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JACARANDA KEY CONCEPTS IN VCE

BUSINESS MANAGEMENT

UNITS 1 AND 2 | SEVENTH EDITION



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VLAD DUMOVIC
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GRAEME SMITHIES

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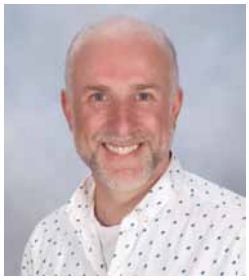
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About the authors

Matt Richardson



Matt Richardson is a senior Commerce teacher at Ballarat High School with over 22 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. He is an experienced VCAA examination assessor. Matt is the co-author of several Jacaranda textbooks in the areas of Business Management, Legal Studies, Economics and Business, and Civics and Citizenship.

Simon Phelan



Simon Phelan has worked at a number of government and independent schools over the past 37 years. He is currently a Senior Commerce teacher at Penola Catholic College and Accounting Coordinator at Melbourne Graduate School of Education. He has taught VCE Business Management/Accounting/Economics/Legal Studies for 37 years and is an experienced VCAA examination assessor.

Helen Rabenda



Helen Rabenda is a Program Coordinator at St Monica's College in Epping. Helen has over 17 years' teaching experience in Commerce-related subjects from Years 8 to 12, focused primarily on Business Management and Economics. Helen continues to occupy several long-term roles within the VCAA as part of the Business Management team, including exam development, assessor and sitter roles. Helen has a particular interest in creating resources and providing differentiated support for students of all abilities.

Vladimir Dumovic



Vladimir Dumovic is a passionate Business and Economics teacher with industry experience as an accountant and owner of a small business. He has authored a range of secondary school textbooks in the Business, Economics and Civics and Citizenship subject areas.

Stephen Chapman

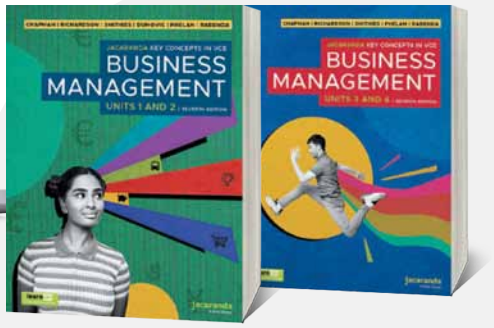


Stephen Chapman is an active teacher, author, external examination marker and consultant, with over 30 years' experience in high schools as a classroom teacher and coordinator. He has authored/co-authored 28 textbooks and has won awards for teaching excellence and pedagogical writings as well as a Commonwealth Parliamentary Teaching Fellowship.

About this resource



Everything you need for your students to succeed



JACARANDA KEY CONCEPTS IN VCE

BUSINESS MANAGEMENT UNITS 1 AND 2 | SEVENTH EDITION

Developed by expert Victorian teachers for VCE students

Tried, tested and trusted. The NEW Jacaranda VCE Business Management series continues to deliver curriculum-aligned material that caters to students of all abilities.

Completely aligned to the VCE Business Management Study Design

Our expert author team of practising teachers and assessors ensures 100 per cent coverage of the new VCE Business Management Study Design (2023–2027).

Everything you need for your students to succeed, including:

- **NEW!** Access targeted question sets for every key knowledge point, including quick-quiz questions and exam-style questions with all relevant past VCAA exam questions since 2013. Ensure assessment preparedness with practice SACs for all Areas of Study.
- **NEW!** Contemporary case studies, of both manufacturing and service businesses, are revisited throughout each Area of Study to help students recall real-world examples in their assessments.
- **NEW!** Teacher-led videos to unpack concepts, plus VCAA exam questions and exam-style questions to fill learning gaps after COVID-19 disruptions.

Learn online with Australia's most

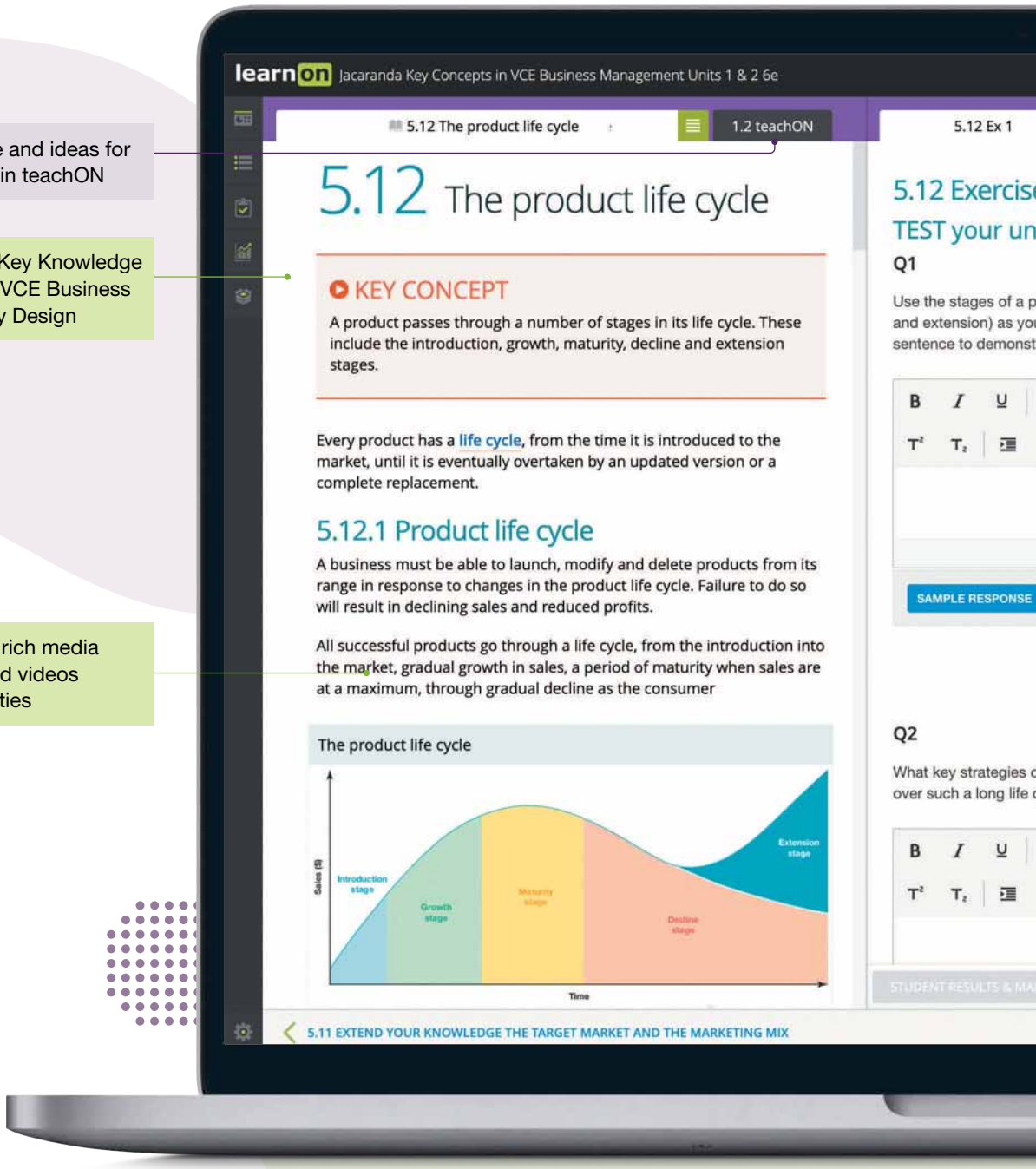
Everything you need for each of your lessons in one simple view

- **Trusted, curriculum-aligned theory**
- **Engaging, rich multimedia**
- **All the teacher support resources you need**
- **Deep insights into progress**
- **Immediate feedback for students**
- **Create custom assignments in just a few clicks.**

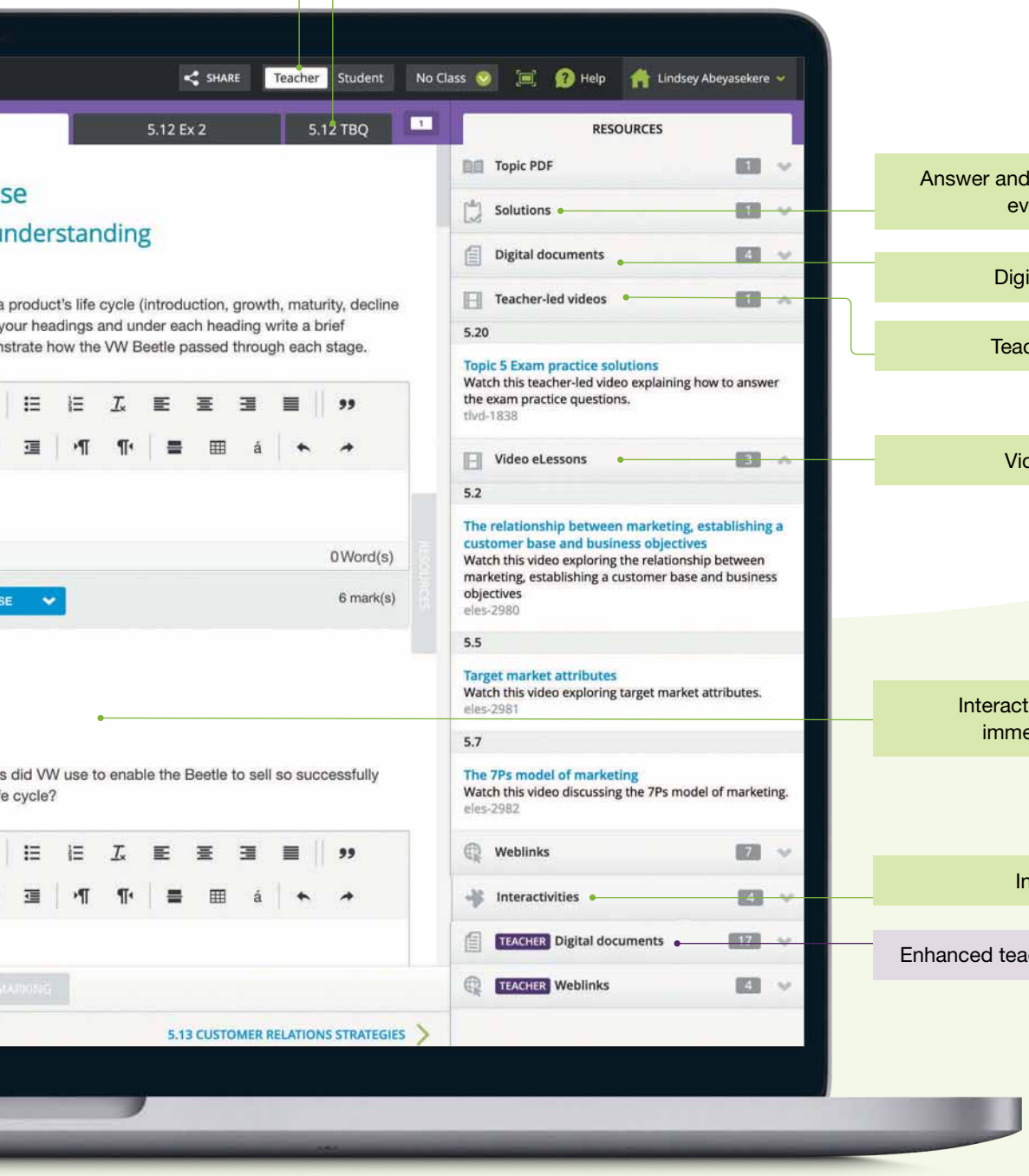
Practical teaching advice and ideas for each lesson provided in teachON

Each lesson linked to the Key Knowledge (and Key Skills) from the VCE Business Management Study Design

Reading content and rich media including embedded videos and interactivities



powerful learning tool, learnON



Teacher and student views

Textbook questions

Answer and sample responses for every question.

