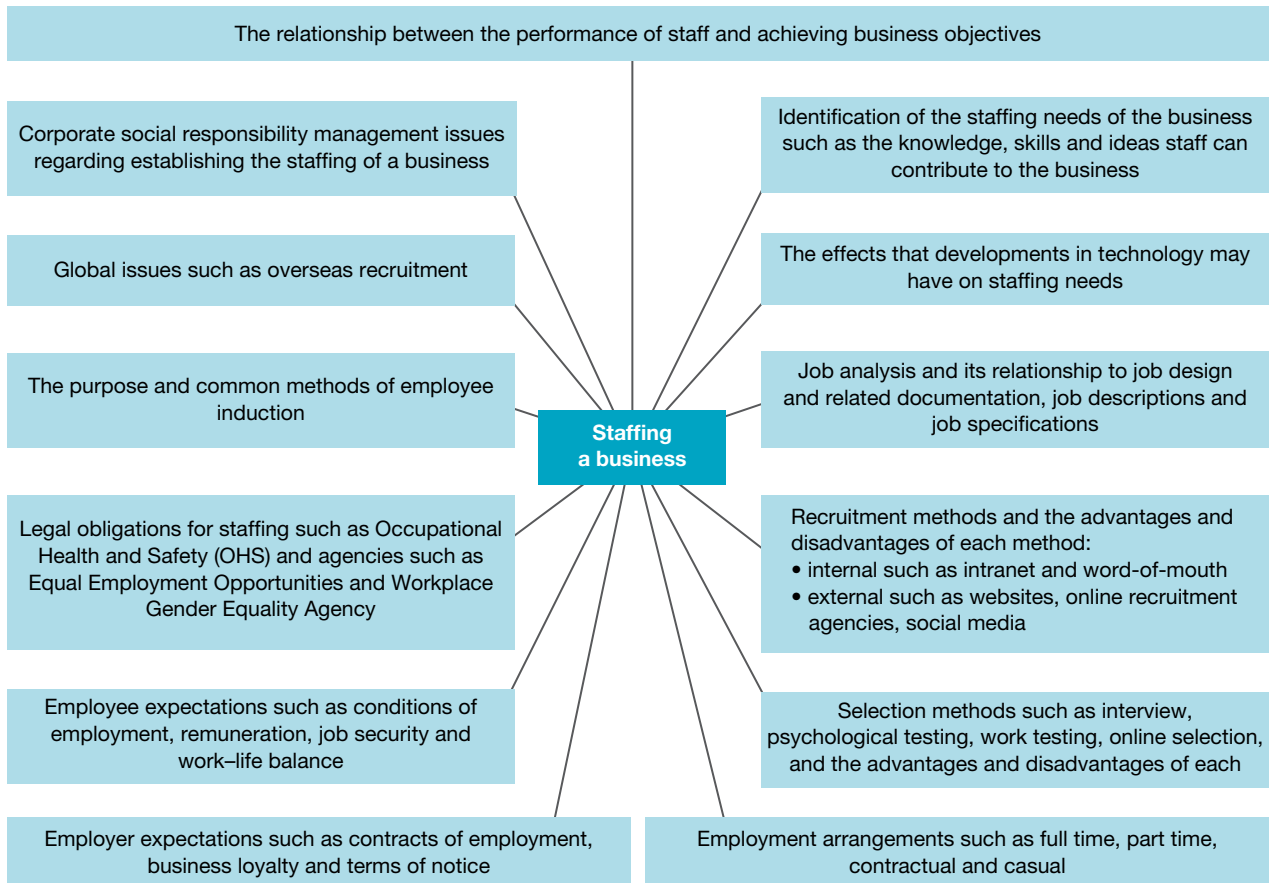
The message on the wall in a meeting room in the Amicus Melbourne office sums up the company's relationship with its staff.



## 6.1.2 What you will learn

### Key knowledge

Use each of the points from the VCE Business Management Study Design below as a heading in your summary notes.



### Key skills

These are the skills you need to demonstrate. Can you demonstrate these skills?

- Define, describe and apply relevant business management concepts and terms
- Acquire, record, interpret and share business information and ideas
- Research and analyse case studies and contemporary examples of business management applicable to establishing staff in a business
- Apply business management knowledge to practical and/or simulated business situations
- Evaluate the costs and benefits of various strategies for staffing a business
- Propose and justify the staffing strategies chosen for practical and/or simulated business situations

**Source:** VCE Business Management Study Design (2017–2021) extracts © VCAA; reproduced by permission.

### Resources



Digital doc: Key terms glossary (doc-29428)



## 6.2 Staff performance and achieving business objectives

**KEY CONCEPT** Employees are the most important resources for success in business. Achieving business objectives depends on how well employees perform their tasks.

Successful business owners recognise that they rely on the quality of their employees to achieve their aims of improved profit, growth and increased market share. People are a business's most valuable asset, so it is important to take care to hire the best people. Also, when an employee turns out to be an excellent worker, retaining that employee may be crucial to ongoing business success. Developing good working relationships with staff and motivating them to do their best in the workplace must be a high priority for the business owner.

### on Resources

 **eLesson:** The relationship between the performance of staff and achieving business objectives (eles-2983)

### 6.2.1 Achieving business objectives

Typically, business objectives include:

- making a profit
- expanding the business
- increasing market share.

Levels of profit depend on the relationship between the **revenue** of the business and its **expenses**. When expenses are less than revenue, the business is likely to make a profit. It is the activities of employees that generate most of the business revenue, although wages paid to those employees are a major expense to the business. Ultimately a business needs to balance the number of employees it needs to provide its products or services with the cost of employing those employees. More

highly skilled and qualified employees can also improve the business's **productivity**. Improvements in productivity come about because of an increased or improved output from the same quantity of inputs or maintaining the same level and quality of product with a reduced level of inputs. Employees' knowledge and skill levels are a key to improving productivity, particularly through the ability to 'work smarter'. Improvements in productivity can bring increases in revenue without increasing expenses and can thus lead to improved profits. The quality of employees can also affect the capacity of the business to grow and increase market share. Motivated employees will work hard to improve the performance of the business, and these extra efforts can contribute to business growth and market share. For these reasons, decisions relating to the number and type of employees hired will always be closely related to the achievement of business objectives.

Highly skilled employees can provide better service, potentially increasing business revenue.



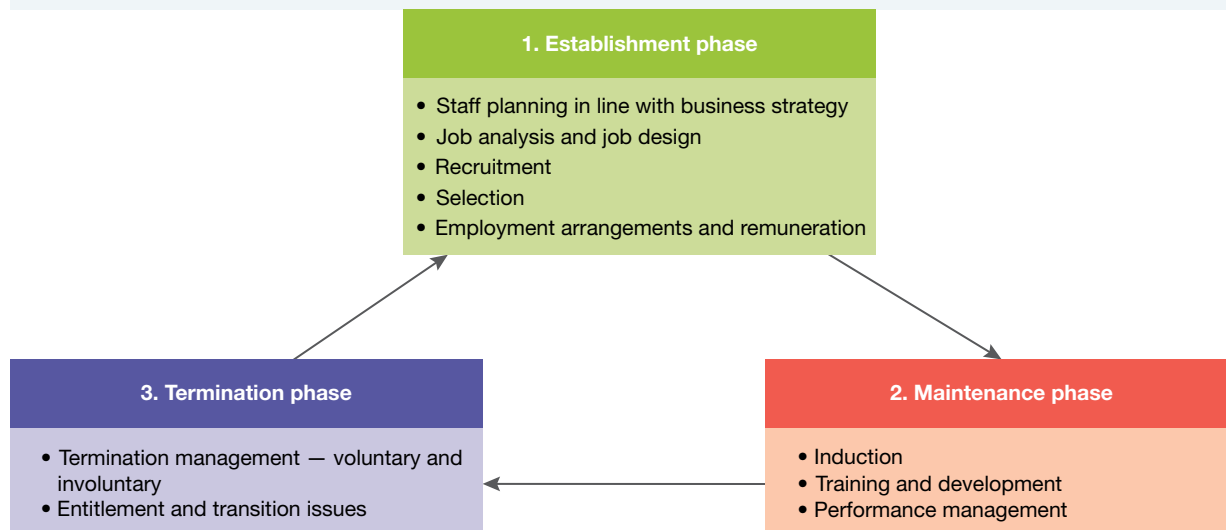
### 6.2.2 The responsibility for staffing

**Human resource management**, in its simplest form, is the effective management of the relationship between an employer and their employees, and involves all aspects of the **employment cycle**. The employment cycle is comprised of three main phases: establishing, maintaining and terminating. Each phase consists of a number of stages, as seen in the diagram on the following page.

While larger businesses are able to employ specialist human resource management staff, in smaller businesses this responsibility falls on the owners of the business, often with the assistance of existing employees.

The dynamic nature of business means that staffing needs will change over time. As the business expands, or existing employees resign or retire, new positions will be created, so human resource managers and business owners need to constantly monitor their staffing needs.

Human resource management deals with the three phases of the employment cycle: the establishment phase, which includes recruitment; the maintenance phase, which is concerned with making sure employees continue to thrive in the business; and the termination phase.



### DID YOU KNOW?

'Businesses are made by people. We've proven time and again that you can have a wonderful shop, and put a bloke in there who's no good, and he'll stuff it up. Put a good bloke in, and it just turns around like that.'

— Gerry Harvey, Chairman of Harvey Norman

## study on

Unit 2 > AOS 3 > Topic 1 > Concept 1

**Staff performance and business objectives** Summary screen and practice questions

## 6.2 Activities

### TEST your understanding

1. Use your own words to define 'staff management'.
2. Explain why good staff management is vital to a business.
3. How can improvements in productivity within a business contribute to an increase in profits for that business?
4. Name the three phases of the employment cycle.
5. Why do human resource managers and business owners need to constantly monitor their staffing needs?

### APPLY your understanding

6. Explain whether or not each of the following staffing strategies might help each business achieve its objectives. Give reasons for your answers.
  - (a) A café owner hires additional staff to work at weekends when his business is at its busiest.
  - (b) A gardening supplies business arranges for its employees to enrol in TAFE Horticulture certificates.
  - (c) A newsagent hires VCE students to work as casual shop assistants after school and at weekends, but sacks them as soon as they turn 18 and have to be paid adult wages.

- (d) A wine exporting business hires a Chinese-speaking salesperson to help it develop an export market into China.
- 7. In the following situations explain whether human resource management has been adequate.
  - (a) Anya runs a small café that mainly sells cake and coffee. She decides to offer a lunch menu. It turns out to be very popular but many customers have to be turned away because she cannot meet demand.
  - (b) It's always busy over the Christmas period so Jon decides to recruit some casual staff to ensure he is able to maintain an efficient service.
  - (c) Gregory knew that his existing workers would not have the skills to operate the new equipment he had purchased for his motor mechanic business. He employed someone with computer skills, with the aim of training the other workers as well.
- 8. 'In the current business environment it is crucial that business owners recruit and maintain the right people for the job.' In groups of four evaluate this statement; discuss the relationship between good staff and business success.

### EXAM practice

- 9. Define the term 'productivity'. In what ways can the staffing of a business help to improve productivity? **(4 marks)**
- 10. Chris has set up a building supplies business in a new and expanding suburb where large numbers of new homes are being built.
  - (a) Identify two staffing decisions he might need to make to meet his business objectives. **(4 marks)**
  - (b) Explain why he would need to constantly review his staffing needs. **(2 marks)**

## 6.3 Identifying staffing needs

**KEY CONCEPT** Before advertising a staff position, a business needs to plan its human resource requirements and determine what jobs need to be filled and what those jobs entail.

### 6.3.1 Human resource planning

All businesses have to plan for the positions that inevitably become vacant. Employees retire, resign or get promoted. Also, new positions develop as the business expands. Therefore, for most businesses, determining staffing needs is an ongoing process.

**Human resource (HR) planning** in the establishment phase of the employment cycle involves forecasting the number of employees available and the number of qualified employees demanded in the future. HR planning must be related to business strategies. A business strategy is an action that is taken to achieve a business's objectives. A common strategy used in order to achieve the objective of increased profitability may be to reduce business costs. HR must forecast the future demand for employees and estimate the supply available to meet that demand in order to avoid having too many employees on the payroll. If supply of employees is forecast to be greater than demand, HR will have to plan for a reduction of the workforce. For example, large supermarket chains in Victoria will have to plan for the likely staffing effects of customer self-scanning facilities. With as many as six in ten shoppers now scanning their own supermarket items, chains such as Woolworths and Coles must plan for what may inevitably mean a decrease in the number of checkout operators.

Increased use of self-scanning checkouts is reducing the number of checkout operators employed in the major supermarket chains.



Human resource planning that is related to the strategy of the business has never been more important. Given the pace of today's technology and the global economy we now operate in, businesses must respond to change faster. If a business does not plan its human resource needs in line with its business strategy, it is unlikely that the business will succeed.

Human resource planning in the establishment phase of the employment cycle requires a business to constantly monitor and plan:

- the number of employees required
- their qualifications, including skills, previous experience and knowledge
- when and where these employees will be needed.

### DID YOU KNOW?

Over the next decade, the workforce will age considerably (often referred to as the 'greying' of the population) as the post-World War II, 'baby boomer' generation grows older. Take, for instance, the nursing profession. In 2001, the average age of both registered and enrolled employed nurses was 42.2 years. Now the average age of a nurse is around 50 years. It is therefore not surprising that in recent years there has been a recruitment drive to attract more people to become nurses, and many nurses from overseas have been employed.

## DEVELOPING A WORKFORCE PLAN

A workforce plan is a process by which a business can examine its current workforce, forecast likely future workforce needs, and identify gaps that may need to be filled over time. South Australian consultancy firm Wendy Perry and Associates provides advice and support for businesses in workforce planning and development through its Workforce BluePrint model. The model involves working through five steps to develop answers to a series of questions.

### Step 1: Context and environment

Questions include the following: What are the business's objectives, and how do they affect the workforce? What is happening in the external environment, and what are the associated challenges? What is happening in the internal environment? How comprehensive is our business planning? What is the structure of the business and does it have the capacity to deliver our goods and services?

### Step 2: Current workforce profile

Questions include the following: What are the current skills and competencies of the workforce? What are our strengths, and what areas need further development? What is consultation with current employees telling us about areas for improvement, and what are the current workforce priorities?

### Step 3: Future workforce profile

Questions include the following: What products and services are likely to be offered in the future, based on our strategic plan? How might the external environment change in the future? What future skills and competencies might be required? What are our future workforce priorities, based on consultation and analysis?

Wendy Perry, CEO of Wendy Perry and Associates, developers of the Workforce BluePrint



#### Step 4: Gap analysis and closing strategies

Questions include the following: What are the key areas requiring action, in order to move from where we are now to where we want to be in the future? What are the key issues to be addressed? Answering these questions should help in developing an action plan with strategies to address gaps in the current workforce profile.

#### Step 5: Conclusion, review, evaluation strategy and next steps

Questions include the following: What are the key outcomes of our workforce action plan? How can it be implemented? What processes do we have to evaluate the strategies in this plan?

**Source:** Adapted from Workforce BluePrint model.



#### Resources



eLesson: Proposing and justifying staffing strategies (eles-2984)

### studyon

Unit 2

AOS 3

Topic 2

Concept 1

Identifying staffing needs Summary screen and practice questions

## 6.3 Activities

### TEST your understanding

1. Outline why determining staffing needs is an ongoing process.
2. Predict the problems that could arise if a person being hired does not possess the skills or attitudes required for the position.
3. From the case study, explain the purpose of workforce planning.

### APPLY your understanding

4. Explain why it is important to link business strategy to workforce planning.
5. Kitchen Kapers is a successful retailer of cookware and kitchen appliances, and has branches in three different shopping centres. The owners wish to double the number of stores by opening three new branches in shopping centres where no similar retail outlets currently exist. Using the five-step Workforce BluePrint process outlined above, prepare a report for the owners, outlining the issues they need to consider when staffing these three new stores.

### EXAM practice

6. Define the term 'human resource planning' and explain how human resource planning is related to business strategies. **(4 marks)**
7. Glenda runs a café that has small numbers of customers from Monday to Friday but is extremely busy on Saturdays and Sundays. Explain the staffing decisions she has to make in relation to the following issues:
  - (a) number of employees **(2 marks)**
  - (b) skills and qualifications of employees **(2 marks)**
  - (c) when and where employees are needed. **(2 marks)**



## 6.4 The effect of technological development on staffing needs

**KEY CONCEPT** Developments in technology have changed the way many businesses operate, and so have changed the staffing needs of most businesses.

### 6.4.1 Developments in technology

The past 20 years have seen a technological revolution through the development of information and communications technology. It is only since the mid 1990s that the internet has been generally available to business, with processing speeds that make **e-business** a realistic proposition. The smartphone that is now the norm is a little over 10 years old — the first iPhone was released in 2007 and the first Android phone was released in 2008. Social media such as Facebook and Twitter have been available for public use since 2006, and are now widely used by many businesses as a means of communicating with customers and promoting their products and services. Because all these developments can affect the way businesses operate, they will strongly influence staffing needs and workforce planning.

### 6.4.2 Impacts on staffing needs

New information and communications technologies can change the nature of the workplace. New jobs are created that use new technology and its application, while others become redundant. For a business, it may be a relatively straightforward task to upgrade equipment, introduce new computer systems or software, and alter design or layout requirements. It is often a far more difficult task to help employees to adapt to and make efficient use of the new technology. When introducing new technologies, many of the following workplace issues will arise:

- Existing employees may need to be trained to use new technologies, an approach that may be more cost-effective than simply dismissing them and replacing them with new, more qualified staff. Maintaining the loyalty and motivation of employees will assist enormously in times of change and transition.
- New technology may lead to a reduction in staffing requirements, as the technology may allow fewer staff to carry out the necessary tasks. It is important that those made redundant are treated as sensitively and fairly as possible, as the business does not want employees who remain to feel resentful about losing their workmates.
- Rates of pay may need to be adjusted to take into account new skills acquired by employees, and the likely increased value of their work to the business.
- Staff are more likely to use workplace computers to carry out personal business during work hours. At the same time, many will carry out work-related tasks at home during their own time. Studies have shown that employees using work computers for apparent personal reasons may not necessarily be simply ‘slacking off’ in work time.
- Wireless connected tablet computers and smartphones can change the nature of work. Employees become more mobile and can carry out their tasks from almost anywhere. Many people with high levels of training in ICT may become freelance contactors, selling their skills to different employers for short periods of time for a fee, rather than becoming permanent employees.

New technology allows employees to become more mobile and carry out their tasks from almost anywhere.



The traditional office structure with separate cubicles each occupied by a single worker at a desk may be a thing of the past.



## TOMORROW'S DIGITALLY ENABLED WORKFORCE

In February 2016, the results of a study carried out by the CSIRO, the Australian Government Department of Employment and a number of industry groups was launched by the Employment Minister. The report was called *Tomorrow's Digitally Enabled Workforce*, and it forecast dramatic changes to workplaces and workforce needs as a result of changes in technology. Some of the changes predicted include:

- The traditional office structure, with separate cubicles each occupied by a single worker at a desk may be a thing of the past, with shared office spaces likely to double in number as workers become more mobile.
- Companies are likely to adopt staffing models with a smaller core of permanent staff, with freelance contractors filling a variety of roles as needed. The report points out that freelancing is a growing employment model in other countries, and the number of independent contractors in Australia is likely to continue rising above 1 million people.
- Cloud computing is likely to encourage businesses to have smaller, more flexible departments, with the ability to embrace new technology and quickly analyse data as required. Future jobs are likely to be more agile, networked and connected.
- The greatest growth in employment in Australia is likely to be in service industries, and the labour market of the future will demand that employees are digitally literate for most jobs.