Digital documents

Teacher-led videos

Video eLessons

Interactive questions with immediate feedback

Interactivities

Enhanced teaching support resources

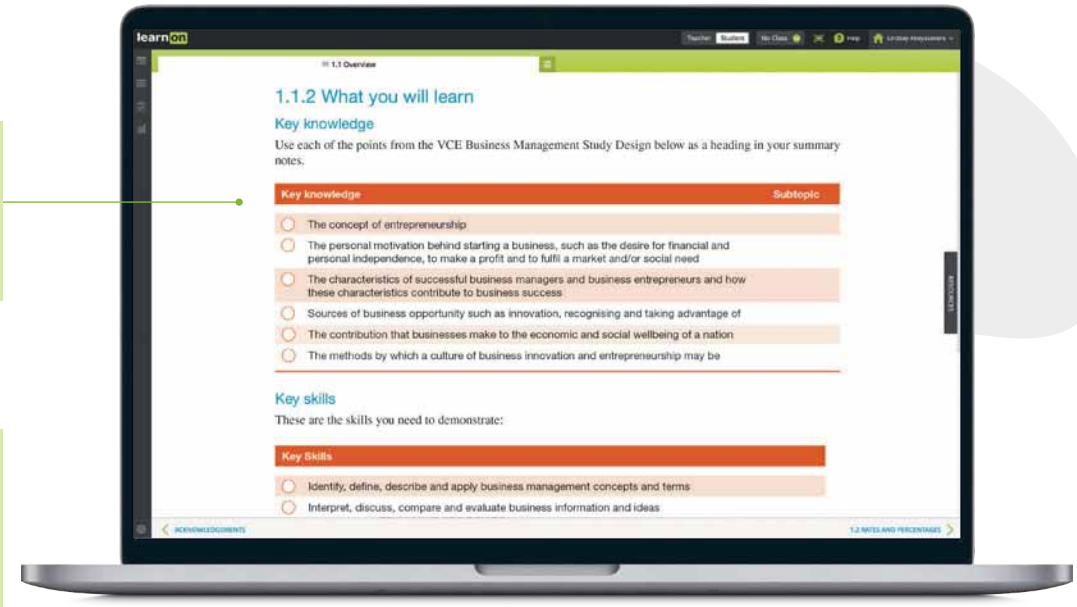
Get the most from your online resources

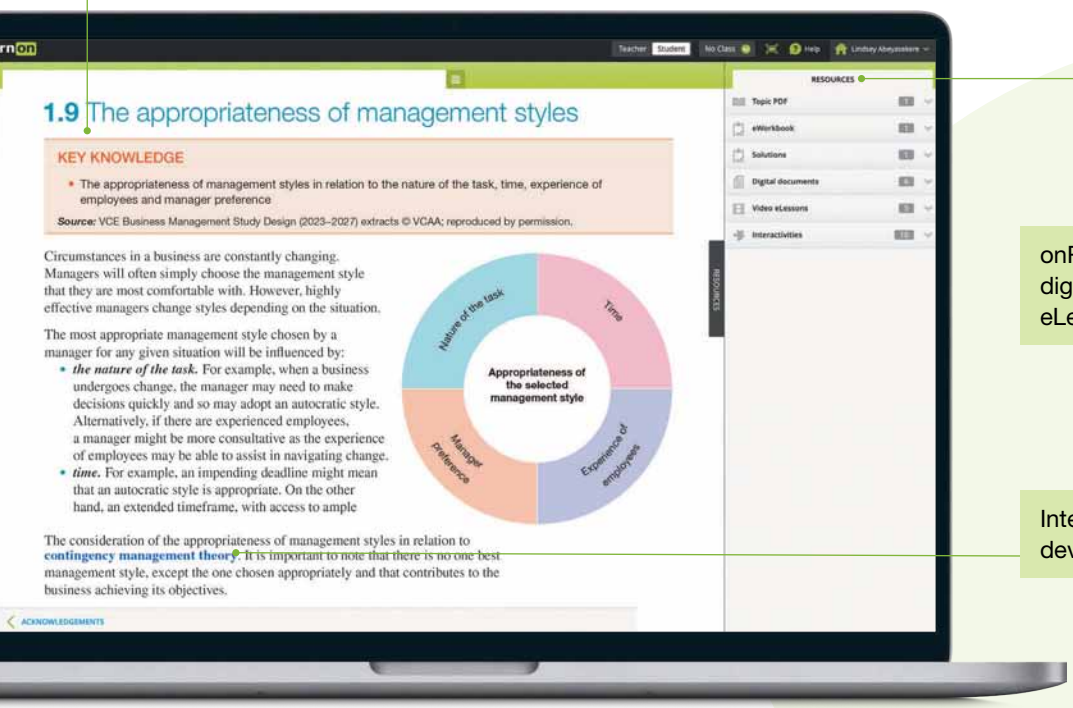
Online, these new editions are the complete package

Trusted Jacaranda theory, plus tools to support teaching and make learning more engaging, personalised and visible.

Each topic is linked to Key Knowledge and Key Skills from the VCE Business Management Study Design.

Each subtopic is linked to Key Knowledge and Key Skills from the VCE Business Management Study Design.

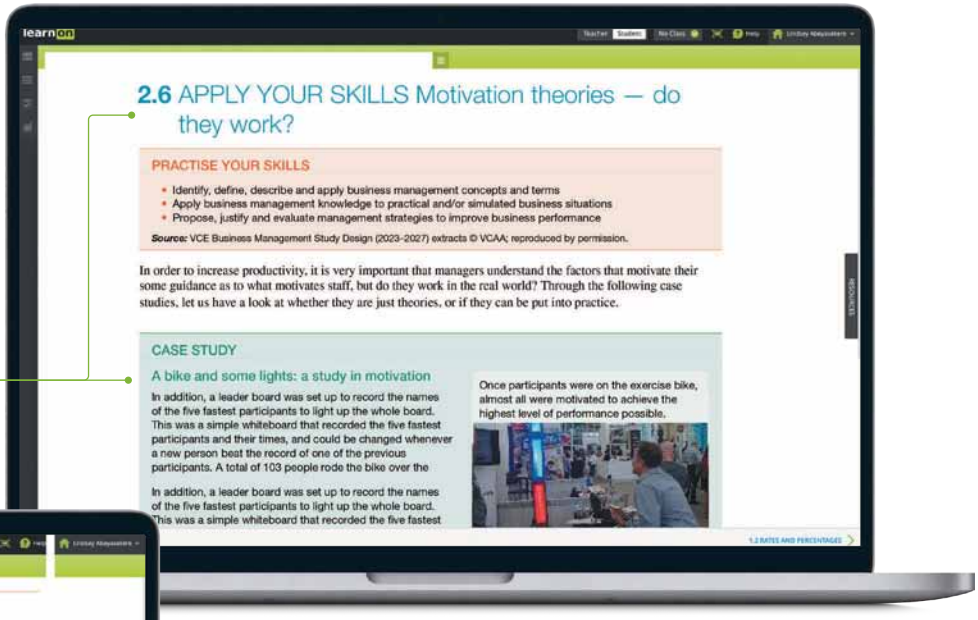




onResources link to targeted digital resources including video eLessons and weblinks.

Interactive glossary terms help develop and support literacy.

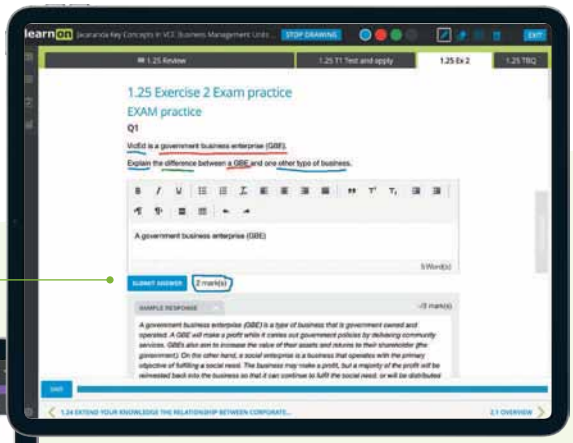
Dedicated Apply your skills subtopics give students practice acquiring the key skills from the Study Design. Real-life contemporary case studies allow students to contextualise their understanding.



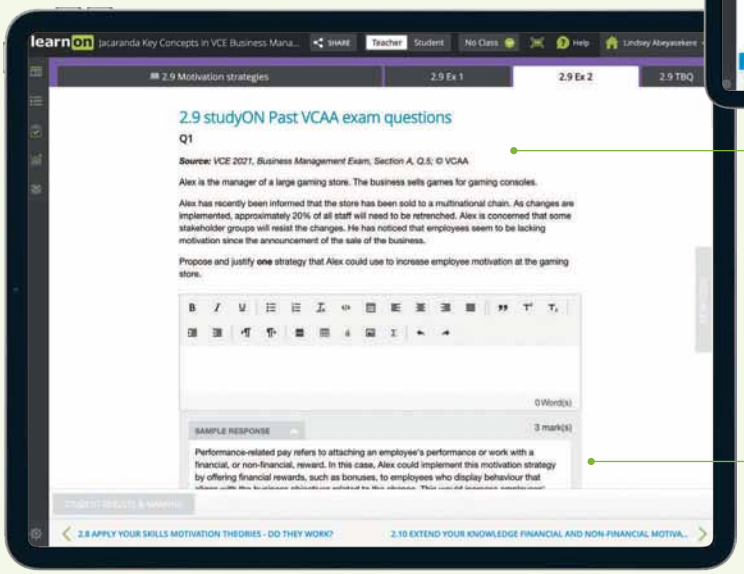


A key ideas summary is provided at the end of each subtopic.

Three sets of questions at the end of each subtopic: Quick quiz, Exercise and Exam questions (containing relevant past VCAA exam questions), encourage students to practise and apply the concepts they are studying.



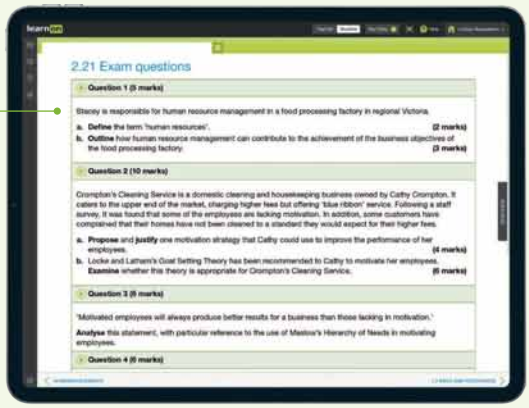
Teacher-led videos that explain how to approach exam questions, including VCAA exam questions



- Online and offline question sets contain quiz questions, practice questions, exam-style questions and past VCAA exam questions with exemplary responses and marking guides.
- Every question has immediate, corrective feedback to help students to overcome misconceptions as they occur and to study independently — in class and at home.

Topic reviews

Topic reviews include online summaries and topic-level review exercises, including quick-quiz and exam questions, that cover multiple concepts.

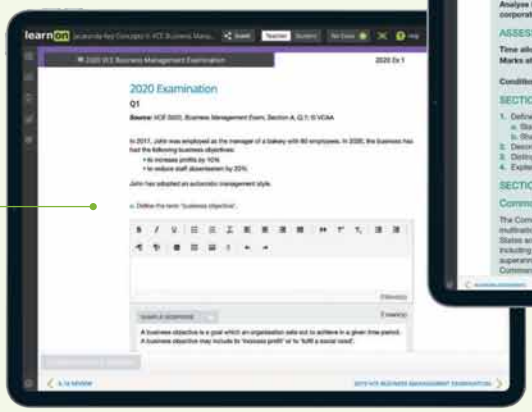


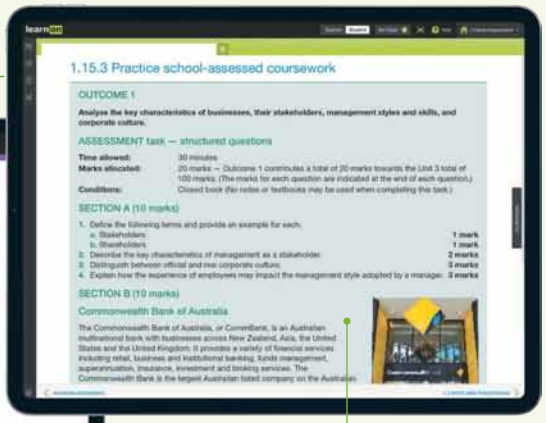
End-of-topic exam questions include relevant past VCE exam questions and are supported by teacher-led videos.