**Source:** Adapted from *The Age* Business pages, 27 February 2016.

## DID YOU KNOW?

The Sensis Social Media Report is an annual survey of 800 consumers, 1000 small to medium businesses and 100 large businesses that examines how they use social networking sites. The 2017 survey indicated that 79 per cent of the population use social media, an increase of 10 percentage points from 2016. Thirty-five per cent check social media more than five times a day, and 21 per cent check during work time, although 47 per cent check during lunch breaks and other breaks from work. The percentage checking while at work varies according to age group, with 46 per cent of the 18–29 years age group checking social media while at work.

## study on

Unit 2 > AOS 3 > Topic 1 > Concept 5

Technological development and staffing needs Summary screen and practice questions

## 6.4 Activities

### TEST your understanding

1. Why would a business owner or manager need to be aware of technological advances when making decisions in relation to staffing?
2. Explain why it might be more cost-effective to retrain existing employees in new technology than to simply replace them with more qualified staff.
3. Outline two changes that the *Tomorrow's Digitally Enabled Workforce* report suggests are likely to occur as a result of changes in technology.

### APPLY your understanding

4. How might a business owner solve each of the following staffing issues arising from changes in technology?
  - (a) Older employees have very little experience of using computers, but the employer wishes to expand the online presence of the business.
  - (b) The introduction of a new computerised accounting system requires three fewer staff members to work in the accounts department of the business.

- (c) A number of staff have upgraded their skills by attending TAFE courses in programming, and are able to set up new programs to improve business efficiency.
- (d) Some employees are using work computers to send personal emails and check their Facebook pages.

### EXAM practice

- 5. Technological developments can both destroy and create jobs. Explain why and how this is the case. **(4 marks)**
- 6. Explain two effects that developments in technology may have on staffing needs. **(4 marks)**

## 6.5 Job analysis and job design

**KEY CONCEPT** A business owner or human resource manager must have a clear idea of the tasks any new employees may need to perform, and the qualifications and experience necessary to perform those tasks.

### 6.5.1 Job analysis

There is no sense in hiring people unless the business is clear about what it is hiring them to do. In other words, the business must determine the exact nature of a job before it can recruit the right person to do it. **Job analysis** is a systematic study of each employee's duties, tasks and work environment. A job analysis examines:

- actual job activities
- the equipment used on the job
- specific job behaviours required
- working conditions
- the degree of supervision necessary.

Job analysis can be performed in a number of ways. The most commonly used methods include:

- *the observation method.* This involves observing workers carrying out their tasks. It can be useful in determining different types of activities carried out to achieve a result, as well as the sequence in which those tasks are carried out. It can also help identify the skills needed to perform the relevant tasks. It can be a time-consuming method of job analysis, so often two other forms of observation are used. One of these is work sampling, where samples of different tasks are observed for short periods of time. Another is the use of a work diary or log, in which the employee observes his or her own work activities and records these over a given period.
- *the interview method.* In this method, employees may be interviewed by a supervisor or HR Manager to help develop a job analysis. Often, a standard set of interview questions is used to maintain consistency across a group of employees. Typically, employees can be asked about their regular duties and responsibilities, as well as skills required, physical demands and safety requirements.
- *questionnaires.* Similar to the interview method, employees can be asked to provide written answers to questions about their duties, responsibilities and skills.
- *the critical incident technique.* In this method, staff responses to particular incidents are judged to be effective or ineffective based on the actions taken. The method involves examining the events leading up to the incident, the actions taken by the staff member that were either effective or ineffective, the consequences of those actions and the degree of control the employee had over those consequences.

The job analysis for a particular position typically consists of two parts:

1. a **job description**: a written statement describing the employee's duties, and tasks and responsibilities associated with the job
2. a **job specification**: a list of the key qualifications needed to perform a particular job in terms of education, skills and experience.

Once staffing needs have been identified, a business is able to begin its recruiting procedures.

An example of a job description and a job specification



**John Wiley & Sons Australia, Ltd**  
*Publishers Since 1807*

**GRAPHIC DESIGNER (Artists)**

John Wiley & Sons Australia, Ltd, a leading educational publisher, wishes to appoint an experienced **Graphic Designer** for its busy Art studio in McDougall Street.

**Job description** { This full-time position involves creating flyers, brochures, posters, catalogues, advertising, stationery and web pages, along with book interior and cover designs.

**Job specification** { The successful applicant will have excellent design skills and can format supplied text both quickly and accurately. A thorough knowledge of Adobe CS6 studio software package for Mac is vital. GoLive, PowerPoint, or website design experience, as well as strong English skills, would be very advantageous.

Remuneration will be based upon experience. All applications should be sent in writing by **Tuesday, 3 October 2019** to: Manager, Design, John Wiley & Sons Australia, Ltd, PO Box 1226, Milton QLD 4064. Work samples/copies would be appreciated.

We are also calling for expressions of interest from Mac artists with a thorough working knowledge of Illustrator to perform casual or freelance work for our Art Dept.

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## Job design

Whereas job analysis concentrates on the work required for a job to be completed, **job design** details the number, kind and variety of tasks that individual employees perform in their jobs. Good job design takes into consideration the satisfaction of the employee's needs. In your school canteen, for instance, jobs may be divided according to tasks, with one person handling food and another handling money only. Alternatively, a single employee may do both tasks and may have other responsibilities such as ordering supplies, developing menus or cleaning the canteen. Jobs that are designed so that they include a variety of tasks and give the employee some decision-making responsibility are more likely to lead to greater job satisfaction. Greater job satisfaction in turn may result in lower employee turnover. To return to our example, if you were working in the canteen and were given sole responsibility for cleaning, you may lack motivation and eventually look for a job elsewhere.

## on Resources

-  **eLesson:** Job analysis and its relationship to job design (eles-2985)
-  **eLesson:** Evaluating the costs and benefits of staffing strategies (eles-2986)

## JOB DESIGN FOR MOTIVATION

In the past, job specialisation — where production was broken down into distinct tasks that were performed by individual employees — often resulted in employee boredom and dissatisfaction. To counter this effect, three job design approaches have been used based on intrinsic rewards — the good feeling that one gets from doing something well.

1. *Job rotation*: employees switch, for a period of time, from one job to another. This provides variety and gives employees a more comprehensive view of the business or the production process.
2. *Job enlargement*: employees are given more things to do within the same job. This provides job variety and a greater challenge for employees.
3. *Job enrichment*: employees are given more control and independence over how they do their work. This makes the job more interesting and challenging and provides motivating opportunities for self-satisfaction.

Working in teams is another way of improving employee satisfaction. In autonomous work teams, the team decides how and what work will be carried out among its members. The team may work without direct supervision.



## 6.5 Activities

### TEST your understanding

1. Explain the relationship between a job analysis, a job description and a job specification.
2. Select three job advertisements from a newspaper or online. Using the figure in section 6.5.1 as a guide, distinguish between the job description and the job specification.
3. What is job analysis and why might well-designed jobs lead to lower staff turnover?
4. Undertake a job analysis for the position of Year 11 Business Management Student at your school and identify the key elements for consideration.

### APPLY your understanding

5. If you were redesigning a job, which job design approach discussed in the case study above would you use? Justify your selection.
6. 'Job enrichment is just a fancy name for worker exploitation.' Discuss.

### EXAM practice

7. Define the term 'job design' and provide one example of how a job design may be carried out. **(4 marks)**
8. Janet wants to hire a salesperson to work in her electrical goods shop.
  - (a) Identify and explain two elements that could be included in the job description. **(4 marks)**
  - (b) Identify and explain two elements that could be included in the job specification. **(4 marks)**



## 6.6 Recruitment methods

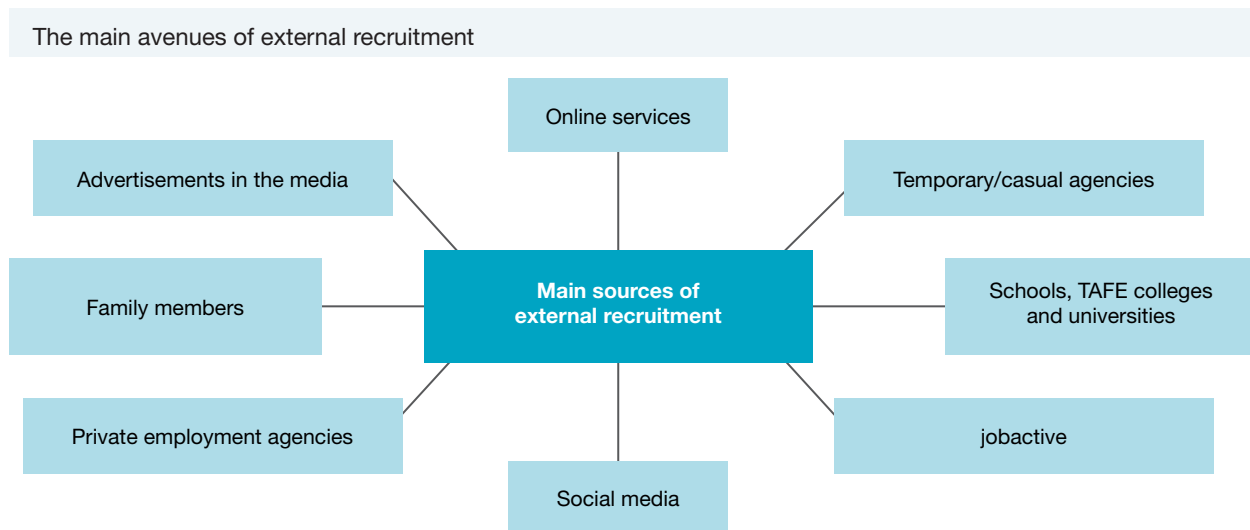
**KEY CONCEPT** A business owner must recruit from staff within the business or seek new applicants from outside sources. This process must be carried out in a way that will attract the best applicants.

### 6.6.1 Recruitment

**Recruitment** involves attracting the right people to apply for a job vacancy. Traditionally the most common method used to attract qualified applicants has been to place an advertisement in the employment section of a newspaper, and this method is still widely used. Recent years have seen huge growth in online recruitment, however, and most businesses advertising a vacancy in the newspapers will also advertise through an online agency, such as seek.com.au, mycareer.com.au or jobsjobsjobs.com.au.

**Internal recruitment** occurs when a business decides to attract someone already employed within the business to a vacancy. This usually involves an opportunity for a person to take on different duties, and can mean a promotion to take on greater responsibilities within the business. Internal recruitment can occur through an internal computer network such as an intranet, by word of mouth among employees, or by posting a notice on a staff noticeboard. Of course, the role previously performed by the person recruited internally may then have to be filled by external recruitment.

**External recruitment** will be used to find suitable applicants from outside the business, either because staff planning has identified the need for a new position, an existing employee has resigned or retired, or the person previously performing the duties has been transferred or promoted to a new position within the business. There is a wide range of sources available for a business wishing to recruit externally, as shown in the following figure.



Most businesses will want to advertise as widely as possible to attract the greatest number of applicants, so they will often use more than one avenue. For larger businesses, engaging an employment agency to handle the recruitment of staff can be cost effective. An employment agency or recruitment agency is a business that specialises in finding suitable employees to fill vacancies for a variety of different organisations. Employment agencies make their money by charging the employers who choose to use their services. Some agencies specialise in particular industries, and will handle all the advertising of vacancies. A number of the online

employment sites not only charge a fee for employers to advertise, but also can provide advice to employers on how best to advertise, as well as online templates to assist in setting out the advertisement for display on the website. Employers can also advertise on the government-owned jobactive (formerly Job Services Australia) at [jobsearch.gov.au](http://jobsearch.gov.au) for free.

As well as providing a job description and job specification, a job advertisement has to attract the best applicants. A successful job advertisement will provide information about the benefits of the position for an employee, any opportunities for advancement and training, as well as positive information about the business, how it provides a pleasant and supportive workplace, and its future prospects for growth. Employers will often be competing against each other to attract the best staff, so it is important to promote the business as a good place to work.

Job seekers today are much more likely to search online job advertisements than to use traditional newspaper advertisements.



## 6.6.2 Advantages and disadvantages of different recruiting methods

In making a choice between internal and external recruitment, an employer needs to consider the following advantages and disadvantages.

| Internal recruitment                                                                                                              |                                                                                                                           |
|-----------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------|
| Advantages                                                                                                                        | Disadvantages                                                                                                             |
| Employees are already known to the employer, so choice may be easier.                                                             | There may be no-one suitable from within the business.                                                                    |
| Applicants are already familiar with the business and its objectives, culture and processes.                                      | If there is more than one internal applicant, it can lead to conflict or jealousies between those employees.              |
| If the position is a managerial or supervisory position, it creates a career path within the business to reward valued employees. | Applicants may be set in their ways and not open to new ideas.                                                            |
| Costs of advertising the position are reduced, and no external agencies need to be paid.                                          | The successful applicant from within may have to be replaced, so an external recruitment process may be necessary anyway. |

| External recruitment                                                                                                       |                                                                                                                                          |
|----------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------|
| Advantages                                                                                                                 | Disadvantages                                                                                                                            |
| There is a wider range of applicants to choose from.                                                                       | The applicants are all unknown, so the choice may be more difficult.                                                                     |
| Outside applicants may bring new ideas and fresh approaches to tasks.                                                      | There are costs associated with advertising the position.                                                                                |
| Different qualifications or experience from those already within the business can be specified in the advertising process. | The field of applicants may be larger, so the process of selection may become more time consuming.                                       |
| This method allows for rapid growth of the business because it allows for an increase in actual staff numbers.             | Qualified employees from within the business may resent outsiders coming in, particularly if it is a managerial or supervisory position. |

### EXAM TIP

The **Unit 2, Area of Study 3** outcome states that you need to ‘evaluate the benefits and limitations of management strategies in this area from both an employer and an employee perspective’. This suggests that you should understand the advantages and disadvantages of recruitment methods and be prepared to explain their benefits for both employers and employees, as well as their limitations for both stakeholders.

## 6.6 Activities

### TEST your understanding

1. Explain the difference between internal recruitment and external recruitment.
2. Select three avenues of external recruitment and explain why each is an effective method of recruitment.
3. Why is it important for an employer to promote a positive image of the business in a job advertisement?

### APPLY your understanding

4. Max runs a successful garage, with a large number of regular customers who have their cars serviced with him. Seeing the future of electric cars, he wishes to set up a new section to service them, and he needs someone to run this section for him. One of his young mechanics has said that he would be willing to do a course in the mechanics of electric cars and take responsibility for the new section. Max is not sure and thinks it might be better to look externally and find an expert in electric cars. How would you advise Max in choosing between these two possible methods of recruitment?

### EXAM practice

5. Define the term ‘internal recruitment’ and outline one advantage and one disadvantage of this type of recruitment. **(4 marks)**
6. Diane needs to recruit a new accounts manager for her courier business.
  - (a) Explain two recruitment methods that Diane could use to staff her business. **(4 marks)**
  - (b) Evaluate the use of one external recruitment method. **(5 marks)**

## 6.7 Selection methods

**KEY CONCEPT** Once the recruiting process has identified a number of applicants for a vacant position, procedures for selecting the most appropriate person to fill the position will be implemented.

### 6.7.1 Employee selection

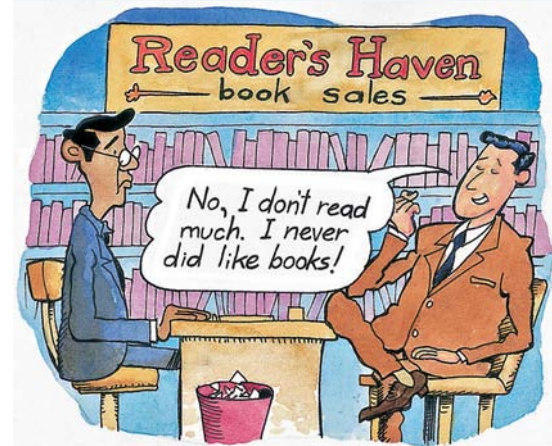
**Employee selection** may be described as a screening or sifting process. It involves gathering information about each applicant for a position, and then using that information to choose the most appropriate applicant. Interviews, tests, physical examinations, and referee and reference checks are all part of this process. In selecting staff, the idea is to choose the most ‘appropriate’ person with the qualifications that best match the position, rather than the applicant with the ‘most’ qualifications.

Employee selection can be an expensive process — not only in terms of the time and effort put into the screening process, but also in terms of the costs of inappropriate selection.

A poor selection process leads to increased costs and lower productivity by increasing:

- training costs, if poorly qualified staff are selected
- job dissatisfaction and labour turnover, if the business or the job does not meet the expectations of candidates selected
- absenteeism rates, if staff feel inadequate on the job or feel under excessive work pressure
- accident or defect rates, and fines or claims, if untrained staff are selected.

Hiring the 'wrong' person for the job can be a costly exercise.



### DID YOU KNOW?

The cost of a poor recruitment decision is believed to equate to around two or three times the annual salary of the person recruited.

## 6.7.2 Selection options

Selecting a candidate for a position is an important decision. The decision maker must choose appropriate devices for screening applicants, gradually 'narrowing the field' until the most suitable person is found. Developing a short list of suitable applicants helps to limit the number of interviews to be conducted or tests and checks to be carried out. The following devices can be used in the selection process:

- *Application forms.* Candidates outline information about themselves. The form may be simple, requiring details such as name, address and contact number, or it may require more detail about an applicant's personal history, skills and experience.
- *Tests.* These may be written or practical and are designed to assess aptitude, intelligence or ability. Psychological testing and work testing are two forms of testing commonly used. Psychological testing attempts to reveal aspects of a person's character and personality that may affect their ability to perform the work tasks required. Work testing is more closely related to the actual job, and may seek to test specific skills that are needed to carry out the relevant work.
- *Online selection.* This occurs when some part of the screening and selection process is conducted online. It may involve completing a multiple-choice test online, or providing other information online. It may be used to screen out unsuitable applicants, but is no substitute for a face-to-face interview.
- *Interviews.* This is the most common device used in the selection process. The interview must be well organised and structured, and common questions must be used in each interview to ensure a consistent basis for selection.

After gathering information about each applicant, an employer can select the person who best suits the business's requirements.

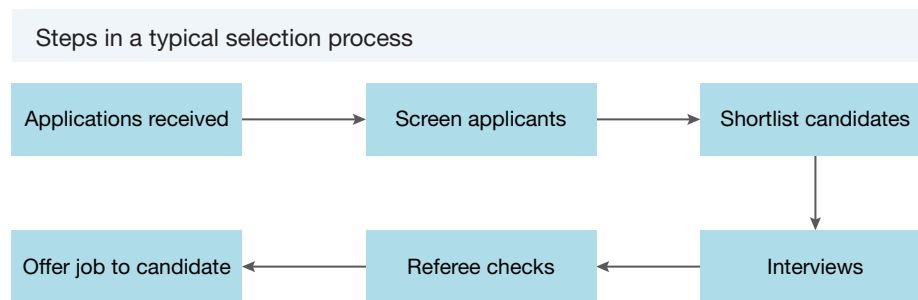


Interviews provide an opportunity for the job seeker and the business to learn more about each other. Interviewers ask questions to evaluate the candidate's motivation, personality and attitudes. The interview also provides the candidate with the opportunity to find out more about the job.

- *Background checks.* The employer verifies the information on the application form by contacting referees or agencies for information about an applicant's previous experience, performance or record.
- *Medical examinations.* Some jobs require certain physical attributes. For example, Victoria Police requires medical assessment as part of their background checks.

After the interviews have been conducted and the checks and testing have been performed, the most suitable applicant will be offered the position. That person is the applicant that best meets the job specification, in terms of skills, qualifications and experience. The business will usually wait for the successful applicant to accept the position before informing the other applicants that they have been unsuccessful. This will help to avoid a potential problem, if the successful applicant no longer wishes to accept the position.

The following figure summarises the steps in a typical selection process, and the table below summarises the advantages and disadvantages of the different selection methods.



| Advantages and disadvantages of different selection methods |                                                                                                           |                                                                                                                 |
|-------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------|
| Method                                                      | Advantages                                                                                                | Disadvantages                                                                                                   |
| <b>Interview</b>                                            | The employer actually meets prospective employees, so can make judgements first hand.                     | Some people are able to present well at an interview, but may not be completely honest.                         |
|                                                             | Provides the applicant with an opportunity to ask questions about the job and the workplace               | Doesn't assess actual skills or abilities on the job                                                            |
| <b>Psychological testing</b>                                | Can give an insight into the personality of the applicant, not just job skills                            | Relies on the applicant giving honest answers to the test questions or tasks                                    |
|                                                             | Can be used to assess skills such as the ability to work in a team, leadership and decision making        | Not all tests have the necessary reliability in measuring what they claim to measure.                           |
| <b>Work testing</b>                                         | Can provide an assessment of the actual skills needed to carry out the job                                | May test technical skills but not broader skills such as leadership or problem solving                          |
|                                                             | Allows future work colleagues and supervisors an opportunity to see different applicants in action        | Can be an artificial environment, and some applicants may be nervous and not demonstrate their actual abilities |
| <b>Online selection</b>                                     | Convenient: applicants can complete at any time, and selection panel can view responses in their own time | Very impersonal — gives no indication of the actual person performing the tasks                                 |
|                                                             | Can be used for a wide variety of different types of tasks and responses                                  | May not be secure (e.g. could be hacked)                                                                        |



### DID YOU KNOW?

Much employee turnover in Australia occurs in newly recruited staff who have spent less than one year in the job. This reinforces research that suggests most Australian management selection processes are unplanned, subjective, unsophisticated, highly susceptible to error and not supported by effective induction programs.

## study on

Unit 2

AOS 3

Topic 2

Concept 4

**Selection methods** Summary screen and practice questions

### EXAM TIP

The **Unit 2, Area of Study 3** outcome states that you need to 'evaluate the benefits and limitations of management strategies in this area from both an employer and an employee perspective'. This suggests that you should understand the advantages and disadvantages of selection methods and be prepared to explain their benefits for both employers and employees, as well as their limitations for both stakeholders.

## 6.7 Activities

### TEST your understanding

1. Identify the costs that may result from a poor selection process. Give examples.
2. Discuss the strengths and weaknesses of different selection methods.
3. What is the purpose of a job interview?

### APPLY your understanding

4. You have recently been appointed as Human Resource Manager for a national clothing company. The business has a history of high staff turnover and low morale. To correct these problems, you have decided to improve the recruitment and selection procedures. Outline the steps you might take to identify potential capable employees. How would you screen applicants?
5. Interviews can be carried out by an individual or a panel of people. Identify and explain two possible advantages and two possible disadvantages of each method.
6. Write a series of questions that could be asked at an interview for the following positions:
  - (a) dental assistant
  - (b) hairdresser
  - (c) panel beater.

### EXAM practice

7. What is 'employee selection' and why is it often described as a 'screening' or 'sifting' process? **(4 marks)**
8. Carrying out personal interviews and requiring applicants to complete an online selection process are two possible methods of selecting staff.
  - (a) Identify and explain one advantage and one disadvantage of each of these methods. **(4 marks)**
  - (b) Propose and justify what you believe would be the most appropriate method for staffing a business. **(4 marks)**

## 6.8 APPLY YOUR SKILLS Recruitment and selection

### PRACTISE YOUR SKILLS

- 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
- Acquire, record, interpret and share business information and ideas
- Apply business management knowledge to practical and/or simulated business situations
- Evaluate the costs and benefits of various strategies for staffing a business

### 6.8.1 The role of recruitment agencies

#### OUTSOURCING THE SEARCH FOR THE MOST SUITABLE CANDIDATE

Many business owners use external recruitment agencies as a way of decreasing the time involved in searching for a new employee. They pay an agency to interview applicants and recommend a shortlist of potential employees or an employee suitable for the available position.

There are a number of reasons for this trend, including the:

- growing demands on business to comply with increasingly complex employment legislation. Business owners find it beneficial to access specialist advice rather than risk breaching employment law.
- availability of online recruiters. Recent statistics show that employers have widely embraced e-recruitment agencies.
- desire by business owners to concentrate on their core business.
- difficulty in attracting candidates due to the low level of unemployment. External recruiters generally have ready databases of possible employees and the skill to sort candidates.

However, the principal reason for using an e-recruitment agency is related to the cost of a poor recruitment decision, which is generally believed to be around two or three times the annual salary of the person recruited.

Businesses are increasingly turning to recruitment professionals to source the best people for the job, without drawing on their own limited resources.



### 6.8.1 Activities

#### TEST your skills

1. Outline two advantages of using an employment agency to carry out the recruitment and selection of new staff.
2. Poor recruitment and selection processes can be very costly for a business. Explain two examples of the problems that can occur if these processes are not performed well.
3. Imagine you are employed by a recruitment agency. Write the text for a brochure designed to convince business owners of the benefits of engaging a recruitment agency to assist with the hiring of staff.
4. Working with a partner, or in a small group, create a list of strategies a business owner could use to retain valued employees.

### APPLY your skills

5. (a) Identify the advantages and disadvantages of external recruitment agencies.
- (b) The task word (sometimes referred to as command word or instructional word) 'evaluate' generally requires you to consider both sides of something, and then provide an overall conclusion or judgement related to which argument is the more persuasive and why. Using the information you have listed in part (a), evaluate the costs and benefits of using external recruitment agencies to staff a business.

## 6.8.2 Recruitment and selection

### VACANCY – QUALIFIED MECHANIC

A vacancy exists for a qualified mechanic at TOP CLASS AUTO SERVICE, Main St, Hightown.

Duties will include carrying out the mechanical repair and servicing of a wide variety of different makes and models of cars, vans and trucks, working in a team environment with other mechanics currently employed in the business.

The successful applicant will have completed appropriate apprenticeship qualifications and have at least two years of post-apprenticeship experience in the automotive industry. Qualifications and experience with diesel engines would be a definite advantage for this position.

Applications should include details of qualifications and employment experience, and the names of three referees.



### 6.8.2 Activities

#### TEST your skills

1. Explain how the process of staff planning would have enabled this business to arrive at the job description and job specification included in the advertisement above.
2. Explain how either written or performance testing might be used in the selection process for this position.
3. Identify and explain two advantages and two disadvantages of putting each applicant through a work test as part of the selection process for this position.
4. What evidence is there that the owner of the business intends to do background checks on applicants?

#### APPLY your skills

5. Use the **How to conduct the job interview** weblink in the Resources tab to compile a list of what you consider to be the three most important do's and three most important don'ts for people conducting an interview. You could also enter 'interviewing applicants' in your search engine to find other websites that offer hints for employers when conducting an interview.
6. Use the **SEEK** weblink in the Resources tab to find hints for applicants preparing for and attending an interview. Compile a list of 10 hints for applicants to assist them to succeed at an interview.

Some businesses find it more useful to hold group interviews. Large businesses like Qantas have special recruitment days when group activities and interviews are held.



7. Working in groups of three, conduct a simulated job interview.

One person should adopt the role of the employer, and another student that of an applicant. A third student should act as an observer, to assess the interview on the following criteria:

- (a) How effective and relevant were the interview questions?
- (b) How well did the applicant answer the questions?
- (c) How could both the questions and answers be improved?
- (d) What effect can body language and manner of both interviewer and interviewee have on the interview?

The student assessing could award a score out of 20 for each of the participants, giving reasons for their marks. All students are to then change roles. You may wish to video the interviews to watch and discuss them in class.



## Resources



Weblink: How to conduct the job interview

Weblink: SEEK

## 6.9 Employment arrangements

**KEY CONCEPT** As the nature of work changes, greater variety is occurring in the features and types of employment arrangements available to both employers and employees. Employers can select the type of employment arrangements that suit their needs, and the needs of their employees.

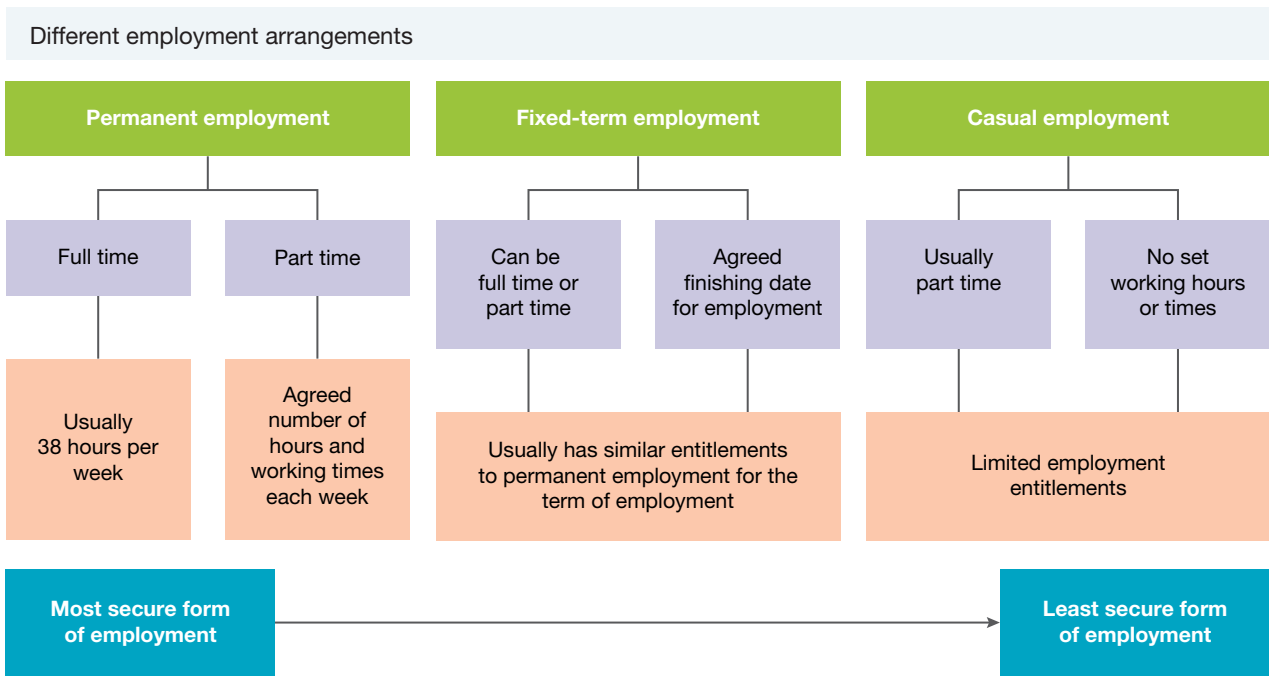
### 6.9.1 Employment arrangements

The different needs of businesses will determine the types of employment arrangements offered to employees. **Full-time permanent employment** is the traditional method of employment for most people. Permanent full-time employees usually work for between 35 and 38 hours per week, and are entitled to a set of 10 National Employment Standards. Most full-time employees are also employed under an Award, which lays down a set of minimum wages and conditions.

Some employees may be offered **part-time permanent employment**, where they work for less than the ordinary full-time hours. Part-time employees have continuity of employment and similar entitlements to those of full-time employees. The difference is that their entitlements are calculated on a proportional basis. For example, if a part-time worker is employed for three days out of five each week, he or she will be paid 60 per cent of the full-time wage, and will accumulate annual leave, long-service leave and sick leave entitlements at 60 per cent of the full-time rate.

While permanent employees are employed on an ongoing basis, a business will sometimes offer employment on a **fixed-term contract**. Wages and conditions under these arrangements are usually similar to those of permanent employees, but the employment has a pre-arranged finishing date. Periods of employment from 3 to 12 months are common with this type of arrangement, and this can suit a business that may have specific employment needs for this period of time.

Another type of employment arrangement may involve a business employing what are known as **casual employees**. Casual employees are employed on an hourly basis and do not receive a range of entitlements (non-wage benefits) such as long-service leave and sick leave. To compensate, casual employees are sometimes paid a loading — that is, extra pay — on top of the normal full-time hourly rate. Part-time and casual employment can provide workers with flexibility that allows for improved work–life balance.



## study on

Unit 2

AOS 3

Topic 1

Concept 2

Employment arrangements Summary screen and practice questions

## 6.9.2 National Employment Standards

Employees are entitled to a set of minimum employment conditions, known as the National Employment Standards. These are legislated by the federal government, and apply to all full-time and part-time employees, whether permanent or fixed term. They generally do not apply to casual employees. The 10 standards are:

- *Hours of work.* For full-time employees, this is generally set at between 35 and 38 hours per week. Employees cannot be required to work longer hours without special provision being made for penalty rates or other compensation.
- *Parental leave.* Employees are entitled to 12 months' unpaid parental leave in relation to the birth or adoption of a child.
- *Flexible work for parents.* An employee who is a parent of, or has caring responsibilities for, a child under school age will be entitled to request flexible working arrangements after having worked for the same employer for more than 12 months. These could include reduced hours, different start or finish times or home-working arrangements.
- *Annual leave.* For most employees this is four weeks, with part-time employees entitled to a pro rata amount. Casual employees have no entitlement to annual leave.

SES volunteers are entitled to take community service leave for emergency work.





- *Personal, carer's and compassionate leave.* Full-time employees receive 10 days' paid personal and carer's leave for every year of service with the business, with part-time employees receiving a pro rata amount.
- *Community service leave.* This includes jury service and emergency service duties, such as CFA or SES volunteer work. Employees are entitled to be absent from work for all periods necessary to provide the community service, including reasonable travelling time and rest time immediately after the activity. Usually this is unpaid leave, although employees on jury service leave can claim make-up pay.
- *Public holidays.* Employees are not required to work on public holidays, but will still be paid for the hours they would have worked. If the employer requests the employee to work on a public holiday, the employee may be entitled to a penalty rate or other compensation.
- *Information in the workplace.* Employers are required to supply all employees with a 'Fair work information statement' when they commence employment. This is a government document that contains information about the National Employment Standards and other employment related issues.
- *Notice of termination and redundancy.* Most employees are entitled to minimum periods of notice of termination of their employment (or pay in lieu of notice), based on their period of continuous service. Fixed-term and casual employees, and employees serving a probationary period of employment, are not included.
- *Long-service leave.* Permanent employees, whether full time or part time, are entitled to long-service leave after a qualifying period. This period varies between different occupations and industries.

Having enough superannuation makes for a more comfortable retirement.



All employees, whether full time, part time or casual, have an entitlement to superannuation. Employers are required to make **superannuation** contributions for all employees aged between 18 and 69 who are paid more than \$450 before tax in a calendar month. Employees under 18 years of age must work for 30 hours or more in a week to be entitled to have superannuation payments made by their employer.

## 6.9 Activities

### TEST your understanding

1. Not everyone works nine to five these days. List and describe at least five different employment arrangements that can exist between the employer and employee.
2. What are the National Employment Standards and how do they protect workers?

### APPLY your understanding

3. What benefits may both the employer and employee enjoy as a result of making more flexible work arrangements available to employees?
4. Imagine you are a business consultant. One of your clients owns a bicycle shop that both sells and services bicycles. He wishes to expand his business and is looking at hiring additional employees, but he is not sure of the most suitable employment arrangements for his business. Prepare a summary chart or diagram for him, indicating the possible advantages and disadvantages for his business of each of the following:
  - full-time employment
  - part-time employment
  - casual employment.

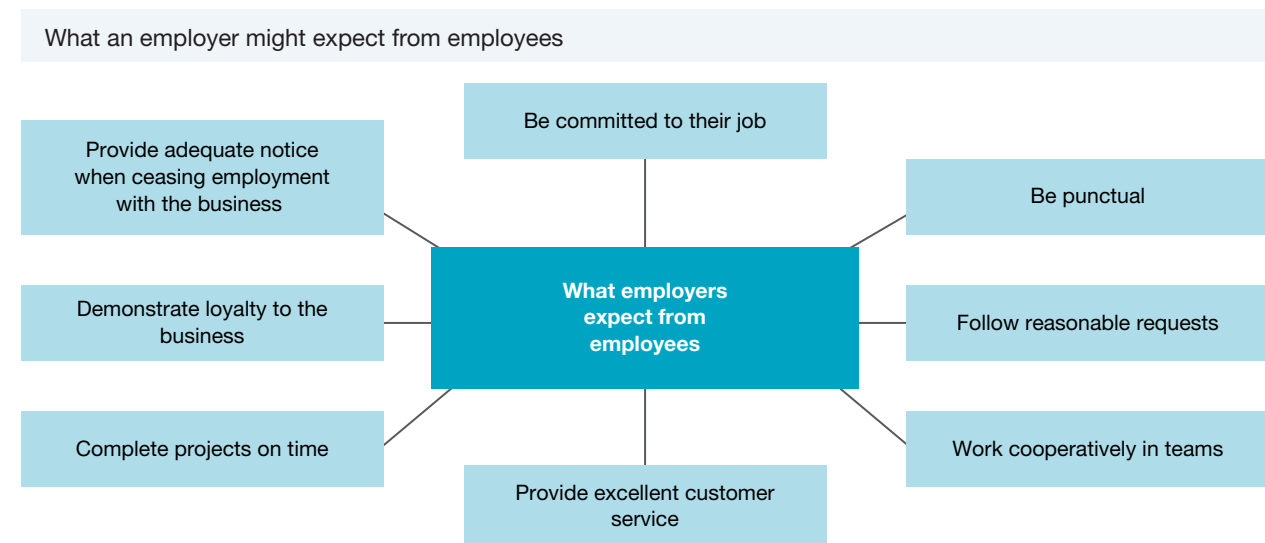
### EXAM practice

5. Explain two employment entitlements available to permanent employees that are not available to casual employees. **(2 marks)**
6. Jenny is a volunteer with the State Emergency Service. Following a severe storm, she is required to help clear fallen trees, causing her to miss a day's work. Explain why her employer cannot penalise her for missing that day at work. **(2 marks)**
7. Explain two employment arrangements that must be considered when staffing a business. **(4 marks)**

## 6.10 Employer expectations

**KEY CONCEPT** Employers expect their employees to work hard at the job they are being paid to perform, but they may have other expectations. These can include adhering to the conditions of an employment contract, loyalty to the business employing them, and providing adequate notice when they decide to leave the business.