Get exam-ready!

Students can start preparing from lesson one, with exam questions embedded in every lesson — with relevant past VCAA exam questions since 2013.



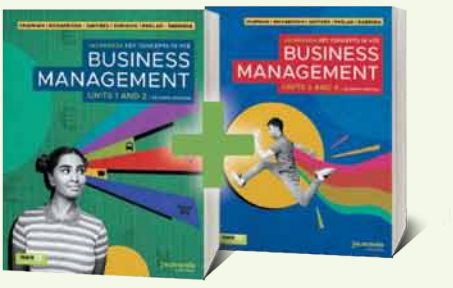


Practice, customisable SACs available to build student competence and confidence.

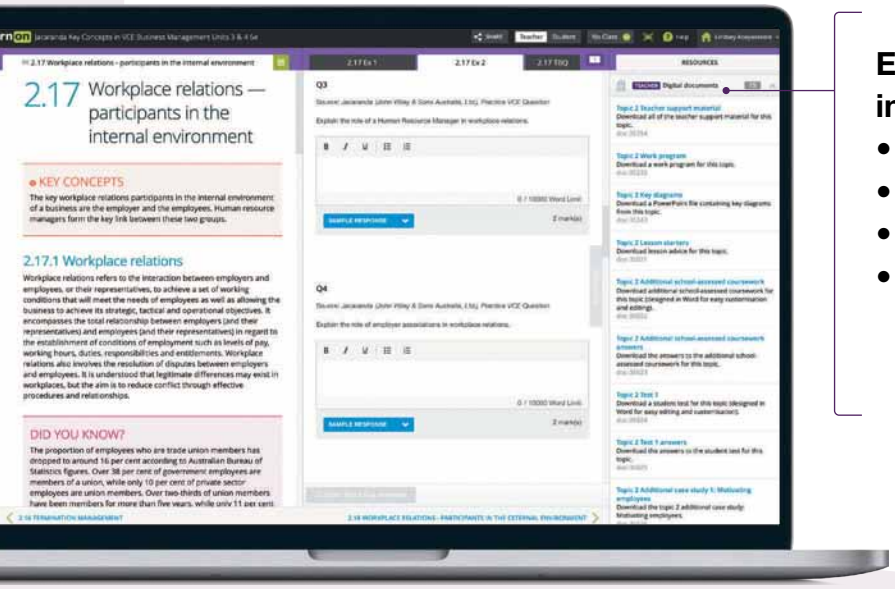
Combine units flexibly with the Jacaranda Supercourse



Build the course you've always wanted with the Jacaranda Supercourse. You can combine all Business Management Units 1 to 4, so students can move backwards and forwards freely.
Or combine junior humanities with Business Management Units 1 & 2 for custom elective courses. The possibilities are endless!



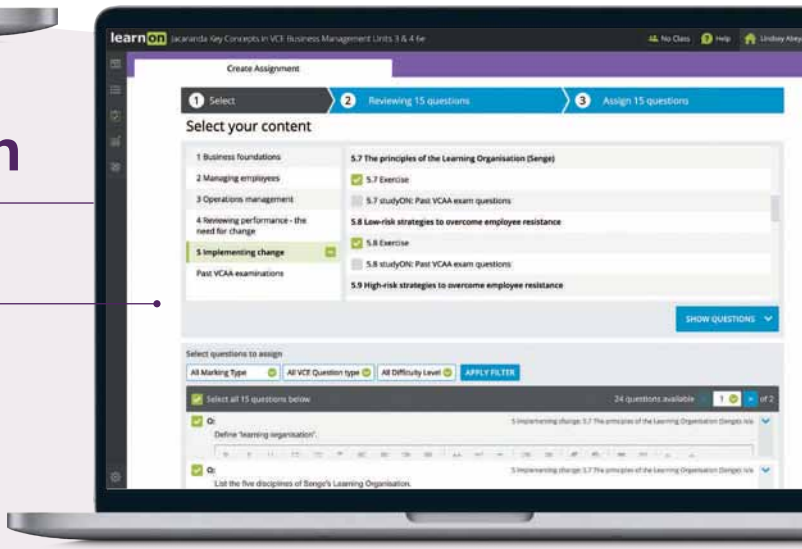
A wealth of teacher resources



Enhanced teacher support resources, including:

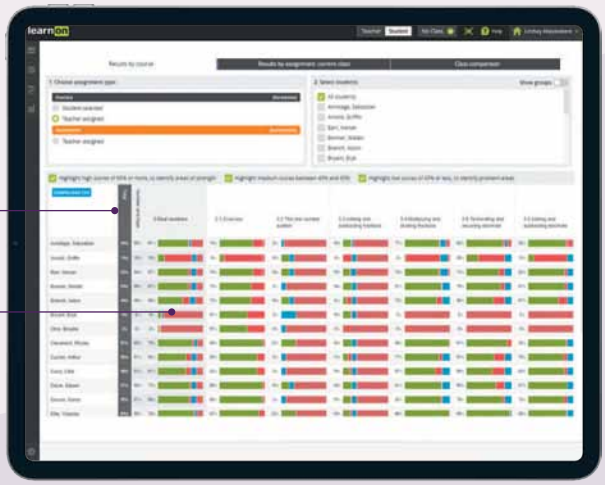
- work programs and curriculum grids
- teaching advice and additional activities
- quarantined topic tests (with solutions)
- quarantined case studies and SACs (with worked solutions and marking rubrics).

Customise and assign



A testmaker enables you to create custom tests from the complete bank of thousands of questions (including past VCAA exam questions).

Reports and results



Data analytics and instant reports provide data-driven insights into performance across the entire course.

Show students (and their parents or carers) their own assessment data in fine detail. You can filter their results to identify areas of strength and weakness.

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UNIT

1 Planning a business

AREA OF STUDY 1

The business idea

OUTCOME 1

Describe a process for creating and developing a business idea, and explain how innovative and entrepreneurial practices can contribute to the national economy and social wellbeing.

1 The business idea 3

AREA OF STUDY 2

Internal business environment and planning

OUTCOME 2

Describe the internal business environment and analyse how factors from within it may affect business planning.

2 Internal business environment and planning 63

AREA OF STUDY 3

External business environment and planning

OUTCOME 3

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

3 External business environment and planning 145

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TOPIC

1 The business idea

UNIT 1 AREA OF STUDY 1

OUTCOME 1

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

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1.1 Overview

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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 topic will explore where business ideas come from and what needs to be considered before a business is established.



CONTEMPORARY CASE STUDY

MANUFACTURING BUSINESS: Carman's Fine Foods

CEO	Carolyn Creswell
Revenue	$105 million (2020)
Headquarters	Huntingdale, VIC
Gross profit	$20 million
Employees	Over 250



Carolyn Creswell is the founder of Carman's Fine Foods, a health food company that manufactures muesli, muesli bars and a range of other snacks. She started the business in 1992 when she was 18 years old with $1000. As a first-year university student, Creswell was working at a homemade muesli business. When the owners told her that they were selling the business, she saw an opportunity. Thinking that she already knew how to make the muesli and believing that it was a great product, Creswell took a risk and made an offer to the owners, partnering with a friend who also worked at the business. An offer of $2000 was made to the owners — $1000 each. The offer was initially dismissed, but after receiving no other offers, the owners finally agreed to sell.

The new business was named Carman's after the first three letters of Creswell's name and the first three letters of her business partner's name. Creswell later bought out her partner. Initially, the business supplied muesli to a number of cafés and delis across Melbourne, but, after much hard work and persistence, Creswell managed to get the major supermarkets to start stocking Carman's products.

Today, Carman's products are sold in supermarkets across Australia and exported to more than thirty countries; exports make up 10 per cent of their revenue. In 2018 Carman's moved into custom-built buildings in Huntingdale in Melbourne. These buildings include a Learning Hub and Innovation Lab, gym, yoga room, recreation and breakout areas, commercial kitchen with chef, a salon and massage room, as well as meeting rooms.

After expanding into China, Carman's pulled out in February 2020 after its Chinese partner faced financial difficulties. The business now turns over in excess of $100 million a year. Carman's employs more than two hundred and fifty staff.

CONTEMPORARY CASE STUDY

SERVICE BUSINESS: Linfox

CEO	Mark Mazurek
Revenue	$3 billion
Headquarters	Essendon, VIC
Gross profit	$43 million
Employees	Over 24 000



Lindsay Fox founded Linfox, a transport and logistics business, in 1956. The son of a truck driver, Fox dropped out of school at age 16 when he realised that a formal education was not going to suit him. Unlike his father, Fox wanted to own a truck, not just drive them. When he was 19 years old, he purchased his first truck (a 1957 Ford F500) for £400 from a wrecker in Melbourne, and he began carting coal and briquettes in the winter and soft drinks in summer. When he purchased another truck the following year, he wanted to let everyone know that he had two trucks — this is where the iconic slogan 'You are passing another Fox' was born.

Fox's first goal was to achieve £10 a day, five days a week. Through a combination of hard work and self-reliance, each new goal was achieved and the business, known early on as Lindsay Fox Cartage, continued to grow. Making use of his skills in negotiation and relationship building, Fox guided the business through a number of milestones: landing a contract with soft drink manufacturer Schweppes in 1958, which resulted in an expansion of the fleet to ten trucks; opening a depot in Moorabbin; then securing contracts with tyre manufacturer Dunlop and GJ Coles and Coy (now Coles) in the 1960s.

Eventually, Fox realised that for the business to continue to thrive, he needed to stop driving trucks and start working on the business. In 1961, the business was incorporated (became a company) and five years later was renamed Linfox Transport Pty Ltd.

Today, more than 24 000 employees work for Linfox. The business has a fleet of more than 5000 vehicles with operations in 12 countries, including New Zealand, China, Hong Kong, Thailand, India, Indonesia, Vietnam and Malaysia. The business continues to invest in new services and explore new markets. Fox has since stepped back from the day-to-day running of Linfox. His son Peter was appointed Executive Chairman in 1993. In 2022, Linfox introduced its first electric truck for Australian retailer Coles.

The electric vehicle is a step towards Linfox and Coles' shared sustainability goals, highlighted by Linfox's 'Act Sustainably' strategic promise, along with Coles' 'Together to Zero' strategy.

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 knowledge	Subtopic
◯ The concept of entrepreneurship	**1.2**
◯ The personal motivation behind starting a business, such as the desire for financial and personal independence, to make a profit and to fulfil a market and/or social need	**1.3**
◯ The characteristics of successful business managers and business entrepreneurs and how these characteristics contribute to business success	**1.4**
◯ Sources of business opportunity such as innovation, recognising and taking advantage of market opportunities, changing customer needs, research and development, technological development and global markets	**1.5**
◯ The importance of goal setting and decision-making in business	**1.6**
◯ The importance of business concept development	**1.7**
◯ The relationship between business opportunities and business concept development	**1.7**
◯ Market research and initial feasibility studies	**1.9**
◯ The contribution that businesses make to the economic and social wellbeing of a nation	**1.11**
◯ The methods by which a culture of business innovation and entrepreneurship may be fostered in a nation, such as government investment in research and development, council grants for new businesses, school-based educational programs in entrepreneurship and the creation of regional business start-up hubs	**1.13**

Key skills

These are the skills you need to demonstrate:

Key skills
◯ Identify, define, describe and apply business management concepts and terms
◯ Interpret, discuss and compare business information and ideas
◯ Analyse case studies and contemporary examples of business management
◯ Apply business management knowledge to practical and/or simulated business situations.