When a new employee joins a business or other organisation, he or she will usually be expected to sign an employment contract. This will include provisions that protect the employee, such as the 10 National Employment Standards, and will also contain terms that reflect the expectations of the employer. In addition, there may be expectations that are not specified in writing, but would be reasonable to expect from any person wishing to be a successful employee of that business. The diagram below outlines what these expectations might include.



### 6.10.1 Employment contracts

Contracts of employment are governed by provisions of the *Fair Work Act 2009* (Cwlth). A typical employment contract may include some general terms, such as an expectation that the employee will adhere to the policies and procedures of the business, the title or classification of the position the employee is filling, a start date and the name of the immediate supervisor. It may then detail the specific duties to be undertaken, the hours of work, rates of pay, and leave and superannuation arrangements. All of these are subject to the provisions of the 10 National Employment Standards, and must also conform to the conditions that apply in a relevant **Award** or **enterprise agreement**.

## Awards

Awards have been the traditional means of establishing working conditions for employees. Each Award sets the minimum standards for all workers within a particular industry. In addition to the 10 National Employment Standards, Awards can include details of minimum wages for different types of work within an industry, overtime and **penalty rates**, special allowances for particular types of work, leave details and superannuation arrangements. Currently there are just over 100 different Awards in Australia, providing minimum standards for workers in those industries and occupations. Many of these Awards provide the basic terms of an employment contract.

## Enterprise agreements

An enterprise agreement provides an opportunity for employers and employees within a particular business or enterprise to negotiate a set of conditions that improve on the standards in an Award. Employees are usually represented by a bargaining agent, such as a union, in these negotiations. If a group of employees wish to negotiate for better pay and conditions than those available in an Award, the employer will usually expect them to offer more than simply carrying out the basic tasks associated with their job. Changes in work practices to improve **productivity** are often included in the agreement, and as these can allow the business to improve its performance, they provide benefits for the employer as well as improved pay and conditions for the employees. Enterprise agreements are usually not permitted to reduce the employees' pay and conditions that apply within an Award.

## Individual common law contracts

It is possible for some employees to negotiate individual employment contracts that do not have to include Award conditions. These usually only apply to relatively highly paid professionals, and are subject to a minimum level of pay. This minimum is known as the high income threshold and it is increased on 1 July each year. At 1 July 2017 it was set at an annual income of \$142 000 for the 2017–18 financial year. As Awards are seen to be less relevant to employees earning high salaries, an employee earning above this level can enter an employment contract that does not rely on any Award. Contracts of this type are enforceable through the courts in the same way as any other legally binding contract between two parties.

In an enterprise bargaining process, wages and conditions are determined through negotiations between the employer and representatives of the employees.



### 6.10.2 Business loyalty

Most employers would expect their employees to show loyalty to the business that employs them. This can often mean that they do not make negative comments about the business or its products or services. Employment contracts may sometimes include a provision that prohibits an employee from doing anything that may harm the reputation of the business. It also means that they should not disclose any sensitive commercial information to competitors, including the contents of any correspondence that the employee may have seen. Some businesses include confidentiality provisions in employment contracts that specifically prohibit employees from disclosing any trade secrets or financial information to outside parties. In some cases, such a contract

can even include a prohibition on the employee disclosing such information for up to 12 months after leaving the business. Some employment contracts can also prevent an employee who leaves to work with a competitor from approaching a client or customer of the business and attempting to lure them to the new employer. If an employer acts in an ethical manner towards its employees, it is not unreasonable to expect those employees to show loyalty to the business, and not act in a way that might harm it.

### 6.10.3 Terms of notice

Situations arise when an employee decides to leave the business. It may be because he or she has applied for and been successful in gaining a job with a different business. In these circumstances, an employer would expect that the departing employee give a reasonable amount of notice of his or her intention to leave. The amount of time considered to be 'reasonable' varies depending on the particular employment circumstances. Generally, when a person has been employed on a full-time basis, four weeks is usually considered a reasonable amount of time. When an employee leaves, the employer has a number of decisions to make and a number of actions that follow those decisions. All of these take time, and can include the following:

- How should the departing employee be replaced? If that person was in a supervisory position, can an existing employee be promoted through internal recruitment to fill the vacancy? If so, will this create a consequential vacancy that has to be filled through external recruitment?
- Is this an opportunity to downsize the workforce, or does a vacancy still need to be filled to maintain existing levels of business activity and achieve objectives? Does the business take the opportunity to change the existing job description and job specification to match its changing needs?
- Which methods should be used to advertise the vacancy? What selection processes need to be set up? Will interviews be scheduled, and who will be on the interview panel?
- Will the successful applicant have to give notice to his or her current employer? How long will it take for the vacancy to be filled, and how does the business alter procedures in the meantime to cover the staffing shortage?

Given the significance of these decisions, and the actions that follow, it is not unreasonable for an employer to expect that the departing employee will provide adequate warning of their departure, and allow for the business to make the necessary adjustments.

#### study on

Unit 2

AOS 3

Topic 1

Concept 3

**Employer expectations** Summary screen and practice questions

## 6.10 Activities

### TEST your understanding

1. Identify two provisions that might be included in an employment contract.
2. Explain the difference between an Award and an enterprise agreement.
3. Under what circumstances can an employee be offered an employment contract that does not include Award conditions?
4. Outline three ways in which an employer might expect an employee to demonstrate loyalty to the business.
5. Why is it appropriate that an employee provide adequate notice of his or her intention to leave the business?

### APPLY your understanding

6. Is it necessary that all employer expectations be included in the written terms of an employment contract, or can an employer reasonably expect some types of behaviour and performance that are not included? Give reasons and examples to support your opinion.



7. In the following situations, explain which employer expectations have been not been met.
- (a) Gayle starts work as a receptionist in a medical practice, but keeps forgetting to bring in a signed copy of her employment contract.
  - (b) While enjoying a few drinks with friends, Tim begins criticising his employer and the quality of his employer's products.
  - (c) Ahmed leaves one job to commence work with a different employer. When a job vacancy arises with his new employer, he phones one of his friends at his former workplace to encourage her to apply for the vacancy.
  - (d) Cassie tells her employer on Wednesday that she is leaving to take up a new job, and that her new employer would like her to start next Monday.

### EXAM practice

8. Identify whether each of the following statements is true or false.
- (a) Penalty rates are payable when an employee is required to work outside normal working hours. **(1mark)**
  - (b) An Award usually provides better pay and conditions than an enterprise agreement. **(1 mark)**
  - (c) An employee who earns above the high-income threshold must be employed on pay and conditions governed by an Award. **(1 mark)**
  - (d) A confidentiality clause in an employment contract can prohibit an employee from disclosing commercial information for up to 12 months. **(1 mark)**
  - (e) An employee who is leaving a place of full-time employment would normally be expected to provide three days' notice of their intention to leave. **(1 mark)**
9. Darren was employed as a salesman at a shoe shop. He often turned up late to work, made sexist jokes about his female colleagues and was occasionally rude to customers. After several warnings, the shop owner dismissed him. Darren claimed that his dismissal was unfair because none of the things he was accused of doing wrong were even mentioned or prohibited in his employment contract. Do you believe he was right or wrong to make such a claim? Explain why. **(3 marks)**

## 6.11 Employee expectations—conditions of employment, remuneration and work–life balance

**KEY CONCEPT** Employers must provide employees with basic working conditions. Many employers, however, provide more than just the basic working conditions. Providing more flexibility in the workplace can lead to employees achieving a better work–life balance and greater productivity at work.

### 6.11.1 Conditions of employment

'Conditions of employment' refer to what an employer has agreed to give the employee in return for the employee's work. Basic conditions of employment include:

- the number of hours an employee is expected to work
- annual leave entitlements and other entitlements, such as sick leave and long-service leave
- public holidays the employee may be entitled to
- other entitlements such as redundancy pay.

Some employers go beyond the basic conditions of employment in order to satisfy their employees' needs. The Transport Accident Commission (TAC), for example, provides up to 14 weeks paid maternity leave, up to 10 days paid paternity or partner leave, leave for reasons such as blood donation, emergency relief activities and sporting events. The business also allows for flexible working conditions, such as part-time employment, flexible working hours (also known as flexitime) and work-from-home arrangements.



### 6.11.2 Remuneration

**Remuneration** refers to the financial payment an employee receives in return for working for an employer. These payments can be made in the form of a **wage** or a **salary**. Remuneration is one factor in retaining productive and efficient employees who are loyal and display a high degree of commitment to their work. Paying employees appropriately is important because it affects productivity by increasing employee motivation, and lowering rates of absenteeism and staff turnover. While employee motivation will be influenced by broader issues than remuneration, an adequate level of pay is a necessary condition in attracting and retaining good employees.

Most industries are governed by Awards that set minimum remuneration levels for workers within those industries. In addition there is a national minimum wage, which is the legal minimum that can be paid to any adult employee. Businesses can pay their employees above these minimum levels, and can use some of the following to provide additional incentives:

- financial incentives, such as bonuses, commissions and allowances, which are paid when an employee achieves specified goals
- other rewards, such as the use of a company car, laptop computers, childcare facilities and holidays
- **salary sacrifice** (also referred to as salary packaging), where employees sacrifice some of their salary to receive a benefit such as a car. The item is often purchased out of their pre-tax salary, making salary sacrifice an attractive proposition for many employees.

The combination of a base wage and these types of extras form what is referred to as a 'remuneration package'. It is important that any remuneration package is aligned with the strategic and tactical goals of the business, and that additional bonuses are genuinely earned by employees contributing to the achievement of those goals. In recent years, shareholders of some large public companies have been critical of executive remuneration packages that have rewarded senior managers excessively, even when company performance has been poor.

All employees in Australia are entitled to unpaid parental leave when a new child is born or adopted. Extra entitlements can also be received, such as paid parental leave from either the Australian government or an employer. The Australian government Paid Parental Leave scheme provides eligible employees, who are the primary carer of a newborn or recently adopted child, 18 weeks' leave paid at the national minimum wage. This provides work-life balance and supports employees returning to their jobs after starting a family. It also makes good economic sense because it is expensive for businesses to recruit and train new people. Some sources have estimated that the cost of replacing a manager can be the equivalent to a year's salary or more.



Salary sacrificing can allow an employee to purchase a car out of pre-tax salary.



#### study on

Unit 2

AOS 3

Topic 1

Concept 4

**Employee expectations** Summary screen and practice questions

### 6.11.3 Flexible working conditions

**Flexible working conditions** are patterns of work that allow businesses to work more efficiently or allow employees to balance work and family responsibilities. Flexible working conditions may take the form of:

- variable working days/weeks, with the core hours specified as required, but with flexible start and finish times
- an extension of ordinary hours to weekend work and public holidays
- the lengthening of shifts to 10 hours
- flexitime, which allows employees to nominate starting and finishing times to suit their needs
- maxiflex, which allows employees to build up sufficient hours or overtime to take more time off
- job sharing, which allows two employees to share the hours required for one job
- work-from-home arrangements.

As an unusual extension of flexible work arrangements, some businesses provide leave for employees to look after their sick pets or settle in new pets. Other companies, including Nestlé and Mars, allow staff to bring pets, such as cats and dogs, to work. This can enable people to work longer hours because there is no need to rush home to tend to their animals. Also, research shows that having pets at work lifts the mood of the workplace: it reduces stress, increases productivity and improves staff engagement.

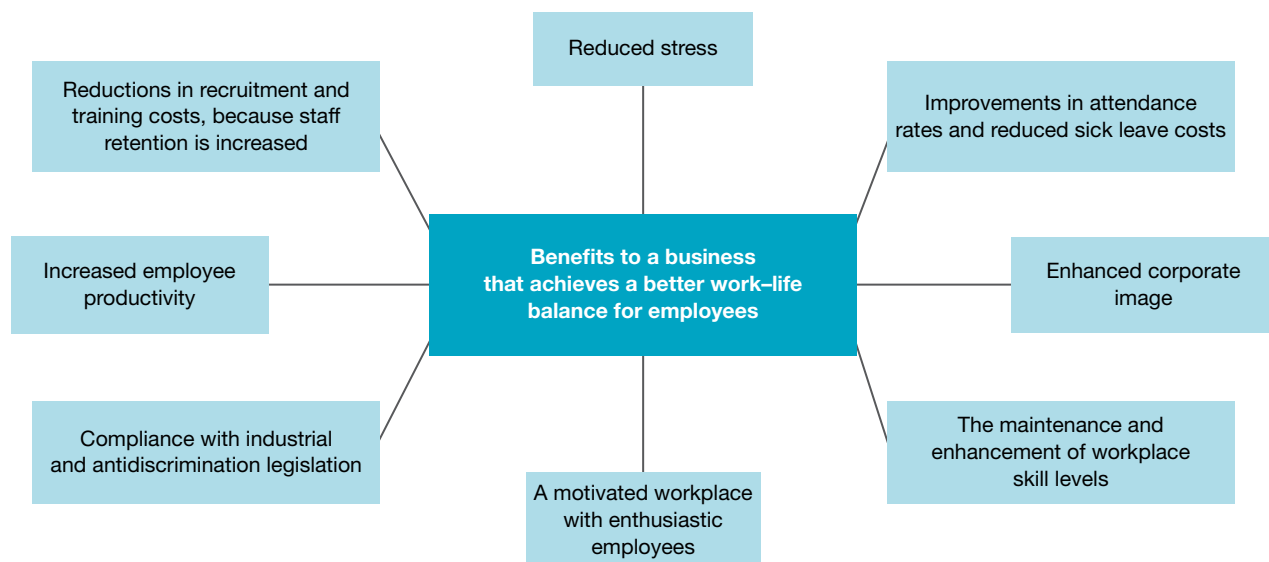
### 6.11.4 Achieving work–life balance

Many businesses actively seek to improve their employees' **work–life balance**. Work–life balance means achieving the right combination of time devoted to work and time devoted to personal or family life. Flexible working conditions help many employees achieve a better work–life balance.

Business owners must first determine whether employees' work–life balance is a key need within the business. Low productivity levels and high absenteeism rates might be symptoms of a business that needs to look after this area of employee expectations. Along with flexible work conditions, many businesses are offering their employees the opportunity to participate in time management courses, as well as general health and wellbeing programs to improve work–life balance.



The benefits of achieving a work–life balance for employees



### DID YOU KNOW?

Stress-related conditions cost Australian companies more than \$200 million each year in workers compensation claims.

## 6.11 Activities

### TEST your understanding

1. Give an example of what you would consider to be a basic condition of employment and an example of a condition that a business is not obligated to give to its employees, but may do so.
2. What other types of monetary rewards can be given to an employee over and above the base wage?
3. Explain why offering flexible working conditions may help:
  - (a) the employee
  - (b) the employer.
4. Write a definition of work–life balance.

### APPLY your understanding

5. If you have a casual job, write a list of your basic working conditions and also list any benefits you are given by your employer that go beyond the basic working conditions expected.
6. Use the **Australian Work and Life Index** weblink in the Resources tab to read a report on the reality of achieving work–life balance. List some of the key findings of the report. According to the report, what should be done to improve work–life balance?

### EXAM practice

7. Explain why the issue of remuneration is important for a business in attracting and retaining employees. **(2 marks)**
8. Debra has noticed that there has been an increase in sick leave taken by her employees at her dry-cleaning business, particularly among female employees with children. She suspects that they are under pressure juggling work commitments with domestic commitments.
  - (a) Propose and justify two ways in which Debra might be able resolve this issue. **(4 marks)**
  - (b) Identify and explain two benefits to her business if Debra can achieve an improved work–life balance for her employees. **(4 marks)**

### Resources

 **Weblink:** Australian Work and Life Index

## 6.12 Employee expectations — job security

**KEY CONCEPT** A concern for employees is the threat that they may lose their job. Job security is a factor that can impact on the way employees feel about their workplace.

### 6.12.1 Job security

**Job security** refers to whether an employee believes they are likely to lose their job either through being made redundant or being dismissed. In the past 20 years, employees have faced continuing employment cutbacks, automation, downsizing, increased competition from imports and non-unionised domestic companies. Job

security can no longer be taken for granted. It is a significant issue for many Australian workers as a consequence of difficult economic conditions. During downturns in the economy, many industries begin laying off workers. Some commentators argue that job *insecurity* is now the common experience of many employees.

At the end of 2013, Holden announced that it would cease producing vehicles in Australia, closing its manufacturing operations in 2017. Approximately 2900 workers' jobs were affected by the decision. By the time the factory in Elizabeth, South Australia, closed in October 2017, almost 2000 of those workers had already left to look for work elsewhere.

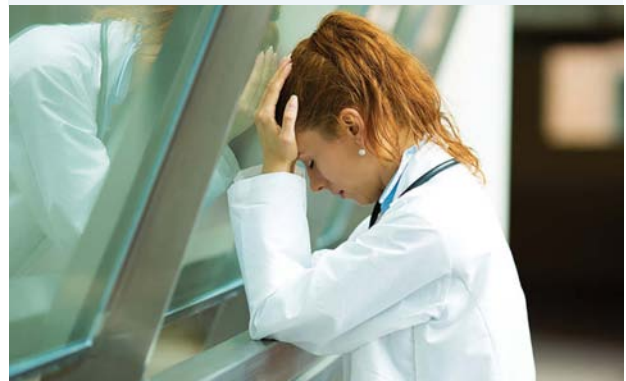


### DID YOU KNOW?

Research shows that many workers are worried about job security. Employees are said to worry about job loss and its consequences.

This change in employment conditions has implications for human resource managers. Employees need to feel some stability in the employment relationship. While lifetime employment guarantees are not necessary, there should be enough job security to develop a relationship in which employees believe their efforts will be rewarded. This fosters a supportive workplace culture in which employees are prepared to contribute over and above their minimum effort. Job insecurity, on the other hand, fosters a more formal employment relationship with minimal feelings of trust and loyalty. It is not surprising that the threat of being 'laid off' is one of the greatest setbacks to employee loyalty, even among those whose jobs are not at immediate risk. Perceived job insecurity is receiving increasing recognition as an important determinant of employee work outcomes.

Job insecurity can cause stress for many employees. Psychological stress can lead to physical symptoms such as headaches, stomach upsets, skin rashes, back pain and even hair loss. If stress continues, it can contribute to heart disease and high blood pressure.





Not only can uncertainty about job security affect the motivation of staff and, therefore, staff productivity, it can also have a negative impact on the health of workers due to the many effects of stress. The following case study discusses the decision to cut jobs at Qantas in 2014, and its impact over the years that followed.

### CHANGE AT QANTAS

After reporting a \$235 million half-year loss at the start of 2014, Qantas announced it would cut 5000 jobs over the following three years. As part of its transformation program the airline's Chief Executive Officer, Alan Joyce, said that Qantas would restructure and cut costs in an attempt to return to profitability. Staff would lose jobs through the reduction of management roles, the reduction of operational positions caused by changes to fleet plans and routes, the restructure of maintenance operations and catering facilities, and the closure of the Avalon maintenance base. Over the next two and a half years, Qantas cut 4605 jobs and by August 2016 was able to announce a return to profit of \$1.03 billion for the 2015–16 financial year. The union representing many Qantas employees, the Transport Workers Union, was scornful of this profit, claiming it was achieved by sacrificing safety and the wages and conditions of employees. Union Secretary Tony Sheldon claimed in a statement that he didn't consider sacrificing job security, slashing wages and potentially compromising safety to be the 'Spirit of Australia'.

On the other hand, the President of the Australian and International Pilots Association welcomed the return to profit and pointed out that, while job losses are not a good thing, a public company like Qantas could not have kept going with too many staff.



## 6.12 Activities

### TEST your understanding

1. Define 'job security'.
2. Discuss three reasons why the feeling of job security among employees may have declined in the past couple of decades.
3. What is the impact of cutting staff numbers on:
  - (a) the employer?
  - (b) the employee?

### APPLY your understanding

4. Read 'Change at Qantas' and answer the following questions:
  - (a) Explain the reasons why Qantas decided to cut jobs.
  - (b) In what way did cutting numbers of staff help achieve one of Qantas's business objectives by 2016?
  - (c) The Transport Workers Union and the Australian and International Pilots Association expressed different views in relation to the impact of staffing cuts at Qantas.  
Which of these groups do you think has the strongest case? Give reasons for your answer.
5. How might a person's self-esteem be affected if they are made redundant?





### EXAM practice

6. Identify and explain two reasons why job insecurity has increased in Australia in recent years. **(4 marks)**
7. Henry is facing a period of declining sales at his farm equipment business because drought conditions have affected farmers' incomes. He offers his staff reduced hours of work on reduced pay but promises to keep them all employed until the drought is over and business improves.
  - (a) Outline one reason why it is valuable for Henry to provide this level of job security for his staff. **(2 marks)**
  - (b) Describe one problem Henry might have faced in the future if he chose to lay off staff rather than reduce their hours and pay. **(2 marks)**

## 6.13 Legal obligations for staffing

**KEY CONCEPT** All employers are required by law to maintain a workplace which is safe for all employees, and for any visitors. They also have an obligation to ensure that no employees or applicants for employment are discriminated against on the basis of their personal characteristics, status or beliefs.

Businesses employing staff are subject to a number of legal obligations in relation to those staff members. As previously discussed, wages and conditions are subject to provisions of the *Fair Work Act 2009* (Cwlth), while employers also have a legal obligation to pay superannuation contributions on behalf of their employees. In addition, employers are legally obliged to provide a safe workplace and to ensure that principles of equal opportunity are applied in the way employees are treated while at work.

### WORK SAFE: IT'S YOUR LIFE

A recent safety poster carried the warning, 'Work is a health hazard'. This can be only too true. Inadequate training, lack of appreciation for the seriousness of health and safety issues, and an attitude of 'She'll be right' are the three main causes of workplace deaths, injuries and illnesses. The annual *Safe Work Australia Report*, published in 2017, revealed that in 2016:

- 182 people were killed at work
- most of the deaths were men — 92 per cent in total
- over 25 per cent of all deaths involved employees under 34 years old
- two industries (agriculture, forestry and fishing; and transport, postal and warehousing) accounted for over 50 per cent of deaths
- 99 fatalities, or 54 per cent, involved a vehicle
- 3414 workers lost their lives at work between 2003 and 2016, an average of 20 workers per month.

Every morning at Costa Logistics more than 200 logistics workers jog on the spot and perform stretching exercises.



On top of this, more than 650 000 workers suffer from some form of work-caused injury or disease, with 132 000 of these employees lodging a serious workers compensation claim. In response to this alarming trend, WorkSafe Victoria offers a broad range of health and wellbeing programs, such as the one that operates at Costa Logistics in Derrimut.

### 6.13.1 Work (occupational) health and safety legislation

Over the years, in response to the high levels of injury, accidents and disease in the workplace, the federal and state governments have passed various pieces of occupational health and safety **legislation**. In Victoria, workplace safety is regulated by the *Occupational Health and Safety Act 2004* (Vic). This Act, and regulations issued in 2007 and 2017 under this Act, set the standards that employers are legally obliged to follow to ensure safe workplaces. It also sets the rules for providing compensation to those who are injured at work.

Legislation on work health and safety covers employees, employers and the self-employed. In Victoria, WorkSafe Victoria administers work health and safety legislation. This government authority has the power to inspect work sites and prosecute employers for any breaches of health and safety requirements. The following requirements apply under the Act:

- Employers must ensure the health, safety and welfare at work of all employees by:
  - ♦ providing a safe system of work
  - ♦ ensuring plant and substances are used, handled, stored and transported safely
  - ♦ giving employees the necessary information about the plant and substances, and the necessary training and supervision of their work
  - ♦ maintaining the site in a safe condition
  - ♦ ensuring the goods that they design, make, supply, install or repair will not injure or damage the health of others.
- All employers must take out workers compensation insurance.
- Employers must take steps to ensure people on site who are not employees are not exposed to risks arising from the work undertaken.
- Employees are required to take reasonable care for the health and safety of others, cooperate with employers and comply with occupational health and safety requirements.
- Health and safety committees must be established at workplaces with more than 20 employees if requested by a majority of employees or if directed by WorkSafe.
- WorkSafe inspectors may inspect the workplace, collect information and issue improvement and prohibition notices. An inspection may, in some cases, mean that work ceases.
- WorkSafe must be notified of any deaths or serious injuries in the workplace, and any plans to carry out dangerous work.

Safety signs are used to provide a specific message to those who may be exposed to a hazard in the workplace.



### 6.13.2 Safe workplace strategies

All businesses should carry out the steps in the flow chart below page to ensure a safe workplace.

The aim of the three-step approach to work health and safety — identify, assess, fix — is to remove or minimise potential risks in the workplace.



### 6.13.3 Equal employment opportunity

Equal employment opportunity (EEO) is covered by the Victorian *Equal Opportunity Act 2010*, as well as Commonwealth legislation such as the *Racial Discrimination Act 1975*, *Sex Discrimination Act 1984*, *Human Rights and Equal Opportunity Commission Act 1986*, *Disability Discrimination Act 1992* and the *Age Discrimination Act 2004*.

The overall effect of this legislation is to make it illegal to discriminate against any employee or prospective employee on the basis of the following:

- age
- carer status
- family responsibilities
- parental status
- disability or impairment
- employment activity
- gender identity
- lawful sexual activity
- sexual orientation
- industrial activity
- marital status
- physical features
- political belief or activity
- pregnancy
- breastfeeding
- race
- religious belief or activity
- sex
- personal association with someone who has, or is assumed to have, one of these personal characteristics

**Source:** Victorian Equal Opportunity and Human Rights Commission.

## DID YOU KNOW?

The *Equal Opportunity Act 2010*:

- simplified the definitions of direct and indirect discrimination to make the law easier to understand
- protects volunteers and unpaid workers from sexual harassment
- strengthens the Victorian Equal Opportunity and Human Rights Commission's role in helping government, business and the community to identify and eliminate discrimination.

### 6.13.4 Employers' obligations

EEO initially becomes an issue during the recruitment and selection process. When devising a job advertisement, the employer has to be careful not to include any wording that could be seen as excluding any person or group from applying for that position. During the interview process, it is illegal to ask for information that could be used to discriminate against the applicant. Questions should relate to a person's skills and work experience, rather than personal matters, to avoid accusations of discrimination.

Normal day-to-day employment practices also have relevance for equal employment opportunity. Equal pay for equal work and equal access to promotion opportunities need to operate in the workplace. While more experienced employees may be paid higher wages, and may be more likely to gain promotion, the important principle here is that all workers with equivalent experience and skills should be treated equally. The employer also has an obligation to ensure that employees do not discriminate against each other on

the basis of their personal characteristics, status or beliefs. While employers have always had an important role to play in eliminating workplace discrimination, in the past they tended to be reactive: they waited for a complaint about discrimination to be made and then took action. The *Equal Opportunity Act 2010* introduced a significant shift in emphasis and more clearly outlined employers' obligations. Under this Act employers have a positive duty to eliminate discrimination — to be proactive — and take reasonable and balanced measures to get rid of discrimination, sexual harassment and victimisation. Employers are expected to encourage diversity in the workplace and ensure cooperation and smooth working relationships between employees of all backgrounds. Fostering diversity should be given a high priority in businesses of all sizes because it brings many benefits. These include:

- new markets may be more easily penetrated, especially by those employees who identify with the different cultures that support those markets
- customers' needs may be better serviced
- creativity, flexibility and responsiveness to change may be enhanced.

Recent research by the Diversity Council of Australia found that only 13 per cent of businesses surveyed believed that cultural diversity was important in their employment practices. With more than 25 per cent of Australians born overseas, many businesses fail to realise the importance of having staff to service a multicultural market.





### 6.13.5 Agencies supporting equal employment opportunities

In order to support EEO in the workplace, federal and state governments have set up bodies to provide employees with assistance if they believe they have been discriminated against, as well as to support employers to improve their EEO performance.

#### Victorian Equal Opportunity and Human Rights Commission

The Victorian Equal Opportunity and Human Rights Commission (VEOHRC) was established under the *Equal Opportunity Act 2010* (Vic). Its role is to inform and educate the public on equal opportunity and human rights issues as well as to receive complaints and resolve disputes under the Act. If a person believes they have been discriminated against in the workplace, he or she can approach the VEOHRC to resolve the issue. Complaints can be made online, or by filling in a form that can be downloaded from the VEOHRC website. The Commission can use a wide variety of dispute resolution methods, depending on the nature of the dispute. These can range from informal discussion and **mediation**, to a formal process of **conciliation**. The aim is to reach a resolution that both parties can agree to accept.

#### Workplace Gender Equality Agency

The Workplace Gender Equality Agency was established under the *Workplace Gender Equality Act 2012* (Cwlth), and is a federal government body set up to work with employers to improve gender equality in the workplace. The agency issues guidelines to assist employers and provides advice to employers on how they can improve gender equality in their businesses. It also collects information from employers on their progress in achieving gender equality. Each year employers with more than 100 employees are required to complete a report to the agency. These reports detail the progress made by those employers in achieving the aims of the relevant legislation. The agency uses the information from these reports to measure progress towards gender equality across a range of different industries, as well as to develop its educational and assistance programs.

A mediator can assist the parties to resolve the dispute.



#### study on

Unit 2 > AOS 3 > Topic 2 > Concept 6

**Legal obligations and social responsibility** Summary screen and practice questions



## 6.13 Activities

### TEST your understanding

1. Do men or women face the greatest risk of work-related fatality?
2. Explain possible reasons for the two industries listed in the 'Work safe: it's your life' case study being responsible for over 50 per cent of workplace deaths.
3. What are the three principal reasons for workplace injuries and illness?
4. Identify the relevant legislation dealing with occupational health and safety.
5. List and explain the major responsibilities of employers under occupational health and safety legislation.
6. List the major state and Commonwealth Acts that deal with equal employment opportunity (EEO).
7. Identify those attributes covered by equal opportunity legislation and group them in three lists, according to whether they are personal characteristics, issues of status, or beliefs.
8. How does EEO affect the recruitment and selection process?
9. Outline the key functions of each of the following agencies:
  - (a) Victorian Equal Opportunity and Human Rights Commission
  - (b) Workplace Gender Equality Agency.

### APPLY your understanding

10. Select one of the following workplaces and develop a strategy for ensuring occupational health and safety in that workplace (use the flow chart as a guide).
  - Local bank branch
  - Hairdressing salon
  - Car upholsterer's workshop
  - Supermarket
  - An area of your school
  - Fast-food outlet
  - A workplace that you are familiar with
11. Which of the following interview questions could be considered discriminatory under EEO legislation?
  - (a) How many years since you completed your apprenticeship?
  - (b) Will you need to arrange childcare before you take on this job?
  - (c) Would working on Sundays interfere with your church attendance? Would you be interested in gaining further qualifications to be eligible for promotion?
  - (d) Could you give us an example of your greatest strength and your greatest weakness?
  - (e) Have you had any recent illness that might limit your ability to handle the pressure of this job?

### EXAM practice

12. Explain the purpose and role of each of the following:
  - (a) the *Occupational Health and Safety Act 2004* (Vic) **(2 marks)**
  - (b) the *Equal Opportunity Act 2010* (Vic) **(2 marks)**
  - (c) WorkSafe Victoria **(2 marks)**
  - (d) the Workplace Gender Equality Agency. **(2 marks)**
13. Kirsty had recently completed an honours degree in civil engineering, and she attended an employment interview for a position with a major construction company. During the interview, one of the interviewers suggested she might have problems working with lots of men on building sites. She was unsuccessful in getting the job and believes she had been discriminated against based on her gender.
  - (a) What action could Kirsty take to deal with her complaint against the construction company? **(3 marks)**
  - (b) Outline two methods the business could use to help resolve the issue. **(2 marks)**

## 6.14 EXTEND YOUR KNOWLEDGE Maintaining a healthy workplace

**KEY CONCEPT** Maximising employee health, safety and wellbeing can improve worker output and business productivity.

### PREVENTION IS BETTER THAN CURE

Evidence suggests that taking preventative health measures is worthwhile for both workers and businesses. The results of national research show that healthy workers are more productive than employees suffering from poor health. Health-promoting workplaces experience reduced sick leave, absenteeism and workers compensation claims. They show improved staff morale and motivation as well as better workplace relationships. Many workplaces have been encouraged by federal government initiatives in the area of workplace health. The National Partnership Agreement on Preventive Health (NPAPH) Healthy Workers initiative recognises the opportunity for workplaces to help people stop smoking, use alcohol safely and adopt good nutrition practices, particularly fruit and vegetable consumption, and to enable workers to be more physically active. Funding of \$294.3 million was allocated for 2009–18. Programs to improve the health of employees can be as simple as participating in a ‘walk to work’ day, or subsidising gym membership. More comprehensive programs can be introduced to target specific health problems directly related to a particular business.

#### Targeting health at City West Water

City West Water provides drinking and recycled water, trade waste retrieval and sewerage services to Melbourne’s inner and western suburbs, and central business district. It introduced the H2GO brand, under which all City West Water health and wellbeing activities are run. A portal allows staff to upload their personal details and design an individual health profile. This enables them to access a range of tailored information. The data collected by the portal drives the types of events and activities offered to staff, including men’s and women’s health seminars, flu vaccinations, desk massages, skin checks and exercise programs.

Around 60 per cent of employees have uploaded their personal details on the H2GO portal. All of City West Water’s managers are required to participate in its Managing Well program. This is a tailored program of face-to-face training for managers to equip them with the skills for identifying and supporting staff who are experiencing mental health issues. A similar program was developed for individual staff members. The Managing Well program resulted in increased numbers of employees seeking assistance and support for matters relating to mental health. City West Water also produces an Employee Work Life Balance Kit which details a range of leave options and flexible work arrangements. It is reviewed every two years to ensure that it remains relevant to current staff and to ensure it continues to promote employee wellbeing and business performance. The most recent review took place in January 2018.



## ARE WORK LIVES IN BALANCE?

It would appear that Australian workers have all of their expectations met, except for one. According to the OECD's *How's Life? 2017* report, Australia performed well in many of the 11 life dimensions that the OECD considers essential to a good life. But it lies below the OECD average in terms of work–life balance: Australian full-time employees reported having 30 minutes less time off (i.e. time spent on leisure and personal care) than those in other OECD countries, and more than 13 per cent of employees regularly worked 50 hours or more per week in 2016. Many studies have shown that Australians feel that work frequently interferes with other life activities.

The consequences for workplaces with a low work–life balance include increased staff turnover and stress levels, decreased morale and job satisfaction, and deterioration in health and wellbeing. One way in which businesses can provide work–life balance is to offer flexible conditions. The Australian Public Service has been gradually increasing its workplace flexibility over the past 20 years. In 2017, 41 per cent of male employees and 52 per cent of female employees were accessing flexible work arrangements. The most common types of flexible work arrangements included:

- flexible hours of work — 60 per cent
- part-time work — 31 per cent
- working away from the office — 19 per cent.

It has been shown that flexible work arrangements help reduce unscheduled absences, such as personal leave. The 2017 Public Service employees' census indicated that employees who have access to flexible work arrangements are less likely to take unscheduled personal leave days.

Australia is well behind other countries when it comes to providing employees with work–life balance.



## 6.14 Activities

### TEST your understanding

1. Read 'Prevention is better than cure'. What strategies are employers using to improve the health and wellbeing of their workers?
2. List the expected benefits of improving employees' health and wellbeing.
3. Explain why tailoring health and wellbeing programs to particular business needs is more likely to be effective.
4. Read 'Are work lives in balance?' Are Australian workers having their work–life balance expectations met?
5. Identify two consequences of a poor work–life balance for employees.
6. Explain how the Australian Public Service provides work arrangements that can contribute to a positive work–life balance.

### EXTEND your understanding

7. Outline the potential benefits of flexible work arrangements for employees in the Australian Public Service.
8. What evidence can you find in the two articles that suggests that prioritising the health and wellbeing of employees is not only good for employees but also provides benefits for employers?

## 6.15 Employee induction

**KEY CONCEPT** Induction helps employees to adapt to their new workplace. In this transition phase there are many new things to learn about how the business operates and the processes that are used.

Beginning a new job means meeting new people and learning how everything works, and trying to create a good impression at the same time. Soon after candidates join a business they go through an **induction** program. A well-prepared induction program can help an employee through this stressful transition period.

### 6.15.1 The induction process

The process of induction (sometimes called orientation or onboarding) introduces new employees to the job and shows them where they can find the basics they need to begin the job. An effective induction program is carefully planned to introduce new employees to the job, their co-workers, the business and how it operates. Topics covered in the induction program include information about the history of the business, its culture, general conditions and benefits, training, safety and career paths.

Supervisors, co-workers and the human resources department may be involved in the induction process. Research shows that most employees who leave a business depart in the first six months, so the need for support is greatest when an employee is new in a job.

#### Purposes of induction

A well-structured induction program for new employees should serve the following purposes:

- to provide any specific technical or other training that might be required to supplement the skills, knowledge and experience that new employees may bring to the business
- to build the self-confidence of new employees, and to build their confidence in the business. It is particularly important to reduce any anxiety new employees may have, both in relation to their own abilities and their capacity to fit into the business.
- to create a feeling of belonging and to begin to develop a sense of loyalty to the business
- to familiarise the new employee with the job environment and with the specific duties they are required to undertake within that environment. This includes an introduction to the culture of the business, and its rules and procedures.
- to create favourable relationships with other members of the business, including those with similar duties and responsibilities, those in a position of authority and those who may have different types of duties within the business
- to minimise the time it takes for new employees to become fully productive and contribute to the achievement of the business's objectives.

#### Induction methods

Employers can use a number of different methods of inducting new employees into the business. In a larger business, the Human Resource Manager and the immediate manager or supervisor of the new employee's work area may both be involved. Some methods include:

- using audiovisual presentations, such as videos and PowerPoint presentations. Researchers have found that 83 per cent of people learn best from visual information, so information about the business and about the tasks to be performed can be passed on to new employees this way.
- using concrete examples to explain important processes. An example will help a new employee to remember important information.



- making sure new employees understand the reason why certain processes exist, and their purpose. An induction program should not just present a set of rules, but should help the inductee understand the reasons behind them.
- providing hands-on training, where necessary, under the supervision of experienced staff.
- testing the inductee's grasp of new information with informal quizzing at different times throughout the induction process.
- ensuring that those carrying out different parts of the induction process are friendly and welcoming, and make the new employee feel at home. Appointing someone as a 'buddy' to help the new employee acclimatise will help the induction process.