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on Resources

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Linfox

1.2 Entrepreneurship

KEY KNOWLEDGE

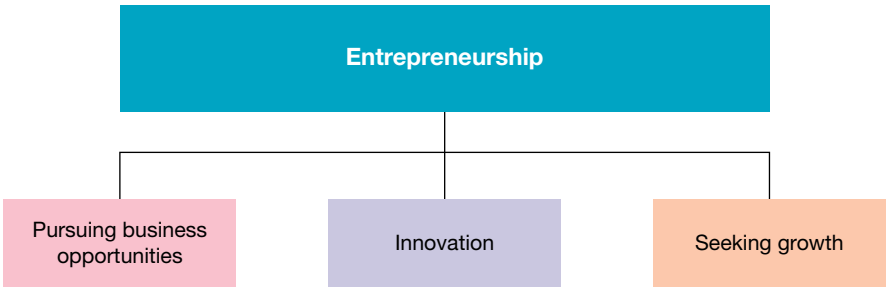
- The concept of entrepreneurship

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What image comes to your mind when you hear the word entrepreneur? Perhaps you imagine a wealthy or famous business person, an owner of a technology start-up or an innovative person finding a new way to solve a problem. You might imagine a small business owner opening up their new restaurant.

There are a range of views on what an entrepreneur is and what the term **entrepreneurship** means. However, entrepreneurship is generally considered to refer to the process whereby a person creates and operates a new **business**, usually in response to opportunities, while taking on the risk of the venture in the hope of making a **profit**. This may involve the entrepreneur investing their time, money or skills into launching and managing the business.

Three significant ideas are implicit in this definition. As seen in the figure below, these include pursuit of business opportunities, innovation and seeking growth. These ideas will be explored in more detail throughout this topic.



1.2.1 The pursuit of business opportunities

A key feature of entrepreneurship is pursuing sources of business opportunities, such as gaps in the market that no-one else has noticed or paid attention to. An entrepreneur may seize on other opportunities, such as changes in customer needs, technological developments or changes in global markets. These sources of business opportunity will be examined more closely in subtopic 1.5.

An entrepreneur converts these opportunities into manageable business ideas and makes the idea a reality. For example, as a teenager, Bill Gates, co-founder of Microsoft Corporation, decided to take the risk of establishing his own business to market a computer operating system that he and a friend had developed. Today, there are over one billion active users of Microsoft software. There are many other well-known entrepreneurs, including Jeff Bezos, founder and executive chair of Amazon, Melanie Perkins, co-founder and CEO of Canva, and Elon Musk, founder and CEO of SpaceX and CEO of Tesla.

entrepreneurship the act of starting and operating a new business in response to opportunities, assuming all the risk in the hope of making a profit

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

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

However, entrepreneurial qualities are not limited to famous people. Eleven-year-old Eli Jones recently launched a business called Mr Eli Pine Cone. His business plan involves picking up pine cones at his grandma's property in South Australia, bagging them, then selling them online at $20 for a bag of 40. The pine cones are popular with customers as fire starters or as mulch for gardens, so Eli's business is growing.

Eli Jones and more well-known business people are all considered to be entrepreneurs. They organised their business, undertook the necessary arrangements for it to operate and were prepared to take a risk. The size of the profits may differ, but they both took advantage of an opportunity.

Daniel Ek is a Swedish billionaire and one of the founders of Spotify, the music streaming service. The service has grown to a massive size, and it will likely continue to absorb a large share of the music market.



DID YOU KNOW?

According to Global Entrepreneurship Monitor data, 10.5 per cent of Australia's adult population (1.7 million people) were early-stage entrepreneurs in 2019. This figure has declined from 14.6 per cent in 2016, with Australia currently sitting slightly below average among the 25 OECD economies in relation to this indicator.

1.2.2 Innovation

Another key feature of entrepreneurship involves innovation: change, improvement and/or transformation. Entrepreneurs blend their flair, imagination and creativity to develop new products or ways of doing business, or improve existing products or processes. Innovation is frequently used by entrepreneurs as a source of business opportunity — to meet the needs and wants of customers or to take advantage of change. Innovation will be examined more closely in subtopic 1.5.

Innovation is a key part of being an entrepreneur.



1.2.3 Seeking growth

Entrepreneurs work hard to pursue growth. Not content to stay the same, an entrepreneur will seek new trends, explore new products and new approaches so that the business increases in size. Growth is necessary for the survival of a new business. Becoming bigger would be expected to lead to increasing sales and market share, and greater profit. Profit is one of the incentives that encourages entrepreneurs to take the risks involved in establishing the business in the first place.

An entrepreneur will have a vision, meaning that they will have an understanding or hope of what the business will be like in the future. Setting clear goals, such as to make a profit, increasing sales and market share, or to fulfil a social need will give the business direction. Goal setting will be examined more closely in subtopic 1.7.

CONTEMPORARY CASE STUDY: FAMOUS ENTREPRENEURS

Elon Musk



Elon Musk has big ambitions. In an entrepreneurial career that started at university, Musk has been linked to various businesses such as PayPal, and has become the CEO of both Tesla, Inc. and SpaceX. He is well known for his involvement in scientific and engineering solutions; he was founder of The Boring Company and co-founder of OpenAI and Neuralink. In 2022 Elon Musk offered to buy Twitter for US$44 billion, an event which caused intense media interest. This increased further when he backed out of the initial deal. Musk also has aspirations to establish a colony on Mars.

Mark Zuckerberg

Mark Zuckerberg is a famous American entrepreneur. He is one of the founders of the very successful online social media and social networking service Facebook. As a computer programmer, Zuckerberg began creating websites while he was at college and, in 2004, he launched Facebook. It has grown in popularity ever since — as of December 2021, there were almost 2 billion daily users of Facebook. The business has been successful because Zuckerberg has specialised skills and was willing to take a risk to develop a unique business idea.



Zuckerberg believes in the open and free flow of information between people. Facebook has allowed this to occur, but the company has also courted controversy throughout its years of operation. The business has been criticised over issues such as contributing to screen addiction and low self-esteem, political manipulation, violations of user privacy and dubious content, such as fake news and hate speech.

In 2021, the Facebook company changed its name to Meta Platforms, Inc., or 'Meta', as it shifted its focus to developing a 'metaverse'. Zuckerberg shared more about the vision for the new company in a founder's letter. He noted that the future would be 'an embodied internet where you're in the experience, not just looking at it. We call this the metaverse, and it will touch every product we build'.

Gina Rinehart

Gina Rinehart is the richest person in Australia and one of the richest women in the world. She is the Executive Chairman of the Hancock Prospecting Group, a business with interests in mineral exploration and extraction, as well as agriculture. The company produces millions of tonnes of iron ore each year.



The Hancock Group was founded by Rinehart's father, Lang Hancock, in 1955. Rinehart became executive chairman of the company when her father passed away in 1992. The business was in a financially unhealthy position, carrying significant debt and various other liabilities, as well as substantial legal claims. Rinehart seized the opportunity to save the business. Taking a risk, she transformed the Hancock Group by maintaining tight control over operations and building a new iron mine in the Pilbara — the Roy Hill Mine. Roy Hill has since become the Hancock Group's largest source of revenue and profit.

The development of new mines involves lengthy approval processes and huge expenditure. Rinehart carried this risk, via the company, raising the finance necessary to develop major mines and related facilities. Rinehart's vision to grow and improve Australian food led to the Hancock Group diversifying and investing in pastoral properties. The company also recently established a share portfolio, consisting of investments in future metals including copper, rare earths and lithium.

KEY IDEAS

- Entrepreneurship is the process whereby a person creates and operates a new business, in response to opportunities, while taking on the risk of the venture in the hope of making a profit.

1.2 Exercises

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1.2 Quick quiz on | **1.2 Exercise** | **1.2 Exam questions**

1.2 Exercise

TEST your understanding

1. Briefly **explain** what is meant by the term 'entrepreneurship'.
2. **Outline** how entrepreneurship relates to each of the following:
   a. pursuit of business opportunities
   b. innovation
   c. seeking growth.

APPLY your understanding

3. Choose one of the entrepreneurs in the 'Famous entrepreneurs' case study and **explain** how they demonstrate entrepreneurship.
4. Think of a person whom you believe demonstrates entrepreneurship. **Justify** why you chose this person in light of your understanding of entrepreneurship.
5. Devise your own definition of entrepreneurship. **Outline** your answer to a partner.

1.2 Exam questions

Question 1 (2 marks)

Identify two significant features of entrepreneurship.

Question 2 (2 marks)

Define the term 'entrepreneurship'.

Question 3 (3 marks)

Explain, using an example of a contemporary business case study, the concept of entrepreneurship.

Question 4 (3 marks)

Describe the relationship between innovation and entrepreneurship.

More exam questions are available online.

1.3 The personal motivation behind starting a business

KEY KNOWLEDGE

- The personal motivation behind starting a business such as the desire for financial and personal independence, to make a profit and to fulfil a market and/or social need

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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?

on Resources

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

1.3.1 The desire for financial and personal independence

The desire for independence is a major reason for wanting to start a business. Some people dream about starting their own business and becoming wealthy. The potential for long-term **financial independence** is a motive for many people starting a new business. Establishing a business means that they will not have to rely on an income from an employer or be dependent on other people to pay for living expenses.

Many people start a business simply to have control over their own destiny. These individuals are motivated by **personal independence**. For some people, working for another person as an employee can be a challenging experience. 'Being my own boss' is a common reason given for commencing a new business. Often, a person will simply desire the freedom to choose when and where they work, the tasks they undertake, with whom they work and whether to work from home. The great attraction is the belief that the business owner will be able to do their own thing.

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



1.3.2 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 start-up phase — but the hope is that eventually the business owner will earn more from being self-employed.

financial independence the capacity to support a lifestyle without having to be employed or be dependent on others

personal independence the capacity to be in control of decisions that affect one's everyday actions or activities

1.3.3 To fulfil a market need

Another reason for wanting to start a business is the recognition of a **market need**. Market need refers to the products that customers require that may not be available. A prospective business owner may recognise that particular goods or services for which there is a demand are not readily available in a particular suburb or town. In other words, an individual may be motivated to set up a new business after identifying a gap in the market. Alternatively, the potential business owner may have particular skills that can be the basis of a new business. 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.

1.3.4 To fulfil a social need

Sometimes a person will be motivated to start a business in order to fulfil a **social need**. This refers to the production or selling of goods and services for the purpose of making the world (or the community) a better place. 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 some sort of environmental need.

Many people are motivated to start a business through their desire to help other people or the environment. Accordingly, an individual may establish a business that gives some of its profit to a social need, or set up a business that operates in such a way that it meets a social need — for example, providing employment to local disadvantaged people or incorporating waste minimisation and recycling into the procedures of the business.

This is a type of business that makes a profit, but concentrates on community or environmental need. Any profit that the social enterprise makes will be reinvested back into the business so that it can continue to fulfil the social need. Social enterprises will be examined more closely in topic 2.

Owning a business is something that many people aspire to; however, it comes with benefits and limitations.

market need the goods or services that customers require that are not readily available

social need the production and/or selling of goods and services for the purpose of making the world (or the community) a better place

Benefits	Limitations
• Being your own boss — independence • Possibility of making a profit • Challenging, rewarding and satisfying • Increasing personal wealth • Contributing positively to society • Developing own creative ideas • Overcoming unemployment • Achieving a better lifestyle • Employing family members • Possible tax advantages	• Hard work and long hours • Meeting the demands of customers, suppliers and financiers • Fluctuating or uncertain income • Risk of failure • Stress and worry • High levels of responsibility • Constantly solving problems • Difficulty selling the business

CASE STUDY

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.

Recognising the scale of food wastage in this country, the Carsons began to explore ways of redistributing food. Initially they focused on 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.

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.



'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.

The food that SecondBite collects 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.

When SecondBite started it operated with just three volunteers in Victoria and moved just over 600 kilograms of food. Now it has warehouse locations and state offices in Melbourne, Brisbane, Sydney, Adelaide and Perth. SecondBite also partners with organisations in Tasmania and the Northern Territory. With over 600 volunteers, and more than 80 staff members, it provided 48.7 million meals in the 2021 financial year.

on Resources

Weblink Start-ups

KEY IDEAS

- 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.

1.3 Exercises

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1.3 Quick quiz on | **1.3 Exercise** | **1.3 Exam questions**

1.3 Exercise

TEST your understanding

1. **Outline** what 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** two possible personal motivations behind a person starting their own business.
4. **Identify** one benefit and one limitation of owning a business.