## study on

Unit 2

AOS 3

Topic 2

Concept 5

**Employee induction** Summary screen and practice questions

### 6.15.2 The benefits of induction

A well-prepared induction program will:

- reduce stress and anxiety that may be associated with starting a new job
- build a new employee's confidence in the job by
  - ♦ assisting the employee to feel part of the business
  - ♦ helping to establish good working relations with co-workers and supervisors
- ensure greater awareness of major safety policies and procedures.

#### TELSTRA TURNS TO TOBI

Telstra retail stores are located in shopping centres all over Australia and are a major setting for interaction between customers and the telecommunications company. People come into the stores to purchase new equipment and to solve questions relating to their existing Telstra products and services. The retail workers employed in these stores need to have expertise in a wide variety of areas of technology to be able to assist customers with the broad range of issues they may bring to these stores.

When Telstra was seeking to implement a new induction program for these workers, it approached the training and educational company Be Learning to assist in the development of such a program. The result was the Telstra OnBoarding & Induction program, known as TOBI. TOBI is a 90-day learning app that is provided to all new employees to teach them the skills necessary to work successfully in the Telstra retail network.

The app provides a one-stop dashboard that allows workers to track their own journey through the induction program. The first 30 days is directed learning that takes new employees through all the essentials of the job. The remaining 60 days are learner initiated, allowing the employee to access elements such as video and games, as well as on-the-job activities to broaden their experience and deliver highly competent sales consultants.





## 6.15 Activities

### TEST your understanding

1. What is an induction program?
2. What are the main purposes of offering new employees an induction program?
3. Explain three different techniques that can help to make the induction process a success.

### APPLY your understanding

4. In principle, induction programs reduce stress, easing the transition into the workplace for the new employee. Not all induction programs are run properly though. Describe the faults in the following cases.
  - (a) Joanne arrived at 9.30 am for her induction training but no one else was there. The Learning and Development Manager finally turned up with a bundle of manuals for her to read. He said: 'That should at least keep you going till lunchtime!'
  - (b) When he started his new job Lee had many questions he needed answered. He needed to know how and when he would get paid; what his job really entailed; what the work environment was like; and where the toilets and canteen were. Unfortunately, most of the day was focused on how to beat the competition rather than what he really needed to survive the first month.
  - (c) Grant enjoyed the induction. It gave him a real feel for the place, but he did finish the day a little confused. He listened to at least three different versions of how to approach his projects from various staff members at different times.
5. Think back to a time when you started something new. It may have been a new year at school or you may have joined a group to learn something new. Explain the induction process that was used to help you ease into the new situation, and comment on whether or not it was beneficial.

### EXAM practice

6. Define the term 'induction' and outline two purposes of an induction program. **(3 marks)**
7. Explain why each of the following techniques may help make an induction program more effective:
  - (a) using audiovisual presentations such as videos and PowerPoint **(2 marks)**
  - (b) using concrete examples to explain important processes **(2 marks)**
  - (c) providing the reasons behind particular workplace procedures. **(2 marks)**

## 6.16 Global issues related to establishing staffing

**KEY CONCEPT** In our increasingly internationalised business environment, employers need to take into account a number of global issues when making decisions in relation to staffing.

We live in an increasingly globalised business environment, and employers frequently have to take global issues into consideration when making staffing decisions. Some businesses requiring special expertise will not only recruit from within Australia, but may also seek to attract applicants from overseas. In some cases, Australian businesses are expanding overseas and may need to send employees from Australia to live in other countries. Transnational companies make decisions in relation to the size and scope of their operations in Australia, and this can have an impact on their staffing decisions within Australia. Australian companies also make decisions to move some of their operations offshore, often to take advantage of low wages in other countries.

### 6.16.1 Overseas recruitment

As qualifications and experience become more internationally recognised, more people are prepared to move to different countries for employment. Universities have recruited internationally recognised academics from all over the world for decades, and in the late 1960s and 1970s the Victorian Education Department recruited teachers from the United States to fill shortages in some subject areas. Today, many people travel to study in

overseas universities and are prepared to seek employment in any country. Australian companies can recruit from anywhere in the world, and online advertising of vacant positions makes this a relatively simple process. Video conferencing technology allows an interview to be conducted without the interviewee having to be in the same room as the interviewers. Psychological and other testing can be conducted online, as can background and reference checks.

Australian businesses are able to recruit skilled workers from other countries on special government permits known as Temporary Skill Shortage (TSS) **visas**. There are two main streams available under the TSS visa program:

- *Short-term stream*. This is for employers to source genuine temporary overseas skilled workers in occupations included on the Short-term Skilled Occupation List (STSOL) for a maximum of two years (or up to four years if an international trade obligation applies)
- *Medium-term stream*. This is for employers to source highly skilled overseas workers to fill medium-term critical skills in occupations included on the Medium and Long-term Strategic Skills List (MLTSSL) for up to four years, with eligibility to apply for permanent residence after three years.

There is also a Labour Agreement stream for exceptional cases where standard visa programs are not available and there is a demonstrated need that cannot be met within the Australian labour market.

Many of those who come to Australia under this program, and previous programs, apply for permanent residency after their temporary status expires.

#### DID YOU KNOW?

Melbourne regularly tops the list as the world's most liveable city in a survey conducted by *The Economist* magazine's Intelligence Unit. This does not mean that Melbourne is the most liveable city for ordinary citizens. The survey is designed to rank cities for the employees of large transnational companies who might be transferred to work in different cities around the world. The liveability index is specifically designed to provide these companies with a guide as to how much hardship allowance to pay these employees. The higher up the liveability scale a city is, the lower the hardship allowance that has to be paid.

### 6.16.2 Sending employees to overseas postings

Australian businesses that have branches or subsidiaries in other countries will often send their employees to work for a time in those overseas postings. It can be good experience for someone entering managerial or other leadership roles to gain experience in other countries. The four large Australian banks all have branches in major cities in the Asia-Pacific region, and some other financial institutions have also expanded into the Asian market. While they will employ some locals in these operations, Australian employees often fill many of the leadership positions. Companies involved in travel, such as Qantas, may send Australian employees to overseas postings, and our major media organisations have journalists and technical staff working in many parts of the world.

Our major media organisations have journalists and technical staff working in many parts of the world.



### 6.16.3 Transnational corporations opening and closing branches

At various times, large transnational corporations have set up operations in Australia and have hired local employees to carry out a variety of tasks. One obvious example is the automotive industry. American companies, such as General Motors and Ford, and Japanese company Toyota all had lengthy periods of operations in Australia. In most cases, these companies send in the top levels of management from their home countries but provide employment for locals in their factories as skilled and semi-skilled workers, as well as middle management and supervisory jobs. The continuing presence of these transnationals in Australia or any other country

can depend on the profitability of their operations, and this can mean that a company may set up for a period in a particular location but may then decide to close that particular factory at relatively short notice. Transnational automotive companies that built cars in Australia for many years all ceased operations in Australia in 2017.

## 6.16.4 Offshoring

Many Australian businesses have moved parts of their operations to other countries in recent years. This process is known as ‘offshoring’. It is often done to take advantage of lower wages in other countries. This can mean that Australian employees lose their jobs to employees in overseas locations, usually in Asia. Qantas has moved some of its aircraft maintenance and servicing to Asian locations such as Hong Kong and Singapore, reducing its maintenance workforce in Australia. India and the Philippines have become major locations for call centres, with Telstra and the ANZ Bank setting up in Manila. While these decisions provide employment in these countries, they can reduce employment in Australia.

Many companies have located call centres in Asian cities.



### study on

Unit 2

AOS 3

Topic 1

Concept 7

Global issues — staffing Summary screen and practice questions

## 6.16 Activities

### TEST your understanding

1. Identify two reasons why a business might seek to recruit workers from overseas.
2. What is a TSS visa?
3. Explain one example of an Australian business sending employees to work overseas.
4. What is ‘offshoring’? Why do some Australian companies engage in this practice?

### APPLY your understanding

5. Using internet resources, investigate one of the transnational automotive companies that operated in Australia to answer the following questions.
  - (a) When did the business first become established in Australia?
  - (b) How long did it operate in this country?
  - (c) Did they assemble cars from imported components or manufacture from Australian components?
  - (d) Why did the business decide to close its Australian operation?
  - (e) When did production finish in Australia?
  - (f) If they still intend to supply the Australian market, where will they be importing their cars from?

### EXAM practice

6. Identify whether each of the following statements is true or false.
  - (a) A TSS visa allows an Australian worker to seek employment overseas. **(1 mark)**
  - (b) Australian companies often send managerial staff overseas to gain experience in other countries. **(1 mark)**
  - (c) Transnational companies usually bring in their workforce from overseas rather than hiring Australian workers. **(1 mark)**
  - (d) Offshoring usually involves sending employees offshore to other countries. **(1 mark)**

7. Australian businesses can choose to hire staff locally or to recruit staff from overseas.
- (a) Outline one advantage and one disadvantage of choosing to recruit only from within Australia. **(4 marks)**
- (b) Outline one advantage and one disadvantage of recruiting employees from overseas. **(4 marks)**

## 6.17 Corporate social responsibility management in relation to staffing

**KEY CONCEPT** As is the case with other areas of business management, staffing a business should be carried out in a socially responsible manner.

Corporate social responsibility has been discussed in previous chapters and is an important issue to consider when staffing a business. Just as business owners need to be aware of the social implications of the actions they take in running a business, they need to remember that employees are people first of all, and contributors to the business second. Treating employees and prospective employees in a socially responsible manner means recognising that all people should be treated in a way that takes account of their feelings and individual circumstances.

### 6.17.1 Recruitment and selection

Socially responsible human resource management requires the employer to treat all employees and prospective employees fairly, honestly and respectfully. In the recruitment and selection process, this not only means avoiding any form of discrimination, but also making an extra effort to give every applicant a fair hearing, ensuring all are asked the same questions, and being honest with answers to questions applicants may ask at interview. It also means avoiding any form of **nepotism** or favouritism towards any group.

Socially responsible employers will also take the time to provide feedback to unsuccessful applicants. Often an unsuccessful applicant may have been suitable for the position, but not the best applicant at the time. If a person has made an effort to apply and attend an interview, they deserve the courtesy of an honest appraisal and to be given reasons why they were unsuccessful. Any business owner or manager who values the reputation of their business as a socially responsible employer will take the time to provide this feedback.

Socially responsible recruitment and selection requires the employer to look at the implications of hiring policy and practices on the community. An example is the application of principles of **affirmative action**. This is the means by which there is a focus on providing opportunities for groups who have traditionally been discriminated against in society. Commonwealth legislation specifically refers to women in this context, but an employer can demonstrate social responsibility by providing an affirmative action approach to assist disadvantaged groups such as the disabled or members of minority groups. Related to this is the issue of cultural diversity in the workplace. This involves providing employment opportunities to a wide variety of different ethnic, racial and cultural minorities, and ensuring their active participation in the workplace.

Ethical recruitment and selection will avoid nepotism.



## 6.17.2 Employment arrangements

There are many horror stories about employers exploiting their employees. During 2017 and 2018, stories of staff being underpaid by franchise businesses, such as Caltex, 7-Eleven stores and Domino's Pizza, were prominent in the media. Many examples have also occurred in the hospitality industry, with a number of well-known 'celebrity chefs' accused of underpaying staff, including non-payment of penalty rates. In many cases the exploited workers have been in Australia on student visas or other short-term visa arrangements and have been threatened with deportation by their employers. Not only is such behaviour by employers socially irresponsible, but it is also illegal and can result in prosecution. While there are legal obligations that must be met by all employers, a socially responsible employer will go further in ensuring they pay fair wages, provide safe and pleasant working conditions, and consult with employees on important workplace issues, as well as recognising and rewarding effort, and offering educational opportunities, to provide employees with opportunities to improve. When a promotion opportunity arises, all eligible employees should be invited to apply, rather than the employer simply appointing an individual without any selection process. A responsibly managed workplace will have clear policies to discourage workplace bullying or sexual harassment. If such an issue does arise, an employer should approach it in an impartial and transparent manner, ensure everyone gets a fair hearing, and take appropriate action to resolve the matter.

Socially responsible employers will take into consideration the effect of their employment practices on the community. Balancing the demands of work with family responsibilities is a key issue and one that is likely to continue to be of concern. Allowing flexible working hours to employees with family or other caring responsibilities and providing paid family leave to new parents are examples of socially responsible employment practices. Some larger businesses provide childcare facilities for their employees. Supporting employees' family responsibilities not only improves employee loyalty and motivation, but also brings broader social benefits, such as a more stable family life for children in a family.

### WHEN SHARING IS CARING

Work flexibility may be mandatory under Commonwealth employment laws, but part-time work and job sharing has become a boon for smaller businesses seeking and retaining talent.

Human Resources adviser Jenni Pavlou observes that job sharing has become increasingly popular in administration positions.

Student Kelly Chandler job shares with Lee Anne Wolterman — who wanted to spend more time on her horses and equestrian interests — at law firm Maddocks in Melbourne.

'I'd recommend job sharing; I actually like it,' Ms Chandler said of her two-day-a-week job. 'You have to be organised. We've learned to work together.'

A lot of it still comes back to recruiting good staff.

'People will often be harder to select (for flexible arrangements) but the key thing is hiring well,' Ms Pavlou explained.

'The statistics show you (the employer) have a 50 per cent chance of getting it right. This is where you need compatibility of workers. They must have similar motivation, and drive. Most important is their willingness to share information, and to be secure about themselves; otherwise, that's a problem!'

**Source:** Extracts from J Dowling 2010, 'When sharing is caring for the bottom line', *The Age*, 25 March.

The demands of balancing family and work can be challenging. Offering employees the opportunity to job share may be mutually beneficial for the employer and the employee.





## 6.17 Activities

### TEST your understanding

1. In what ways can an employer ensure that applicants for a position are treated in a socially responsible manner?
2. Identify and explain how employers can consider community needs in their recruitment and selection policies.
3. According to Jenni Pavlou in the case study above, what are the (a) risks and (b) benefits for employers considering job sharing in the workplace?
4. Suggest why 'compatibility of workers' is necessary for a job-sharing arrangement to be successful. Share your answer with the rest of the class.
5. List and explain three indications of socially responsible employment arrangements.
6. How can employment arrangements assist workers with family responsibilities?

### APPLY your understanding

7. How should the following situations be dealt with in a socially responsible manner?
  - (a) Of two applicants for an office administration position, one is clearly better qualified and more experienced, but the other is in a wheelchair.
  - (b) During a selection process, one member of the selection panel points out that he knows one of the applicants from a previous place of employment, and has a very high opinion of that person's ability.
  - (c) A young person approaches a business offering to work for nothing for two weeks to learn the job, in the hope of gaining ongoing employment after that.
  - (d) An employee from an ethnic minority approaches the employer complaining of other employees making fun of his background.

### EXAM practice

8. Define the term 'affirmative action' and give an example of how it might work. **(2 marks)**
9. A promotion to a managerial position has become available at confectionery factory, but several female employees who are qualified are concerned that their family responsibilities outside of work may prevent them from applying. Outline two socially responsible strategies the employer could implement to ensure that these women have an equal chance of applying for the position. **(2 marks)**

## 6.18 EXTEND YOUR KNOWLEDGE Researching issues in staff management

**KEY CONCEPT** A socially responsible employer can be expected to achieve safe and fair working conditions that improve the welfare of employees.

### 6.18.1 Safe working conditions

#### MIKE'S ELECTRICAL SERVICE

Over a number of years, Mike had built up a very successful domestic electrical business. He employed 20 experienced and qualified electricians, as well as three apprentices. Each year he would employ a new apprentice. With all of his employees having to climb ladders and crawl into dangerous spaces when wiring new houses, Mike was very conscious of the need for workplace safety. His apprentices were rotated around different work sites, and worked under the supervision of different experienced electricians every day, so he wanted to ensure that each apprentice received consistent on-the-job training in workplace safety. To achieve this he decided to produce a training manual for his employees, to help them in training the apprentices.

## 6.18.1 Activities

### TEST your understanding

Use the **WorkSafe Victoria** weblink in the Resources tab to find out more about this organisation and then answer the following questions.

1. What is the role of WorkSafe Victoria?
2. What are Mike's responsibilities as an employer under the OH&S legislation?
3. What assistance does WorkSafe Victoria offer to business?
4. Identify the major safety risks faced by workers in this industry (construction).

### EXTEND your understanding

5. Compile a set of safety instructions that Mike could include in his training manual to deal with the identified risks.
6. If an employee was injured on the job, what processes would Mike and the employee have to follow?



### Resources



Weblink: WorkSafe Victoria

## 6.18.2 Fair working conditions

### THE HOT BREAD SHOP

Janet successfully applied for a job as a baker in a hot bread shop. She was the first female baker employed in the shop, which employed three other bakers — all men. After about five months, she was having a chat with one of the other bakers, and the subject of wages came up. In the course of the conversation she discovered that the men were being paid six dollars an hour more than her, despite having similar qualifications and a similar amount of experience in the industry. She approached the owner of the business about this issue. He told her she was lucky to have a job, saying, 'I can't afford a rise, I've got to earn a crust'. He normally employs women as sales assistants, not in the more skilled trade of baker. He employs 22 sales assistants, mostly students, on a casual basis.

## 6.18.2 Activities

### EXTEND your understanding

Use the **Victorian Equal Opportunity and Human Rights Commission** weblink in the Resources tab to find out more about this organisation and then answer the following questions.

1. What is the first step Janet should take in attempting to resolve this problem?
2. If Janet decides to make a formal complaint, describe the process she should follow to do this.
3. Explain what the employer should do in response to a complaint from Janet.
4. Who handles the complaint, and what processes do they follow?



### Resources



Weblink: Victorian Equal Opportunity and Human Rights Commission

## 6.18.3 Employee welfare

### BULLYING IN THE WORKPLACE

One in six students is bullied every week in Australian schools. Not much seems to change when they join the workforce, with figures suggesting that 85 per cent of workers suffer or witness bullying in the workplace. It is a serious issue both for schools and workplaces.

The more noticeable forms of workplace bullying are intimidation, humiliation, verbal abuse, slamming doors, pushing, touching or fondling, and threatened or actual violence against an employee — in short, any repeated actions likely to generate a risk to a person's health and safety. Australian businesses are paying dearly for bullying in the workplace. Recently, a company was ordered to pay \$350 000 to an employee for his medical bills, loss of income, and pain and suffering. As a young apprentice the employee faced continual harassment, including being rolled around the factory inside a large drum, and having grease smeared on parts of his body. The judge found the business instilled a 'culture of intimidation'.

There are also subtle forms of bullying such as excluding or isolating employees, assigning meaningless tasks that are unrelated to the job, deliberately changing work rosters to inconvenience particular employees and intentionally withholding information that is vital for effective workplace performance.

Verbal abuse is the most common form of workplace bullying.



### 6.18.3 Activities

#### EXTEND your understanding

Type 'workplace bullying' into your search engine, and explore different websites dealing with this issue before answering the following questions.

1. Identify the personal and business costs associated with workplace bullying.
2. Imagine that you are a person being bullied in the workplace. Outline how it would affect your:
  - (a) self-confidence
  - (b) performance.