APPLY your understanding

5. **Outline** why Ian and Simone Carson established SecondBite.
6. **Explain** how SecondBite redistributes fresh and nutritious food.
7. Use the Start-ups weblink in the resources tab to read this UK start-up service website's ten 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. **Justify** your choices.
8. 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. **Outline** the most popular motivation for starting a business.

1.3 Exam questions

Question 1 (3 marks)

Distinguish between a social need and a market need.

Question 2 (6 marks)

'Being self-employed is better than working for someone else.' With reference to this quote, **discuss** the benefits and limitations of owning a business.

Question 3 (2 marks)

Outline one motivation for starting a business, using an example of an entrepreneur with whom you are familiar.

Question 4 (4 marks)

Explain how and why businesses can fulfil social needs, with reference to a contemporary business you are familiar with.

More exam questions are available online.

1.4 Characteristics of successful business managers and business entrepreneurs

KEY KNOWLEDGE

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

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The thousands of businesses in Australia 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.

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



1.4.1 Business managers

A business **manager** runs 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 the success of a business manager. 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:

manager a person who has responsibility for overseeing the operations of the business to ensure that it successfully achieves its goals

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?

1.4.2 Business entrepreneurs

An **entrepreneur** is generally considered to be 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. 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.

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

CONTEMPORARY CASE STUDY

MANUFACTURING BUSINESS: Carolyn Creswell and Carman's Fine Foods



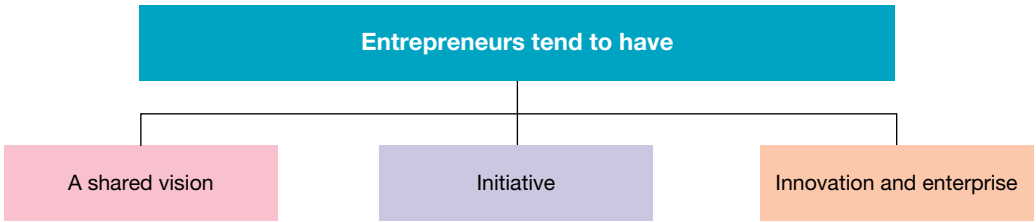
Caroline Creswell's business went from an opportunity (buying out a homemade muesli business) to generating a large turnover and profit.

Some people have suggested that the business was an overnight success. 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. However, Creswell says that in the early days of running Carman's, she often struggled to see the light at the end of the tunnel. She admits that there were times where she was so broke that she didn't know if she was going to be able to pay staff wages. Nevertheless, she never gave up, even when the business made no money for long periods of time.

Creswell 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 products a chance. 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. When the COVID-19 pandemic hit, Cresswell thought ahead and increased her production early, in anticipation of increased sales and stock shortages.

on Resources

Weblink Starting out — Carman's Fine Foods



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.

1.4.3 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 but all share the entrepreneurial spirit.



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.

KEY IDEAS

- 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.

1.4 Exercises

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1.4 Quick quiz on | 1.4 Exercise | 1.4 Exam questions

1.4 Exercise

TEST your understanding

1. **Explain** the difference between a business manager and an entrepreneur.
2. **Identify** five characteristics that a successful business manager is likely to have and explain how these can help them perform their duties.
3. **Explain** why it is best for business owners to select a business opportunity that suits their personality and strengths.
4. **Outline** the characteristics that a successful entrepreneur is likely to have. **Justify** why these might be needed for a business to be successful.

APPLY your understanding

5. **Identify** the characteristics that suggest that Carolyn Creswell is an entrepreneur.
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. **Explain** what this tells you about your chances of success if you decided to open a business.
8. Choose an entrepreneur — one that you know or have heard of — and investigate the characteristics they bring to their business. Use the questions below to help you.
   a. **Identify** what business this entrepreneur started and at what age.
   b. **Outline** why this person become an entrepreneur.
   c. **Describe** the entrepreneurial behaviours this person displays.
   d. **Outline** the skills this entrepreneur has.

1.4 Exam questions

Question 1 (4 marks)

Elon Musk is a famous entrepreneur who developed Tesla, Inc., an electric car and clean energy company, and the SpaceX program, which has launched rockets into space and aims to successfully complete a mission to Mars by 2025. **Analyse** the importance of the characteristics of entrepreneurs in the success of these companies.

Question 2 (4 marks)

Explain how two entrepreneurial characteristics have contributed to the success of an entrepreneur with whom you are familiar.

Question 3 (4 marks)

Distinguish between the characteristics of successful business managers and business entrepreneurs.

Question 4 (6 marks)

Identify three characteristics that a successful business manager is likely to have. **Justify** why each characteristic might be needed for a business to be successful.

More exam questions are available online.

1.5 Identifying business opportunities

KEY KNOWLEDGE

- Sources of business opportunity such as innovation, recognising and taking advantage of market opportunities, changing customer needs, research and development, technological development and global markets

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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.

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

Great Aussie inventions

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 innovative. According to the Australian Innovation System Monitor (2020), Australia has a fairly high level of innovation relative to the size of its economy. In 2021, Australia ranked twenty-fifth out of 132 countries in The Global Innovation Index (GII), a high-profile international index summarising factors affecting innovation.

Innovation and invention can lead to the establishment of a business based on the development of new or improved products. 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

Video eLesson Sources of business opportunity (eles-2973)

1.5.1 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. Both innovation and invention can result in the creation of something unique for a business.

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.

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

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.

In 2018, Professors Peter Blamey and Elaine Saunders partnered with RMIT University and Swinburne University to develop a breakthrough in hearing aid technology. Their product, Facett, is the world's first self-fit modular hearing aid. It has many features that make for simple and convenient use, eliminating the need to travel to audiology appointments, while reducing the cost and barriers to accessibility of improved hearing health.



1.5.2 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, but 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 Fingerscan, which is fingerprint identification technology. This was a new concept and a gap in the market for electronic security was identified. Fingerscan permitted a person to identify themselves by pressing their finger against a device, taking a scan of their fingerprint and instantly matching it with a template stored on a computer. This technology is widely used today and allows users to unlock smartphones, laptops and high security areas with their fingertip.

1.5.3 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.

1.5.4 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.

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

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.

Elon Musk has an ambitious vision to make his mark on the world. 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.

1.5.5 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.

1.5.6 Global markets

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. They 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.

on Resources

Weblink Young entrepreneurs

KEY IDEAS

- A business opportunity can come from innovation, 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, which can form the basis for the establishment of a business to sell those products.
- Converting an innovative idea into a business concept often requires the creativity and risk-taking ability of an entrepreneur for success to be achieved.

1.5 Exercises

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1.5 Quick quiz on | 1.5 Exercise | 1.5 Exam questions

1.5 Exercise

TEST your understanding

1. **Explain** what innovation is and provide an example of innovation in business.
2. **Outline** two types of business idea that may arise from recognising and taking advantage of market opportunities.
3. **Identify** three factors that can cause the needs of customers in a market to change.
4. **Outline** the importance of research and development in business.
5. **Explain** how the development of technology has created opportunities for potential business owners.
6. **Identify** two opportunities that global markets present for a potential business owner.

APPLY your understanding

7. Identify a significant invention or innovation. **Outline** the way in which this creation satisfied the need for a new product or an improved product. **Explain** whether it formed the basis of a new business or has been produced by an existing business.
8. Use the **Young entrepreneurs** weblink in the resources tab to select two of the young entrepreneurs profiled in the SmartCompany Smart 30 Under 30 list. For each young entrepreneur, answer the following questions:
   a. **Outline** the nature of that person's business.
   b. **Explain** what motivated them to go into business.
   c. **Identify** any major obstacles or challenges they have had to face.
   d. **Explain** how these challenges have been overcome.

1.5 Exam questions

Question 1 (3 marks)

Using an example, **explain** how changing customer needs can provide opportunities for a business idea.

Question 2 (3 marks)

Explain the relationship between 'research and development' and 'innovation'.

Question 3 (4 marks)

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.

Question 4 (4 marks)

Explain how a contemporary business that you are familiar with has seized an opportunity.

More exam questions are available online.

1.6 Goal setting and decision-making in business

KEY KNOWLEDGE

- The importance of goal setting and decision-making in business

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1.6.1 The importance of goal setting

A driver of a car usually knows their final destination and how they will get there. In the same way, a successful business owner has a destination in mind for their 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.

1.6.2 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 using internet-based 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.

S	M	A	R	T
Specific Goals should be clear and focused. For example, 'obtain 500 new customers in the market'.	**Measurable** Goals should be quantifiable (i.e. they should contain numbers to allow the business owner to know whether or not they are on track).	**Attainable** Goals should be challenging but they should be realistic. An attainable goal will usually address the question, 'How can the goal be accomplished?'	**Relevant** Goals should be worthwhile, support other goals and should be based on current conditions in the market.	**Time bound** A deadline or time limit should be set.

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 topic 2. The goals of larger businesses are often found on their websites or in annual reports. Woolworths Limited — a large retail company that sells groceries, liquor and general merchandise — states its goals on its website. Woolworths' goals are reflected in its purpose, which states that 'we create better experiences together for a better tomorrow'.

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

vision statement describes where the business wants to be in the future (e.g. five years from now)

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

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

Video eLesson Milling to success (eles-2404)

1.6.3 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.

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.



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

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

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.

productivity a measure of business efficiency comparing output produced with the quantity of inputs. It is calculated using the formula: *Productivity = outputs/inputs*

efficiency a measure of how well we do things; for example, if we are able to produce more outputs from the same inputs, we have become more efficient at using these inputs.

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

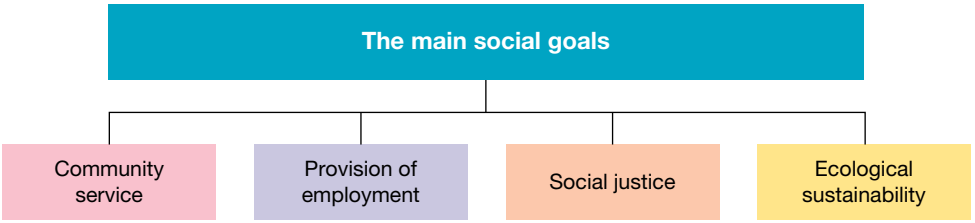
to increase our productivity. Effectiveness looks at whether we are doing the right things, those that are most important to the success of the business.

1.6.4 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.

Social goals of businesses



CONTEMPORARY CASE STUDY

A socially responsible business: The Body Shop

Founded in Brighton, England, in 1976 by Dame Anita Roddick, The Body Shop now operates approximately 3000 stores in more than 70 countries. In addition, the cosmetic products company, which is owned by Natura, serves more than 30 million customers and employs 10 000 people, with a further 12 000 in its franchise team.

Roddick's original vision was to build a socially responsible business that supported the community. She believed that business could be a force for good in the world.



Accordingly, Roddick developed five values:

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

These values have guided The Body Shop's employees and the company's business decisions for three decades. Today, The Body Shop is a high-profile advocate for social and environmental causes. For example, the Body Shop is committed to producing products that are sensitive to environmental concerns and sells all its products in reusable or recyclable containers.

The Body Shop prides itself on being a retail activist. Some of its campaigns include 'Stop Sex Trafficking of Children and Young People', 'Defend Human Rights', 'Against Animal Cruelty' and 'Protect Our Planet'. In Australia, The Body Shop launched a Christmas campaign in 2021 called 'Spread the Love, Share the Joy', which encouraged customers to be kind to themselves, as well as to others.

DID YOU KNOW?

Some businesses are able to address both social and financial objectives. Westpac Banking Corporation and IBM Australia Ltd are two platinum members of the Australian Network on Disability and have made a significant commitment to including people with disabilities in the way they go about their business.

1.6.5 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.

1.6.6 Decision-making in business

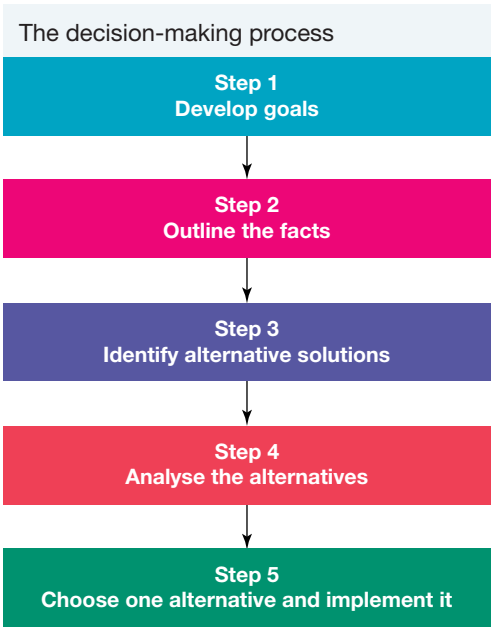
Decision-making is an important skill for a prospective business owner to have when taking a business idea and making it a reality. Decision-making involves identifying available options and then choosing one course of action from the alternatives. Effective decision-making underlies every aspect of creating and developing a business idea, including identifying opportunities and business planning. For instance, before starting a business the business owner should assess their idea and determine the likelihood of that idea being successful. Accordingly, a potential business owner should follow a decision-making process when deciding whether or not to move forward with a business idea.

A typical decision-making process, consisting of five steps, can be seen in the following figure. The first step is to clearly state what the desired goal or position is. This includes having some sort of measurable criteria for what this situation should look like. So the goal might be to make a profit, and the relevant criterion might be to make a profit of at least $1000 each week. If a potential business owner was making a decision about a particular business idea, they would need to keep this goal in mind. The same would be true if the person was making a decision about their suitability for operating a new business, or any of the other many key decisions that need to be made before starting the business.

decision-making the ability to identify the options available and then choose a specific course of action from the alternatives

All of the facts and information related to the situation then need to be outlined, including any circumstances that may cause a problem or issue, or possible obstacles that may prevent the attainment of the desired goal or position. Once all the facts have been outlined, the desired goal or position (step 1) should be reassessed to confirm if it was developed clearly and whether or not it is realistic.

In step 3, alternative solutions need to be generated that will possibly overcome any circumstances or obstacles identified in step 2. The next step (step 4) involves analysing the alternatives. Each alternative solution should be closely examined for the resources that would be needed to carry them out and their possible consequences. As part of an analysis, the alternatives should be ranked in terms of their costs and benefits, strengths and weaknesses, or advantages and disadvantages. The business owner then needs to choose the best alternative according to the criteria and implement it (step 5).



KEY IDEAS

- A business goal refers to 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.
- Businesses strive to achieve three broad goals: financial, social and personal.
- Decision-making is the ability to identify the options available and then choose a specific course of action from the alternatives. It is an essential aspect of creating and developing the business idea.

1.6 Exercises

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1.6 Quick quiz on | 1.6 Exercise | 1.6 Exam questions

1.6 Exercise

TEST your understanding

1. Briefly **explain** what is meant by the term 'goal'.
2. **Identify** the five characteristics of a S.M.A.R.T. goal.
3. **Outline** two examples of financial goals and two examples of social goals.
4. **Identify** five steps in a decision-making process.

APPLY your understanding

5. '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? **Outline** reasons for your answer.
6. In the following examples, **identify** the business goal/s the individual is trying to achieve and **outline** how they are seeking to achieve them.
   a. A new business owner wishes to increase the number of retail customers, so a large sale is planned.
   b. 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.
   c. 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.
   d. A man who is starting a small printing company is hoping to employ his nephew, knowing that he may need extended periods away from work to pursue his sports career.
   e. Vin is planning to start a home-based 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.
   f. 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.

1.6 Exam questions

Question 1 (2 marks)

Explain why it is important for a potential business owner to set goals.

Question 2 (3 marks)

Providing an example of each, **distinguish** between social goals and financial goals.

Question 3 (2 marks)

Outline a goal of a contemporary business that you are familiar with and **explain** the potential benefits to the business of striving towards the achievement of this goal.

Question 4 (2 marks)

Define the term 'decision-making'.

Question 5 (3 marks)

Explain the importance of decision-making in business.

More exam questions are available online.

1.7 Business concept development

KEY KNOWLEDGE

- The importance of business concept development
- The relationship between business opportunities and business concept development

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1.7.1 Developing a business concept

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.

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.



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

CASE STUDY

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 is 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 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.

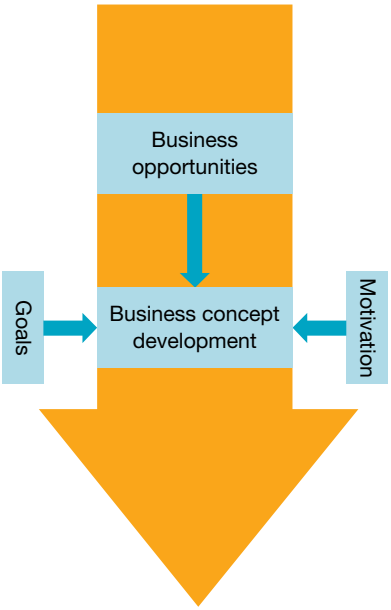
The CLU. brand is also built on excellent customer service.



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 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 1.9.

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



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. The following table outlines five common methods for protecting IP.

Five common methods for protecting IP

Method	Description
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 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 can also 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 a website.

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

on Resources

Weblinks Intellectual Property Australia
CLU. Living

KEY IDEAS

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

1.7 Exercises

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1.7 Quick quiz on | **1.7 Exercise** | **1.7 Exam questions**

1.7 Exercise

TEST your understanding

1. **Identify** three possible sources of new business concepts and explain how each could provide ideas for a new business.
2. Briefly **explain** two common methods for protecting intellectual property.
3. **Outline** the link between business opportunities and business concept development.

APPLY your understanding

4. 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. **Outline** how Gerry has sought to differentiate his business from those of possible competitors.
   c. **Explain** how Gerry could protect his intellectual property.
5. Use the **Intellectual Property Australia** weblink in the resources tab to answer the following questions:
   a. **Define** the term 'patent'.
   b. **Identify** and **describe** an example of an Australian invention that has been successfully patented.
   c. **Define** the term 'trademark'.
   d. **Identify** and **describe** an example of an Australian business that has successfully registered a trademark.

1.7 Exam questions

Question 1 (2 marks)

Explain the importance of business concept development.

Question 2 (2 marks)

'The business concept is the starting point for any new business.' **Explain**.

Question 3 (4 marks)

Analyse the relationship between business opportunities and business concept development.

Question 4 (6 marks)

Analyse the importance of protecting the business idea or concept (intellectual property), with reference to a contemporary business that you are familiar with.

More exam questions are available online.

1.8 APPLY YOUR SKILLS Creating a business idea

PRACTISE YOUR SKILLS

- Identify, define, describe and apply business management concepts and terms
- Interpret, discuss and compare business information and ideas
- Analyse case studies and contemporary examples of business management
- Apply business management knowledge to practical and/or simulated business situations

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CONTEMPORARY CASE STUDY

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 the business, 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 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.

1.8 Exercises

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1.8 Exercise | **1.8 Exam questions**

1.8 Exercise

TEST your skills

1. **Identify** the personal motivation behind Mick and Simone wanting to start a business.
2. **Define** the term 'wholesale business'.
3. **Identify** a source of business opportunity that might have influenced Mick and Simone in making their decision concerning their purchase of Moregolf.

APPLY your skills

4. **Identify** a list of the relevant characteristics of successful business managers and business entrepreneurs that should be considered before commencing one 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.
5. 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, using the following questions:
   a. **Outline** the business concept.
   b. **Identify** reasons for selecting this concept.
   c. **Identify** the personal or other skills necessary to run the business.
   d. **Identify** the likely demand for the good or service. (Is there a 'gap in the market'?)
   e. **Outline** any innovation in the good or service (or in the way these are delivered).
   f. **Outline** basic market research needed.
   g. **Describe** any existing competitors in the local area.
   h. **Outline** the predicted level of success.
6. In pairs, choose a business of which you have some knowledge. It could be a business that employs a family member or a friend, where you work part time or a local business. Interview the owner of the business and prepare a report for presentation to the rest of the class. You may wish to video the interview, then view and discuss it in class.

1.8 Exam questions

Question 1 (3 marks)

Referring to a contemporary business case study, **outline** one opportunity that the business identified and **explain** whether or not this opportunity was successfully seized.

Question 2 (2 marks)

Explain why it is important to set goals before starting a new business.

Question 3 (4 marks)

Analyse the importance of business concept development, with reference to a contemporary business case study.

Question 4 (4 marks)

Analyse how the characteristics of business managers and entrepreneurs contribute to business success.

More exam questions are available online.

1.9 Market research and initial feasibility studies

KEY CONCEPT

- Market research and initial feasibility studies

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There will always be a risk involved in starting 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.

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

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

1.9.1 Market research

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

Market research process	
Step 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.
Step 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.
Step 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 topic 5.

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



1.9.2 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 their strengths and weaknesses, 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 1.4.1 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.



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

on Resources

Weblink Do market research

KEY IDEAS

- 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.

1.9 Exercises

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1.9 Quick quiz on | 1.9 Exercise | 1.9 Exam questions

1.9 Exercise

TEST your understanding

1. Briefly **explain** the value of market research to someone who is thinking of commencing a business.
2. **Define** the term 'feasibility study'.
3. **Identify** 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. **Outline** to Sevilla why it might be necessary to conduct an initial feasibility study before proceeding with her business idea.
   b. **Describe** 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. **Identify** six questions that a market researcher might ask to assist Sevilla in making a decision about whether to implement her business idea.
   d. **Identify** 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. **Outline** the ways these steps are both similar and different to the market research process outlined in 1.9.1.
   b. **Identify** two methods suggested by Business Victoria for completing market research surveys.

1.9 Exam questions

Question 1 (2 marks)

Distinguish between a feasibility study and market research.

Question 2 (3 marks)

Explain why it is important to assess the market before commencing a business.

Question 3 (3 marks)

Explain how a contemporary business case study has used (or is likely to use) market research or feasibility studies to assist them with decision-making.

Question 4 (4 marks)

Identify two things a prospective café owner would consider in an initial feasibility study and **explain** why each is important.

Question 5 (4 marks)

Explain how and why a potential business owner should conduct an initial feasibility study before starting a new business.

More exam questions are available online.

1.10 APPLY YOUR SKILLS Developing the business idea

PRACTISE YOUR SKILLS

- Identify, define, describe and apply business management concepts and terms
- Interpret, discuss and compare business information and ideas
- Analyse case studies and contemporary examples of business management
- Apply business management knowledge to practical and/or simulated business situations

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Developing the business idea involves collecting and assessing information about how viable the idea is and whether it is worth taking the risk of starting a new business. Conducting a feasibility study allows the potential business owner to assess a business idea's potential for success. Carrying out market research helps to determine whether a genuine gap in the market exists, whether there are sufficient customers and whether the good or service to be provided will need to be adapted to be successful. By developing the business idea, the prospective business owner can minimise the risk of failure.

CONTEMPORARY CASE STUDY

Dion Devow — First Nations Australian entrepreneur



Dion Devow established clothing label Darkies Designs in 2010. The business produces contemporary First Nations Australian-themed clothes and print media for mainstream, sports and promotional use. Devow identified a business opportunity after not being able to find First Nations Australian clothing labels that suited him. The catalyst for Darkies Designs was the realisation that there was a gap in the market for contemporary First Nations Australian clothing. The word 'Darkies' was chosen deliberately to negate the historically derogatory use of the word.

In addition to running Darkies Designs, Devow has founded other businesses, including an IT recruitment business called Yerra; created an innovation network; become a community ambassador; and started working as a radio presenter for ABC in Canberra. In 2018, he was named ACT Australian of the Year. Devow received this honour in recognition of his work on his clothing enterprise and for supporting First Nations Peoples to achieve their business dreams.

Devow is a firm believer in undertaking market research as a way to mitigate the risks involved in running a business. He recommends that businesses starting out use economical methods such as social media. Whenever Devow develops ideas for new designs, he posts images on a variety of social media platforms to gauge people's reactions.