## 6.19 APPLY YOUR SKILLS Gender equality in the workplace

### PRACTISE YOUR SKILLS

- Define, describe and apply relevant business management concepts and terms
- Acquire, record and share business information and ideas
- Research and analyse case studies and contemporary examples of business management applicable to establishing staff in a business
- Apply business management knowledge to practical and/or simulated business situations
- Propose and justify the staffing strategies chosen for practical and/or simulated business situations

## 6.19.1 Workplace inequality

### REPORT REVEALS HIGH LEVELS OF WORKPLACE INEQUALITY

On 5 March 2018, the Sydney University Australian Women's Working Futures Project released its first report. The project team surveyed over 2000 working women aged under 40, 500 men aged under 40, and 50 Indigenous working women aged under 40. They also carried out a series of focus group interviews with working women under 40. Their report indicates that inequality for women in the workplace remains a serious issue for large numbers of working women.

When asked about the most important aspects of a job, 80 per cent of women surveyed said that having a job where they would be treated with respect was of greatest value. This finding suggests that a large percentage of women currently believe they are not treated with respect at work. This aspect of the workplace was considered more important than the level of pay or workplace flexibility. In reality, only 68 per cent felt they were genuinely treated with respect, while only 48 per cent felt they received adequate recognition at work and 56 per cent said that they felt valued at work.

Less than a third of women surveyed (31 per cent) believed that men and women were treated equally at work, and only 53 per cent expected gender equality to improve over the next decade. Ten per cent of women said they have experienced sexual harassment in the workplace, a finding described as 'shocking' by one of the researchers, Dr Elizabeth Hill of Sydney University. In addition to issues of direct sexual harassment, many women in focus groups pointed to other forms of gender-based discrimination in the workplace, such as being targeted for their physical appearance.

Forty per cent of the women surveyed had at least one child, and over 50 per cent said they expected to have a child in the future. However, many recognised that they faced a serious conflict when choosing between furthering their career and having children. Many women said that they were either delaying having children or choosing not to have a family in order to safeguard their careers. It was clear that many women felt that they had to choose between having children and having a successful career and were concerned at the apparent barriers to them doing both.

### 6.19.1 Activities

#### TEST your skills

1. Which aspect of the workplace did the largest percentage of women feel was most important?
2. Why did Dr Elizabeth Hill describe the figures on sexual harassment as 'shocking'?
3. Other than sexual harassment, what is another form of discrimination reported by women in the survey?

#### APPLY your skills

4. Many women in this survey felt that they were not respected or valued in the workplace. In small groups, perform the following tasks:
  - (a) Develop a list of reasons why you believe so many women do not feel valued in the workplace.
  - (b) Propose a set of human resources policies that could help overcome this problem.
  - (c) Identify two benefits that a business might experience from introducing these policies.
5. Deciding whether to have children can create a conflict in the minds of many working women. In your small group again:
  - (a) list some of the reasons why this feeling of personal conflict occurs
  - (b) formulate some solutions that could reduce this problem.

## 6.19.2 Addressing sexual harassment

### HOW TO CHANGE ATTITUDES TO SEXUAL HARASSMENT

In 2017 the #MeToo movement highlighted the problem of sexual harassment, initially in the entertainment industry but later in the worlds of business and politics. Sexual harassment remains a serious problem throughout society,

with Australian Bureau of Statistics data suggesting that half of all Australian women have experienced some form of sexual harassment in their lifetime, and 2.4 million experiencing it in just the last 12 months. A major problem is that this type of behaviour has been tolerated and underreported for decades. The #MeToo phenomenon has brought the issue out into the open and thrown down a challenge for employers and politicians to act. In the second half of 2017, the number of workplace sexual harassment complaints to the Victorian Equal Opportunity and Human Rights Commission rose by 40 per cent, a clear sign of a greater willingness to see this issue out in the open.

In an article for *The Age* newspaper in March 2018, Kristen Hilton, the Victorian Equal Opportunity and Human Rights Commissioner, proposed a three-step approach to dealing with sexual harassment in the workplace. The first step is for employers to set up effective reporting and complaint mechanisms. Too often in the past, women have not had sufficient trust in existing mechanisms and so have been unwilling to report. Complainants need to be protected through a process that is timely, fair and confidential. In many cases, what is required is simply a change in behaviour, not that the alleged perpetrator has to face dismissal. Informal reporting processes with a guarantee of anonymity can see a problem solved in the early stages before it becomes a major issue. Flexibility in reporting methods, and a variety of channels for communication, can help engender trust and encourage women to report instances of harassment.

A second step involves cultural change in the workplace. Management needs to make it clear that there will be zero tolerance of harassment and sexist behaviour within the workplace. All staff should be empowered to uphold appropriate standards and provide support for each other. Intervening in an incident of inappropriate behaviour can be very powerful because research shows that when workmates ignore bad behaviour and keep quiet, the harasser becomes emboldened and is likely to repeat the activity.

Creating and supporting a diverse workforce is the third step. Workplaces with large numbers of women tend to experience fewer incidents of sexual harassment. Having more women in leadership and supervisory positions can reinforce this culture. Family-friendly workplaces that allow women to take on these extra responsibilities can make a strong contribution to the reduction of workplace sexual harassment.

**Source:** Adapted from K Hilton, 'The real story of #MeToo is much bigger than front-page scandals', *The Age*, 8 March, 2018.

## 6.19.2 Activities

### TEST your skills

1. Identify an example of the impact the #MeToo movement has had on the reporting of sexual harassment incidents in the workplace since 2017.
2. List and explain the three steps proposed by Kirsten Hilton to help reduce incidents of workplace sexual harassment.

### APPLY your skills

3. Explain two benefits of having more women in a workplace, particularly in leadership positions.
4. The task word (sometimes referred to as command word or instructional word) 'propose' generally requires you to put forward an idea, argument, or suggestion for consideration or action. This involves writing a little more than simply just identifying or suggesting something. The task word 'justify' requires you to show how the statement or statements that you have made are correct or to provide evidence to support your argument. In small groups, complete the following:
  - (a) A complaints procedure needs to be timely, fair and confidential, and needs to take account of the power imbalance that may exist between senior staff and junior staff. Propose and justify features that could be included in a complaints procedure and that take account of these issues.
  - (b) Sexual harassment behaviour can range from unwanted flirting to serious physical contact. Identify the different types of behaviour that could be considered to be sexual harassment and propose and justify a set of possible consequences for each type of behaviour.
  - (c) A change of culture may see bystanders more willing to speak out if they see examples of sexual harassment in the workplace, but this may be difficult if the alleged harasser is a senior member of staff and the witness is a junior employee. Propose and justify a solution to this problem.



# 6.20 Review

## 6.20.1 Summary

### Staff performance and achieving business objectives

- Employees are the most important resources for success in business.
- The quality of employees can influence the ability of the business to achieve its objectives.
- Human resource management covers all aspects of the employment cycle.

### Identifying staffing needs

- Staff planning is essential to ensure that the business is able to match the right people to each job.
- Human resource planning enables the business to identify likely staffing needs.

### The effect of technological development on staffing needs

- Developments in technology can lead to the creation of new jobs, but also make other jobs redundant.
- New technology can change the nature of work and the workplace, with mobile devices leading to greater flexibility in work practices.

### Job analysis and job design

- Job analysis consists of a job description (an employee's duties and responsibilities) and a job specification (qualifications and experience required).

### Recruitment methods

- Recruitment can be internal or external.
- External recruitment involves advertising a vacancy in the media, online, or through a private or government-owned agency.

### Selection methods

- Employee selection involves choosing the most suitable applicant.
- The selection process can involve a combination of examining a written application, different types of testing, interviews and background checks.

### Employment arrangements

- Employment contracts can be permanent or fixed term, full time, part time or casual.
- Many employees are entitled to a set of 10 minimum employment conditions, known as the National Employment Standards, which deal with hours of work, various forms of paid and unpaid leave, flexible work for parents, provision of information in the workplace, and rights relating to notice of termination and redundancy.

### Employer expectations

- Employers expect employees to sign employment contracts, which can be based on Awards, enterprise agreements or individual contracts if the employee is paid above the high income threshold.
- Employees are expected to demonstrate loyalty to the business.
- Departing employees should provide a reasonable period of notice to allow the employer to find replacement staff.

### Employee expectations — conditions of employment, remuneration and work–life balance

- Many businesses try to ensure their employees have a healthy work–life balance through providing flexible working conditions, such as working from home and flexible working hours.

### Employee expectations — job security

- Job security is the belief that the employee will not lose their job. HR managers need to provide some stability in the employment relationship.

### Legal obligations for staffing

- All employers are required by law to maintain a workplace that is safe for all employees, and for any visitors who may enter the workplace.
- WorkSafe Victoria administers occupational health and safety in Victoria.
- Obligations on employers include taking out workers compensation insurance, and establishing health and safety committees.
- Employers can improve safety by identifying dangers in the workplace, assessing the level of risk of each of those dangers, and eliminating or minimising dangers by changing work processes or physical aspects of the workplace.
- All employers have an obligation to ensure that no employees or applicants for employment are discriminated against on the basis of their personal characteristics, status or beliefs.
- When devising a job advertisement, the employer has to be careful not to include any wording that could be seen as excluding any person or group from applying for that position.
- During the interview process, it is illegal to ask for information that could be used to discriminate against the applicant.
- Equal pay for equal work and equal access to promotion opportunities must operate in the workplace.
- The employer has an obligation to ensure that employees do not discriminate against each other on the basis of their personal characteristics, status or beliefs.

### Employee induction

- Induction is the first part of the maintenance phase in the employment cycle and involves providing the employee with a good introduction to the business. Typical topics covered in induction may include the history of the business, its culture, safety and work processes.

### Global issues related to establishing staffing

- Many businesses take the opportunity to recruit employees from overseas.
- Australian businesses with branches in other countries may send Australian employees to work in those branches.
- Transnational corporations may open or close businesses in different countries, with employment implications in each case.
- Offshoring involves sending certain business activities overseas.

### Corporate social responsibility related to establishing staffing

- The socially responsible management of employment practices requires the application of moral standards and obligations to the community.
- Socially responsible recruitment and selection requires that every applicant be given a fair hearing and honest feedback, and that principles of affirmative action and workplace diversity be applied.
- Socially responsible employers will ensure they pay fair wages, provide safe and pleasant working conditions, and consult with employees on important workplace issues, as well as recognising and rewarding effort, providing fair promotion processes, and discouraging workplace bullying or sexual harassment.
- Socially responsible employers will take into consideration the balance between the demands of work and the family responsibilities of employees.
- A socially responsible employer will always treat the issue of dismissal of staff in a sensitive and supportive manner.

## 6.20.2 Key terms

**affirmative action** measures taken to eliminate discrimination and to implement positive steps to overcome current and historical lack of equal opportunity

**Award** a legally binding agreement that sets out the minimum wages and conditions for a group of employees

**casual employees** workers employed on an hourly basis

**conciliation** a process involving a third party who assists the parties to reach agreement. It differs from mediation in that a conciliator is able to suggest solutions to the parties.

**e-business** use of the internet to conduct the full range of business activities

**employee selection** the process of choosing the candidate who best matches the business's requirements

**employment cycle** all stages in the process of employing staff, from initial planning through recruitment, selection, induction, performance management, and eventual termination of employment

**enterprise agreement** an agreement that has been directly negotiated between an employer and the employees of a business or enterprise

**expenses** what it has cost the business to provide its services or sell its products

**external recruitment** filling job vacancies with people from outside the business

**fixed-term contract** employment offered for a specific period

**flexible working conditions** conditions that allow employees to balance work and family responsibilities more effectively

**full-time permanent** employees that have an ongoing employment contract that includes all legally required entitlements

**human resource management** the effective management of the formal relationship between the employer and employees, and involving the recruitment, selection, training, development, appraisal and dismissal of staff

**human resource (HR) planning** the development of strategies to meet the business's future human resource needs

**induction** the process of acquainting new employees with the business — its history, structures, objectives, culture, policies and practices — and the jobs they will perform

**internal recruitment** filling job vacancies with present employees, rather than looking outside the business

**job analysis** the study of an employee's job in order to determine the duties performed, the time involved with each of those duties, the responsibilities involved and the equipment required

**job description** a summary of what the worker will be doing — the role they will have in the business in terms of duties and responsibilities

**job design** details the number, kind and variety of tasks that individual employees perform in their jobs. Jobs may be designed so they include a variety of tasks to keep employees interested and motivated.

**job security** the belief that the employee will not lose their job

**job specification** indicates the sort of person a business is seeking in terms of personal qualities, skills, education and work experience

**legislation** a law made by parliament

**mediation** a means of settling disputes in which a neutral third party assists the parties to reach a mutually acceptable agreement. Mediators do not suggest solutions, but assist the parties to reach agreement through their own suggestions.

**nepotism** occurs when a family member is favoured for a position

**part-time permanent employment** involves working fewer ordinary weekly or monthly hours compared with full-time employees

**penalty rates** additional payments made to workers who are required to work outside of normally accepted working hours

**productivity** a measure of business efficiency that compares the output produced by the business with the quantity of inputs (equipment, labour and materials) required to produce that output

**recruitment** the process of attracting qualified job applicants — by using advertisements, websites, employment agencies and word of mouth — from which to select the most appropriate person for a specific job

**remuneration** monetary payment in return for the work an employee performs

**revenue** what the business receives in the normal course of trading or operating, including sales, fees, interest, dividends, royalties and rent

**salary** a fixed amount paid to an employee each year, which is then divided by 26 to give a fortnightly salary, or by 12 to give a monthly salary

**salary sacrifice** forgoing salary in order to receive another non-cash benefit of equivalent value

**superannuation** a system by which contributions are made to a fund that will provide benefits to an employee after retirement

**visa** an official authorisation for an overseas visitor to enter a country and remain there for a specific period

**wage** an hourly or weekly rate of pay

**work–life balance** achieving the right amount of time for work and for personal or family life

## Resources



Digital doc: Key terms glossary (doc-29428)

### 6.20.3 Review questions

#### TEST your understanding

1. Explain the importance of staff planning for a business.
2. What is the value of producing a job description and a job specification prior to advertising a position?
3. Explain why changes in technology are changing the nature of the workplace.
4. How can an employer attract the best applicants to a vacancy?
5. When might external recruitment be preferred to internal recruitment?
6. What are the advantages and disadvantages of different methods of selecting the best applicant for a job?
7. What benefits do employees gain from full-time, permanent employment?
8. What reasons might an employer have for preferring part-time employees?
9. Explain the key expectations that employers are likely to have of employees.
10. How can an employer contribute towards the work–life balance of employees?
11. Why is job security so important to most employees?
12. Explain the steps an employer might go through to ensure a safe workplace.
13. What impact can the application of EEO principles have on the different stages of the employment cycle?
14. Why is it important to have an effective induction process for new staff?
15. Explain two common methods of employee induction.
16. How can globalisation affect employment practices within Australian businesses?
17. Identify and explain three examples of unethical employment practices.

#### APPLY your understanding

18. Download a job advertisement from an employment website. Choose one that is similar to a career in which you are interested, then complete the following:
  - (a) Write down the job description, as identified in the advertisement.
  - (b) Write down the job specification.
  - (c) Identify three questions you would want to ask the employer before formally applying for the position.
  - (d) Develop six questions relevant to this job that an interview panel could ask applicants.
  - (e) Identify whether the position is full time, part time, permanent or casual, and list the benefits the employer and employee gain from that type of employment arrangement.

- (f) List and explain four possible OH&S issues that could arise in this industry.
- (g) Write a paragraph that could be included in the job advertisement to indicate that the employer is committed to EEO, and ethical and socially responsible management of staff.

### EXAM practice

- 19. Explain the meaning of each of the following terms:
  - (a) job analysis **(2 marks)**
  - (b) job design **(2 marks)**
  - (c) external recruitment. **(2 marks)**
- 20. 'Implementing thorough human resource planning is essential to achieving business objectives.' Discuss this statement. **(6 marks)**
- 21. Catherine runs a shop selling towels, bedsheets and other bedroom and bathroom accessories. She needs to hire two new staff members to help her. She is uncertain about whether to hire casual or permanent staff. She asks for your advice as a management expert.
  - (a) Explain one advantage and one disadvantage for Catherine of hiring permanent staff members. **(4 marks)**
  - (b) Explain one advantage and one disadvantage for Catherine of hiring casual staff members. **(4 marks)**
- 22. Megan employs several single parents and wishes to offer them flexible working conditions to enable them to better manage their domestic responsibilities.
  - (a) Explain the meaning of the term 'flexible working conditions'. **(2 marks)**
  - (b) Propose and justify two possible staffing strategies that Megan could use to meet the employee expectation of work-life balance in her workplace. **(4 marks)**
- 23. Explain the concept of 'corporate social responsibility' as it applies to the staffing of a business, particularly in relation to the following:
  - (a) recruitment and selection processes **(3 marks)**
  - (b) employment arrangements for staff. **(3 marks)**

### on Resources



Digital doc: Missing word glossary quiz (doc-29429)



Digital doc: Crossword (doc-29430)

### study on

Unit 2

AOS 3

Topic 1

Key considerations when staffing a business Sit topic test

Unit 2

AOS 3

Topic 2

Establishing an employment relationship Sit topic test



## 6.20.4 School-assessed coursework

### OUTCOME 3

**Discuss the staffing needs for a business and evaluate the benefits and limitations of management strategies in this area, from both an employer and employee perspective.**

#### ASSESSMENT task — investigation and report (written, visual, oral)

##### Bob and Jenny's Café

When Bob and Jenny McPherson started up a café it was the culmination of a dream to run their own business. It only took a few weeks before they discovered that they would need to hire staff, and it was then that they came face to face with the issues involved with managing staff.

'At first the problem seemed simple enough,' says Jenny. 'We operate from 7.00 am until 4.00 pm each day doing breakfasts, light lunches, snacks, tea, coffee and so on. Bob does all the cooking and food preparation, but waiting on tables, making and serving tea and coffee, and clearing and cleaning tables was more than I could handle on my own. We needed additional waiting staff, particularly at those peak times like breakfast and lunchtime.'

'You'd think it was a fairly simple matter to hire a waiter continues Bob, 'but suddenly we were confronted with a whole lot of decisions to make. Did we want one full-time person or a number of part-time casuals? Is a friendly personality more important than experience when you're dealing with the public? How do you create a job advertisement that will attract the right sort of applicant? If you get a lot of applicants, how do you select the best one?'



You work as a customer service advisor for an employment agency. Bob and Jenny have approached you to assist them with their staffing problem. Prepare a report for them, including the following:

1. Explain how hiring additional staff may help Bob and Jenny achieve one of their business objectives.
2. Advise Bob and Jenny on whether they should employ permanent or casual staff, outlining the advantages and disadvantages of each form of employment, both for their business and for any prospective employees.
3. Design a job advertisement that includes both a job description and a job specification, and which will present a positive image to attract good applicants. Make sure it is clear to applicants what information is required in their written application.
4. Identify two possible methods Bob and Jenny could use in their employee selection process and explain one advantage and one disadvantage of each method.
5. Prepare a list of five interview questions they could ask each applicant.
6. Both employers and employees have expectations of each other.
  - (a) Outline two expectations that Bob and Jenny could reasonably expect from potential employees.
  - (b) Outline two expectations that employees could reasonably expect from Bob and Jenny as employers.
7. Explain three legal obligations Bob and Jenny have in relation to occupational health and safety legislation.
8. Provide advice on any EEO issues Bob and Jenny may have to deal with in the recruitment and selection process.
9. Evaluate the use of an induction process for Bob and Jenny's business.
10. Propose and justify a strategy that Bob and Jenny can use to ensure they act in a socially responsible way in establishing employment arrangements with each of these possible prospective employees:
  - (a) a university student who only wants to work part time because of study commitments
  - (b) a mother of two primary-school-aged children who has to drop them at school in the morning and collect them in the afternoon.