However, Devow warns, you need to be cautious of the response you receive as this type of feedback isn't always foolproof. Just because people 'like' something, doesn't mean they will buy it. For instance, a few years ago Devow had an idea to create a yoga mat with First Nations Australian prints. He got some samples made and posted them on social media where he was overwhelmed with positive responses. Based on this feedback he decided to invest in the creation of the mats, but they didn't sell.

Devow believes it takes persistence, determination and courage to achieve success with any business venture: 'It takes time to create a successful business and it's not easy, but you have to believe in yourself and take a leap of faith. You need to be driven and have courage, as there are definitely a lot of risks involved. Setbacks are inevitable, but you should accept that failure is part of the process. If you are faced with a setback, don't think of

it as a total failure, but rather, think of it as a stepping stone in your journey towards success. Running a business is very hard, but you need to persevere.'

With a vision to continue developing Darkies Designs as a multi-faceted business, Devow has already led the business in new directions. These include designing and sourcing promotional materials for a range of organisations, as well as working with marketing and procurement areas in all sectors to produce printed materials such as magazines, books, brochures, reports, stationery and posters.

1.10 Exercises

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1.10 Exercise | **1.10 Exam questions**

1.10 Exercise

TEST your skills

1. **Outline** the business opportunity that Dion Devow identified that inspired him to establish Darkies Designs.
2. **Identify** the characteristics of successful entrepreneurs that Dion Devow possesses.
3. **Explain** how Dion Devow conducted market research for Darkies Designs.

APPLY your skills

4. Suggest to Dion Devow whether an initial feasibility study would be suitable for his business. **Explain** the reasons for your response.
5. Identify an opportunity or opportunities for commencing a business in your local area or school. Complete market research and a feasibility study for your business idea. **Outline** your idea to the class and **explain** what your market research and feasibility study told you about the likelihood of success for your business idea.

1.10 Exam questions

Question 1 (2 marks)

Identify one similarity and one difference between market research and an initial feasibility study.

Question 2 (4 marks)

With reference to a contemporary business case study, **justify** the use of a feasibility study.

Question 3 (4 marks)

Discuss the importance of market research.

Question 4 (4 marks)

Analyse how business ideas are created using a contemporary example of business management.

More exam questions are available online.

1.11 The contribution of businesses to the nation

KEY KNOWLEDGE

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

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1.11.1 The economy

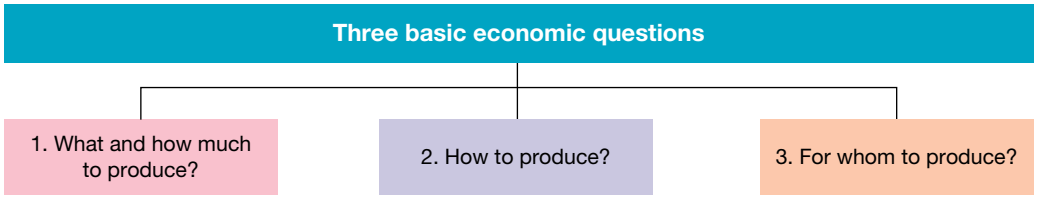
Before we can discuss the contribution businesses make to the economy we must first gain an understanding of what an economy is. An **economy** is a system set up to answer three basic questions:

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.

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.





Now that we understand what an economy is, let's consider how businesses in Australia actually contribute to our economy. The performance of our nation's economy affects the quality of people's lives. As participants in the economy, businesses contribute to this performance and, therefore, to economic wellbeing. This quality of life, or economic wellbeing can be measured by a range of indicators, including employment and economic growth.

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. In June 2021, the ABS estimated that there were 5 million people employed in small businesses, 2.8 million people employed in medium-sized businesses and 4 million people employed in large businesses.

Not only does employment directly improve the living standards of employed people, but also it reduces the burden on the state to provide unemployment benefits, while boosting taxation revenue received by the government through payroll tax. In the 2020–21 financial year, the government received nearly $25 billion in the form of taxes on employers, payroll and the labour force. Businesses also provide the public with goods and services that, when taxed, provide the government with additional revenue. Taxes on goods and services, such as the Goods and Services Tax (GST), accounted for over $154 billion of tax revenue in

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

2020–21. This tax revenue, along with the $100 billion received from businesses in the form of company tax, allow the government to provide goods and services that benefit the whole community, such as health, education, infrastructure and welfare.

DID YOU KNOW?

Around 59 per cent of small businesses do not employ staff; 30 per cent employ 1–4 people and 9 per cent employ 5–19 people, according to ABS 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 (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 2019–20, small businesses produced over $422 billion of Australia's economic output. Medium-sized businesses contributed more than $277 billion and large businesses produced over $598 billion.

economic growth an increase in the real value of goods and services over a set period of time

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

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

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. The company exported 321.6 million tonnes of iron ore in 2021, and had a target of between 320 million and 335 million tonnes for 2022.

Rio Tinto is a major exporter of iron ore.



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. Additionally, the development and improvement of new and existing products and business processes drives economic growth, improving our quality of life and standard of living. However, the costs of R&D can be prohibitive, especially for small businesses. In response to this problem, the federal government offers an R&D tax incentive which makes tax offsets available for eligible R&D expenditure.

GlaxoSmithKline (GSK) 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.



According to the ABS, Australian businesses spent $18.2 billion on research and development during 2019–20, which represents a 4 per cent increase in real terms from 2017–18. Business human resources devoted to R&D in 2019–20 totalled 77 724 person years of effort (PYE), an increase of 3.6 per cent from 2017–18.

Businesses in the manufacturing and professional, scientific and technical services industries were the major contributors to the R&D spending. For example, 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 ABS, 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. Google has been carbon neutral since 2007, 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 beyond what is required by law to ensure that the broader social welfare of the community — 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.

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

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Weblink Global Victoria

KEY IDEAS

- 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.

1.11 Exercises

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1.11 Quick quiz on | 1.11 Exercise | 1.11 Exam questions

1.11 Exercise

TEST your understanding

1. **Identify** the three basic questions that all economic systems must answer.
2. Briefly **outline** how businesses make contributions to the economic wellbeing of a nation through each of the following:
   a. employment
   b. economic growth
   c. export earnings
3. **Define** the term 'corporate social responsibility'.

APPLY your understanding

4. You have been asked by a local community news group to write an article that will **describe** the importance of businesses to the Australian economy. Your article will appear in a special newsletter 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, share with a partner to edit your article. Display the finished articles around the room.
5. Use the **Global Victoria** weblink in the resources tab to undertake research about a business that has been successful in exporting its products. *Tip:* many examples of export businesses can be found when looking at the Export Awards. Answer the following questions:
   a. **Identify** the name of the business.
   b. **Outline** what the business does.
   c. **Identify** what the business exports.
   d. **Identify** where the business exports its products.
   e. **Outline** reasons for the business's success.

1.11 Exam questions

Question 1 (4 marks)

Describe two economic contributions that businesses make to the nation.

Question 2 (4 marks)

Explain two ways in which behaving in a socially responsible manner could make a business more profitable in the long run.

Question 3 (2 marks)

Identify and **outline** two positive contributions that businesses make to the economy through the people that they employ.

Question 4 (4 marks)

One way in which businesses add to the economic wellbeing of a nation is by contributing to export earnings. **Explain** what exports are and how businesses contribute to economic wellbeing through export earnings.

More exam questions are available online.

1.12 EXTEND YOUR KNOWLEDGE Business contribution to the economy — taxation revenue

EXTEND YOUR UNDERSTANDING OF THIS CONCEPT

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

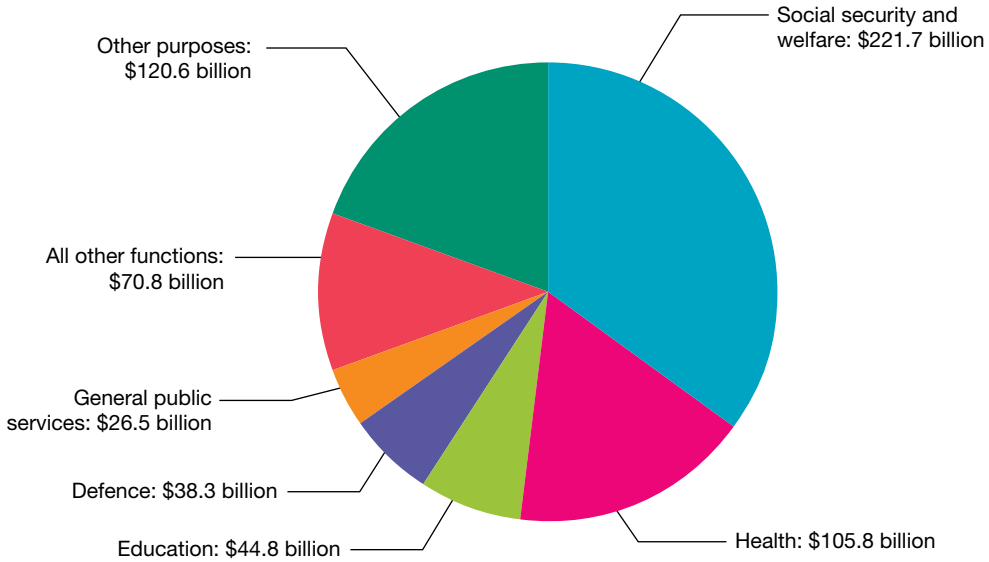
In Australia, the government uses money it collects in the form of taxes to pay for a range of public goods and services that society couldn't function without. Public schools, hospitals, roads and the military are all paid for by taxes collected by the government from individuals and businesses. Most 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 2022–23 budget, the greatest outlays were on items such as social security and welfare ($221.6 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 ($105.8 billion), Education ($44.8 billion) and Defence ($38.3 billion) were also some of the more significant areas of spending for the government, which expected to pay a total of $628.4 billion dollars in the 2022–23 financial year on public goods and services.

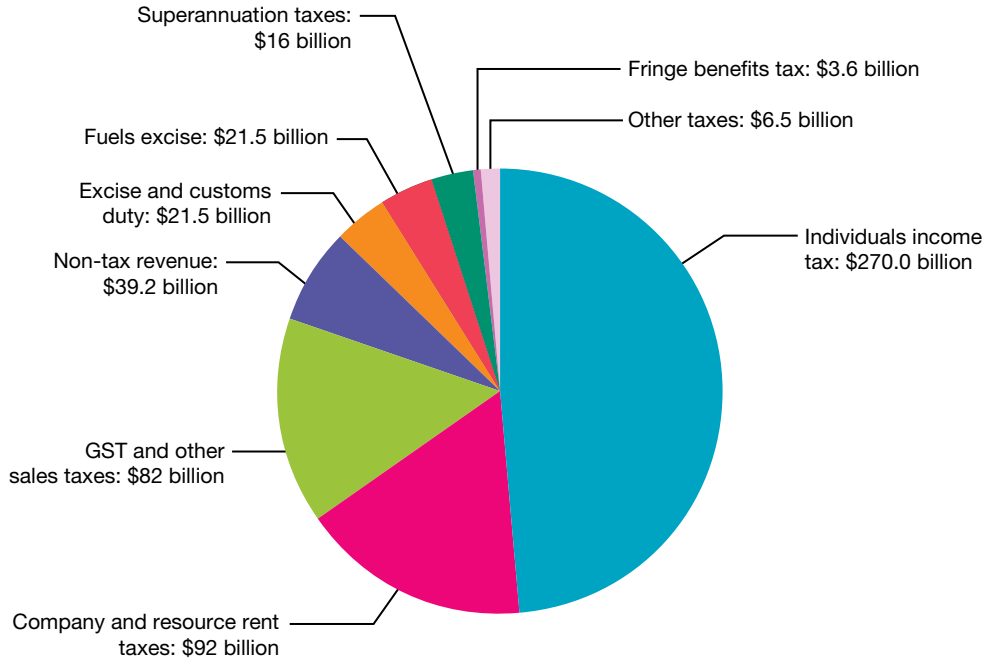
Much of the nation's tax revenue comes from businesses, either through company taxes or individual income tax paid by owners of small businesses not operating as a company. Business activities also indirectly account for the majority of tax revenue received. Businesses employ many people who pay tax 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 2022–23 Australian Federal Budget



Source: Commonwealth of Australia, *Budget Overview*, 2022.