### on Resources



Digital doc: School-assessed coursework (doc-29431)

# GLOSSARY

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- accountant** a professional who provides advice on all financial management issues and taxation obligations
- accounts receivable** the outstanding payments a business is owed by its customers
- acquisition** when one business takes over another business
- advertising** a paid, non-personal message communicated through a mass medium
- advertising media** the many forms of electronic and print communication used to reach an audience
- affirmative action** measures taken to eliminate discrimination and to implement positive steps to overcome current and historical lack of equal opportunity
- angel investors** individuals or businesses that invest in a new business. They are likely to expect a return on their capital, as well as taking a role in supporting the business owner.
- assets** items of value owned by a business
- auditing** the process of testing and evaluating a business's accounting processes and internal control
- Australian Competition and Consumer Commission** a government body which has the role of enforcing the *Competition and Consumer Act 2010* and a range of additional legislation, promoting competition, fair trading and regulating national infrastructure
- Australian Taxation Office (ATO)** the government body in charge of administering and collecting tax for the federal government
- Award** a legally binding agreement that sets out the minimum wages and conditions for a group of employees
- balance of payments** a record of a country's trade and financial transactions with the rest of the world
- balance sheet** shows a business's assets and liabilities (the financial position of a business) at a point in time
- bank overdraft** when a bank allows a business or individual to overdraw their account up to an agreed limit for a specified time, to help overcome a temporary cash shortfall
- bookkeeping** the keeping and processing of a business's financial records
- bootstrapping** starting a business using personal finance or the revenue from the business
- boycott** when a customer refuses to purchase goods or services from a business as a form of protest against the undesirable activities of the business
- brand name** that part of the brand that can be spoken
- brand or brand identity** a name, term, symbol, design or any combination of these that identifies a specific product and distinguishes it from its competition
- brand symbol** or **logo** a graphic representation that identifies a business or product
- bricks and clicks** the business model that offers customers the choice of online shopping as well as shopping at the physical store
- bricks and mortar** the traditional business model that is based on a store with a physical presence, such as those located on shopping strips and in shopping centres
- budgeting** estimating the business's financial performance for a given period in the future
- business** any activity conducted by an individual or individuals to produce and sell goods and services that satisfy the needs of society, as well as making profit
- Business Activity Statement (BAS)** records a business's claims for input tax credits and accounts for GST payable
- business associations** organisations that support businesses through the provision of training and education programs, advice and information
- business entity** any organisation that exists separately to its owner in order to produce and sell goods and services
- business environment** the surrounding conditions in which the business operates. It can be divided into two broad categories: internal and external.

**business mentors** a person with extensive business experience who offers knowledge, wisdom and advice to a less experienced business manager or entrepreneur

**business model** the way in which the business will run its operations to generate a profit

**business opportunity** a set of circumstances that presents itself as an avenue to success

**business plan** a written statement of the goals and objectives for the business, and the steps to be taken to achieve them

**capital resources** the tools and machinery that are used to produce goods or perform services

**cash book** provides a summary of all the business's cash receipts and cash payments; it is compiled from the receipt and payment source documents.

**cash flow** the money being transferred into and going out of the business

**casual employees** workers employed on an hourly basis

**code of practice** a written set of guidelines that are intended to help businesses achieve the standards set by the government (e.g. in dealing fairly with customers)

**competitive advantage** the ability of a business to develop strategies that ensure it has an 'edge' over competitors

**competitors** other businesses or individuals who offer rival, or competing, goods or services to the ones offered by the business

**complementary businesses** products that are aimed at the same customers

**conciliation** a process involving a third party who assists the parties to reach agreement. It differs from mediation in that a conciliator is able to suggest solutions to the parties.

**Consumer Affairs Victoria** Victoria's government body established to regulate the marketplace, helping ensure fairness for businesses and consumers

**consumer buying behaviour** the decisions and actions of consumers when they purchase goods and services for personal or household use

**corporate social responsibility** managing a business in such a way that the broader social welfare of the community, including its employees, customers, suppliers and the environment, is taken into consideration when making business decisions

**credit terms** the terms and conditions of sale between a customer and a business, including the amount of time provided for making final payment

**crisis communication plan** outlines the policies and procedures to follow when handling unfavourable publicity and news personnel when a crisis occurs

**crowdfunding** a method of raising finance through appeals for donations via social media and the internet

**culture** all the learned values, beliefs, behaviours and traditions shared by a society

**customer attitude** a person's overall feeling about an object or activity

**customer base** the group of customers who might be expected to purchase a business's goods and services

**customer database** a bank of information on existing and potential customers, including their contact information, personal details, previous interactions, buying habits and preferences

**customers** the people who purchase goods and services from a business, expecting high quality at competitive prices

**customer service** responding to the needs and problems of the customer. Central to this response is making sure the desired product is delivered at the appropriate place at the right time.

**debt** the funds provided by banks, other financial institutions, government and suppliers, and which must be paid back over time, with interest

**distribution channels** the routes taken to get the product from the factory to the customer

**diversification** when businesses vary their range of products or their field of operations

**domain name** the address of a website on the internet

**e-business** use of the internet to conduct the full range of business activities

**economic conditions** the set of influences that relate to economic activity, including interest rates, wages, unemployment, exchange rates and inflation

**economic growth** when the real value of goods and services increases over a set period of time

**economy** a system set up to determine what to produce, how to produce and to whom production will be distributed

**effectiveness** a measure of whether the business is doing the right things — those that are most important to the success of the business

**efficiency** measures how well we do things. For example, if we are able to produce more outputs with from the same inputs we have become more efficient at using these inputs.

**e-marketing** the practice of using the internet to perform marketing activities

**employee retention** the ability of a business to keep employees

**employee selection** the process of choosing the candidate who best matches the business's requirements

**employment cycle** all stages in the process of employing staff, from initial planning through recruitment, selection, induction, performance management, and eventual termination of employment

**enterprise agreement** an agreement that has been directly negotiated between an employer and the employees of a business or enterprise

**entrepreneur** a person who is willing to seize opportunities to start and operate a business, and is prepared to take risks in the hope of making a profit

**entrepreneurship** the ability and willingness to start, operate and assume the risk of a business venture in the hope of making a profit

**environmental audit** a review of the extent to which a business's activities have an impact on the environment.

**environmental lobby groups** special interest groups that promote environmental issues to the public, government and businesses

**environmental management system** a tool for managing a business's environmental impact in a systematic and methodical manner

**equity** the funds contributed by the owner(s) of a business to start and build the business

**exchange rate** the price of one country's currency expressed in terms of another country's currency

**expenses** what it has cost the business to provide its services or sell its products

**exporter** a local business that manufactures goods for overseas customers

**exports** goods or services sold by one country to individuals, businesses or governments in another country with the aim of extending sales and market penetration

**external data** published data from outside the business

**external environment** those factors over which the business has little control. It may be further divided into two categories: operating and macro.

**external recruitment** filling job vacancies with people from outside the business

**feasibility study** an assessment of the practicality and potential for success of a proposed business idea

**financial control systems** the processes, methods and tools that allow a business to accurately monitor and manage its financial performance

**fixed-term contract** employment offered for a specific period

**flexible working conditions** conditions that allow employees to balance work and family responsibilities more effectively

**franchise** when a business sells to others the rights to distribute its goods and use the business name

**franchise agreement** an agreement whereby the franchisor grants the franchisee the rights to use its business name and distribute its goods or services

**franchisee** a business that is licensed to operate under the name of an existing business and distribute its goods or services

**franchisor** the owner of the original business concept that licenses another business to use its name and distribute its goods or services in exchange for royalty payments and fees

**full-time permanent** employees that have an ongoing employment contract which includes all legally required entitlements

**globalisation** the effect of hi-tech communications, lower transport costs and unrestricted trade and financial flows turning the whole world into a single market, producing a more integrated global economic system

**goal** what a business expects to achieve over a set period of time

**Goods and Services Tax (GST)** a broad-based tax of 10 per cent on the supply of most goods and services consumed in Australia

**goodwill** the monetary value attached to the reputation of a particular business

**human resource (HR) planning** the development of strategies to meet the business's future human resource needs

**human resource management** the effective management of the formal relationship between the employer and employees, and involves the recruitment, selection, training, development, appraisal and dismissal of staff

**image** how a business is perceived by the world at large, especially consumers

**imports** goods and services that are produced overseas and sold to Australian consumers

**income statement** used primarily to help the business to calculate how much profit it has made over a period of time

**incorporated** a business that has a separate legal existence apart from its owner/s

**incorporation** the process that a business goes through to become a registered company and a separate legal entity

**induction** the process of acquainting new employees with the business — its history, structures, objectives, culture, policies and practices — and the jobs they will perform

**industry** the classification of groups of businesses related to the particular good or service they produce

**innovation** either creating a new good, service or process, or significantly improving an existing one

**interest rate** the price charged or paid for the use of money that has been deposited or borrowed

**internal data** information that has already been collected from inside the business

**internal environment**, sometimes called the micro environment, includes those factors over which the business has some degree of control

**internal recruitment** filling job vacancies with present employees, rather than looking outside the business

**inventory control** ensures that costs are minimised and that the business has access to the right amounts of materials when required

**job analysis** the study of an employee's job in order to determine the duties performed, the time involved with each of those duties, the responsibilities involved and the equipment required

**job description** a summary of what the worker will be doing — the role they will have in the business in terms of duties and responsibilities

**job design** details the number, kind and variety of tasks that individual employees perform in their jobs. Jobs may be designed so they include a variety of tasks to keep employees interested and motivated.

**job security** the belief that the employee will not lose their job.

**job specification** indicates the sort of person a business is seeking in terms of personal qualities, skills, education and work experience

**labour resources** the people that provide their skills, effort and knowledge to the business

**leasing** a way of financing the purchase of assets without a large initial capital outlay

**legislation** a law made by parliament

**lessee** the person or business to whom a lease is granted

**lessor** the owner of an asset that is leased under an agreement to the lessee

**limited liability** when the shareholders of a company cannot be held personally responsible for the debts of the business

**macro environment** the broad conditions and trends in the economy and society within which a business operates

**manufacturing** a business that produces physical goods, often in a factory setting. These goods are then sold to wholesalers or directly to retailers who then sell the good on to customers at a marked-up price



**market** the number of all actual and potential buyers of a product

**market conditions** the features of a market into which a new good or service is to be introduced, and include factors such as the number of potential customers, level of competition and potential for growth

**market coverage** the number of outlets a business chooses for its product

**market dimensions** those broad elements that allow a potential market segment to be identified

**marketing** ‘the process of planning and executing the conception, pricing, promotion and distribution of ideas, goods and services to create exchanges that satisfy individual and organisational objectives’ (American Marketing Association)

**marketing data** the information — usually expressed as facts and figures — relevant to the defined marketing problem

**marketing mix** the combination of seven elements — product, price, place promotion, people, physical evidence and process (the 7Ps) — that make up the marketing strategy

**marketing plan** a document that lists activities aimed at achieving particular marketing outcomes in relation to a good or service. The plan provides a template for future action aimed at reaching marketing objectives, such as establishing a customer base

**marketing profitability analysis** a method used by the business to break down its total marketing costs into specific marketing activities

**market research** a process of systematically collecting, recording and analysing information concerning a specific market

**market segmentation** when the total market is subdivided into groups who share one or more common characteristic

**market share** the proportion of total sales in a given market or industry that is controlled or held by a business, calculated for a specific period of time

**materialism** an individual’s desire to acquire more possessions

**media** the assorted public relations communication strategies available to convey the image to the selected publics

**mediation** a means of settling disputes in which a neutral third party assists the parties to reach a mutually acceptable agreement. Mediators do not suggest solutions, but assist the parties to reach agreement through their own suggestions.

**merger** the joining together of two or more businesses to form one business

**mission statement** describes what the business does and how it will achieve its vision

**mortgage** a loan secured by the property of the borrower (the business)

**motives** the reasons that individuals do something

**natural resources** items the business uses that come from the natural environment. These include land, water, raw materials etc.

**nepotism** occurs when a family member is favoured for a position

**niche market** a narrowly selected target market segment

**non-store retailing** retailing activity conducted away from the traditional store

**offshoring** the practice of moving some of a business’s processes or services to the same or another business located overseas

**operating environment**, sometimes called the task environment, refers to the specific outside stakeholders with whom the business interacts in conducting its business

**packaging** the development of a container and the graphic design for a product

**partnership** an unincorporated business structure with a minimum of 2 and a maximum of 20 owners

**part-time permanent employment** involves working fewer ordinary weekly or monthly hours compared with full-time employees

**peer group** a group of people with whom a person closely identifies, adopting their attitudes, values and beliefs

**penalty rates** additional payments made to workers who are required to work outside of normally accepted working hours

**percentage mark-up** increase to the cost price by a fixed percentage to give the selling price

**personality** the collection of all the behaviours and characteristics that make up that person

**personal selling** the activities of a sales representative directed to a customer in an attempt to make a sale

**planning** a process or series of actions to achieve an objective

**policy** a written set of broad guidelines to be followed by all employees

**price** the amount of money the customer pays to be able to enjoy a product

**primary data** the facts and figures collected from original sources

**primary target market** the market segment at which most of the marketing resources are directed

**procedure** a series of actions that enable a policy to be put into practice

**procurement** to the process of researching and selecting suppliers, establishing payment terms, negotiating contracts and the purchasing of resources that are vital for maintaining the production of the business's good or service

**product** is a good, service, experience, idea or information that can be offered in an exchange for the purpose of satisfying a need or want

**productivity** how many outputs we produce per input. It is calculated using the formula: Productivity = outputs/inputs.

**product life cycle** the stages a product passes through: introduction, growth, maturity, decline and extension

**product mix** the total range of products offered by a business

**product placement** the inclusion of product advertising in entertainment

**product positioning** the development of a product image compared with the image of competing products

**profit** what is left after business expenses have been deducted from money earned from revenue

**progressive tax rate** one that increases as the individual earns a higher income

**promotion** the methods used by a business to inform, persuade and remind a target market about its products

**promotion mix** is the promotion methods a business uses in its promotional campaign. Methods include personal selling, advertising, and publicity and public relations.

**proprietary (private) company** an incorporated business with a minimum of 1 shareholder and a maximum of 50 non-employee shareholders

**prospectus** a legal document that provides details about investment in the company

**psychological factors** influences within an individual that affect his/her buying behaviour

**publicity** any free news story about a business's products or services

**public relations** those activities aimed at creating and maintaining favourable relations between a business and its publics. It involves the activities aimed at creating and maintaining favourable relations between a business and its publics.

**public relations campaign** a series of public relations activities undertaken to achieve a specific objective

**publics** groups that the business interacts with and that have a vested interest in, or impact on, the business's ability to achieve its objectives

**quote** an estimate of the costs involved with an individual job, plus a certain amount so the business makes a profit

**recruitment** the process of attracting qualified job applicants — by using advertisements, websites, employment agencies and word of mouth — from which to select the most appropriate person for a specific job

**remuneration** monetary payment in return for the work an employee performs

**research and development** (R&D) a set of activities undertaken to improve existing products, create new products and improve production processes

**resources** the people and objects that are needed for the business to function properly

**retail** a business that operates by selling goods and services to the customer at a price higher than the cost to produce or purchase the goods in bulk. Examples include Kmart and Target.

**return on investment** a positive or negative percentage that relates the money gained or lost on an investment to the cost of that investment. It is usually taken to mean that the return on the investment occurs over a 12-month period.

**revenue** the income that a business earns from the sale of goods and services to customers.

**risk management** the process of identifying the risks to which a business is likely to be exposed and determining the best way to deal with them

**robotics** the engineering behind the design, construction and application of robots

**salary** a fixed amount paid to an employee each year, which is then divided by 26 to give a fortnightly salary, or by 12 to give a monthly salary

**salary sacrifice** forgoing salary in order to receive another non-cash benefit of equivalent value

**sales analysis** uses sales data to evaluate the business's current performance and the effectiveness of the marketing mix

**search engine optimisation (SEO)** the strategies used to increase the number of visitors to a website by making it more visible on search engines such as Google

**secondary data** information that some other person or business has already collected

**secondary target market** usually a smaller and less important market segment

**separate entity** the owner's finances are separate to that of the business and therefore should be recorded separately

**shareholders** the owners of a company who are entitled to a share of its profits

**silent or sleeping partner** one who contributes financially to a business but takes no part in the running of the business

**social enterprise** a business model that aims to improve the wellbeing of others through its business activities

**social media advertising** a form of online advertising that uses social media channels to deliver targeted commercial messages to potential customers

**sociocultural influences** forces exerted by other people that affect customer behaviour

**sole trader** a business owned and operated by one person

**solicitor** a professional who provides advice on legal matters such as business formation, registration, contracts and legislation

**source documents** written documents that provide evidence of a financial transaction

**special interest groups** the groups of people who attempt to directly influence or persuade a business to adopt particular policies or procedures

**staff morale** the general level of satisfaction and wellbeing of employees

**stakeholder** any group or individual who has an interest in, or is affected by, the activities of a business

**statistical interpretation analysis** the process of focusing on the data that represent average, typical or deviations from typical patterns

**subcontractor** a person that is not directly employed by the business but has been contracted to perform certain tasks

**superannuation** a system by which contributions are made to a fund which will provide benefits to an employee after retirement

**suppliers** those businesses or individuals that supply the materials and other resources that the business needs to conduct its operations

**supply chain** the range of suppliers from which the business purchases materials and resources

**survey** gathering data by asking questions or interviewing people

**target market** a group of customers with similar characteristics who currently purchase the product or may do so in the future

**tax rate** the percentage of income or the value of a good, service or asset paid as tax

**technological issues** refers to the issues relating to the growing use of tools, techniques or systems by businesses to solve problems or serve a purpose

**terms of finance** the amount of the repayments and frequency at which they must be made

**three-dimensional (3D) printing** the production of a physical object from a digital design or model

**triple bottom line** the economic, environmental and social performance of a business

**unions** organisations formed by employees in an industry, trade or occupation to represent them in efforts to improve wages and working conditions

**unlimited liability** when the business owner is personally responsible for all the debts of his or her business

**visa** an official authorisation for an overseas visitor to enter a country and remain there for a specific period.

**vision statement** describes where the business wants to be in the future (say five years from now)

**wage** an hourly or weekly rate of pay

**Westpac Melbourne Institute Index of Consumer Sentiment** an index that measures changes in the level of consumer confidence in economic activity. It is based on consumers' responses to a survey regarding their sentiments about their own current and anticipated financial situation, anticipated economic conditions, buying conditions and other factors relating to their consumption.

**wholesale** a business that sells large volumes of goods to retailers. While wholesalers are increasingly selling direct to the public, they offer heavily discounted prices on bulk purchases such as those made by retailers.

**working capital** the funds available for the short-term financial commitments of a business

**work–life balance** achieving the right amount of time for work and for personal or family life

**workplace diversity** the multitude of individual differences that exist among people in the workplace

**WorkSafe Victoria** a government agency that aims to reduce workplace injuries and support injured workers

**zoning** a means by which local councils allocate land for different uses, such as residential, commercial, recreational and industrial

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