Sources of government revenue in the 2022–23 Australian Federal Budget



Source: Commonwealth of Australia, *Budget Overview*, 2022.

CASE STUDY

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 have given rise to an entire profession of accountants whose job is to deal with taxation issues for their clients and employers.

In 2021, ExxonMobil paid $3.1 billion in federal government taxes after a decade of not paying company income tax. This was despite earning billions of dollars in Australia year after year. The company is not alone, however; in recent years, Sydney Airport paid no tax on more than $1.5 billion in revenue. Lendlease had $9.5 billion in income, of which just $69.2 million was taxable and Transurban reported $2.9 billion in income, of which $112.1 million was taxable but neither paid a cent in income tax. The Australian Taxation Office is in frequent tax disputes with multinational corporations such as Chevron who lost an appeal in 2017 to the Full Federal Court over a $340 million tax bill, representing the biggest tax case in Australian history.



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 every temptation for 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.

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Weblink 2022–23 Budget Overview

1.12 Exercises

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1.12 Exercise | **1.12 Exam questions**

1.12 Exercise

TEST your understanding

1. **Explain** the purpose of taxes in a country such as Australia.
2. **Outline** the largest area of government spending and what the spending pays for.
3. **Identify** the Australian government's biggest source of revenue.
4. **Outline** what the 'Panama Papers' were.

EXTEND your understanding

5. **Outline** what Benjamin Franklin meant by his statement, 'In this world nothing can be said to be certain, except death and taxes'.
6. **Explain** whether you think the taxation system in Australia is fair and why.

1.12 Exam questions

Question 1 (3 marks)

Outline two ways in which corporate tax avoidance affects the Australian economy. Use an example to support your answer.

Question 2 (6 marks)

Winston Churchill once said, 'There is no such thing as a good tax'. **Discuss** the extent to which you agree or disagree with this statement.

More exam questions are available online.

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

KEY KNOWLEDGE

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

Source: VCE Business Management Study Design (2023–2027) extracts © VCAA; reproduced by permission.

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 $11.9 billion in funding to R&D in Australia in 2020–21. Funding is provided to universities, publicly funded research agencies such as the CSIRO and businesses. Federal 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.

AusIndustry is a division of the Department of Industry, Science and Resources, and is the federal government's principal agency for delivering assistance, programs and services that support industry, research and innovation. The following table outlines some of the different assistance programs that AusIndustry offers.

DroneShield is an Australian/United States drone detection company, and publicly listed on the Australian Securities Exchange (ASX). The business develops and sells hardware and software used for the detection of drones, which otherwise could present security or safety risks. The former CEO of DroneShield, 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.



AusIndustry assistance program	Description
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.
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.

(continued)

(continued)

Cooperative Research Centre (CRC) Program	This program supports the ability of Australian industries to compete and produce by helping businesses partner with the research sector to solve industry-identified problems. The program does this in two ways: the provision of CRC Grants which support medium to long term industry-led collaborative research for up to ten years, and CRC Projects (CRC-P) grants, which support short term, industry-led collaborative research, for up to three years.

CONTEMPORARY CASE STUDY

Endua's $1 million grant

Endua is a Brisbane-based company that is planning to build hydrogen-powered energy generation and storage, aimed at delivering sustainable, reliable and affordable power. The business recently received an Accelerating Commercialisation Grant of $998 269. These grants are part of the federal government's Entrepreneurs' Programme, and are designed to help Australian companies to grow, commercialise innovations and gain further investments so that they can take advantage of opportunities in domestic and international markets.



The company is using new hydrogen electrolysis technology developed at CSIRO to produce hydrogen within its device. Endua was originally backed by funding, technology and industry expertise from CSIRO and Ampol, and will use the grant to commercialise its clean energy storage solutions. The business hopes to manufacture modular power banks that can produce power loads of up to 150 kW.

In 2022, then-Minister for Industry, Energy and Emissions Reduction, Angus Taylor, said the grants would help home-grown companies grow, commercialise their products and gain further investments to enter new domestic and international markets. 'We are proud to support Australian companies take their innovative technologies and products to the next level through the commercialisation process,' he said.

The Victorian Government also offers assistance to investors and innovators through a combination of funding initiatives, research institutions, technology and integrated business infrastructure. In 2020 the Victorian Government launched a $2 billion fund to drive research and innovation. The following table outlines some of the measures designed to encourage research and innovation in Victoria.

Victorian Government measure	Description
Breakthrough Victoria Fund	A fund to drive investment, research, innovation and growth over ten years
R&D Cash Flow Loans	A $50 million fund for Victorian small- to medium-sized enterprises claiming the R&D tax incentive

CONTEMPORARY CASE STUDY

Gekko receives government support in innovative response to COVID-19

Gekko has a long history of innovation. In fact, prior to opening for business in 1996, the husband and wife team, Sandy Gray and Elizabeth Lewis-Gray, had applied for a research grant to develop their InLine Pressure Jig for continuous gravity separation. Growing demand for energy-efficient devices spurred Gekko to reinvent and advance other traditional mining technologies.

Innovative modular designs, elegant systems and smart manufacturing launched Gekko as a world technical leader in gold processing and low-energy mining solutions.

In 2020 Gekko was once again able to demonstrate its ingenuity by diversifying its production of mining equipment to include ventilators as part of Australia's response to COVID-19. Gekko's GeVentor is a relatively simple to use ventilator that is suitable for remote conditions and provides an additional stream of crucial healthcare equipment during a global shortage.

Gekko didn't go it alone, however. The project was partly funded by the Victorian Government. The government announced the roll-out of a new program to help other Mining Equipment, Technology and Services (METS) businesses engage with local mining companies in regional Victoria to innovate and promote their services.

Minister for Jobs, Innovation and Trade Martin Pakula pledged continued government support for Victorian manufacturers like Gekko Systems to advance plans for the production of ventilators.

The 'GeVentor' developed by Gekko's technical director, Sandy Gray, has been designed to be a viable and suitable invasive ventilator for use in Victorian and other medical/response facilities.



'The ability of Victorian companies to pivot and adapt so they can help in the fight against coronavirus has been impressive, and we're proud to be backing them,' the Minister said.

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.

CONTEMPORARY CASE STUDY

The Perpetual People Co and Age Up

Frankston City Council's Business Grants Program has supported countless businesses since 2012. In 2022, the council awarded a total of $228 000 to eight local businesses. The Perpetual People Co received a grant of $28 000. This business offers work-experience programs for people with disabilities and will use the grant to start an innovative and socially responsible gardening program and a sports program. This empowers clients to work in the community and become more self-sufficient by learning to grow their own fruit and vegetables.



A recent recipient of the City of Melbourne innovators and start up grants is Age Up Health Pty Ltd. Age Up has created a fully integrated online platform providing aged-care services to empower people to live their best life at home.

on Resources

Weblink Department of Industry, Science and Resources

1.13.3 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 will gain 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.

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



Victorian Commercial Teachers Association (VCTA) organises an annual Plan Your Own Enterprise 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.

on Resources

Weblinks $20 Boss
Plan Your Own Enterprise competition

1.13.4 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 6 metropolitan and 14 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 and Gisborne.

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.

on Resources

Weblinks Grants and programs
Small Business Centres Victoria

KEY IDEAS

- 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.

1.13 Exercises

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1.13 Quick quiz on | 1.13 Exercise | 1.13 Exam questions

1.13 Exercise

TEST your understanding

1. **Identify** two ways in which governments at both federal and state levels invest in research and development in Australia.
2. **Outline** the purpose of the small business grants programs offered by some local councils.
3. **Outline** how school-based educational programs can improve awareness of, and experience in, entrepreneurship.
4. **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

5. **Outline** a possible reason why Endua received a commercialisation grant from the Australian government's Entrepreneurs' Programme.
6. **Explain** how Gekko benefited from the METS Regional Innovation Accelerator program.
7. Use the **Grants and programs** 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 **outline** how the grant or program potentially fosters a culture of business innovation and entrepreneurship.
8. Use the **Small Business Centres Victoria** weblink in the resources tab to answer the following questions about the Small Business Centres Victoria (SBCV) network:
   a. **Outline** what Small Business Centres Victoria (SBCV) is.
   b. **Describe** the key objectives of SBCVs.
   c. **Identify** five different services offered by SBCVs and **explain** how each helps small businesses.
   d. **Identify** the closest business centre to your home or school.

1.13 Exam questions

Question 1 (4 marks)

Describe two methods by which the Australian government supports and funds businesses to undertake research and development.

Question 2 (2 marks)

Explain one reason why the Australian government funds school-based programs for entrepreneurship.

Question 3 (3 marks)

Describe the effect that government investment in R&D has had on a contemporary business case study that you have studied this year.

Question 4 (3 marks)

Explain how council grants for new businesses can foster a culture of business innovation and entrepreneurship.

More exam questions are available online.

1.14 EXTEND YOUR KNOWLEDGE Research and development

EXTEND YOUR UNDERSTANDING OF THIS 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.

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



Many have suggested that the government should do more to encourage businesses to spend money on R&D. Former chairman of Cochlear Limited 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, Vice-Chancellor of Western Sydney University, 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.

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. Aulay Macaulay, founder and CEO of Ento, has said that research and development grants have been used to advance the business's research and develop features.

CONTEMPORARY CASE STUDY

Research and development — Bugs for Bugs

Bugs for Bugs is a Queensland-based company that specialises in integrated pest management (IPM). IPM is a more sustainable approach to pest management than is commonly seen in commercial agriculture. It aims to use natural predators or parasites to control pests, only resorting to the selective use of pesticides when natural methods are inadequate. This is a particularly important task given that commonly used pesticides can have significant effects on the environment and our health. The World Health Organization has linked pesticides with negative health effects such as cancer, and effects on reproduction, immune or nervous systems. Pesticides are also a potential danger to some land and sea animals, thus threatening biodiversity.

Dan Papacek, Entomologist/ Director, Bugs for Bugs



From its humble beginnings in 1981, Bugs for Bugs has grown to become one of Australia's leading suppliers of biological control agents. Their scientific approach to pest management has meant that research and development is at the core of their business. This has fostered many fruitful partnerships with other researching bodies including universities, the CSIRO and the Department of Agriculture. It has also been made commercially viable by the Research and Development Tax Incentive (R&DTI), which has helped cover some of the cost of research and development until it pays off, which in most cases takes years.

According to the company's founder, Dan Papacek, the R&DTI has taken some of the risk out of investing in research and development, which inherently has no certain outcome. It has allowed the company to contribute 30–40 per cent of its annual spend towards R&D, hiring 25–30 per cent more highly skilled researchers, resulting in the development of over 10 species for natural pest control.

Bugs for Bugs has reaped great rewards from its investment into research and development and is currently working on several projects, including pest control for the two-spotted spider mite.

on Resources

Weblink Bugs for Bugs

1.14 Exercises

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1.14 Exercise | **1.14 Exam questions**

1.14 Exercise

TEST your understanding

1. **Explain** why R&D is more than simply performing experiments.
2. **Identify** a factor that can prevent businesses from investing in R&D.
3. **Outline** how the Australian government attempts to encourage businesses to spend money on research and development.

EXTEND your understanding

4. Briefly **outline** the benefits for Ento in receiving R&D assistance from the federal government.
5. **Outline** how the R&D Tax Incentive has helped Bugs for Bugs.
6. 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 newsflash that covers the following questions:
   a. **Outline** the name of the business.
   b. **Identify** what the business produces.
   c. **Outline** what type of funding or grant the business received.
   d. **Explain** why the business received the government assistance.
   e. **Outline** the impact of the government assistance (what it will be used for).
7. 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? **Justify** your response.

1.14 Exam questions

Question 1 (2 marks)

Define the term 'research and development' (R&D).

Question 2 (5 marks)

Analyse the effects of R&D assistance provided by the government to a business that you are familiar with.

Question 3 (5 marks)

Government spending on R&D, as a proportion of GDP, has declined over the last decade. **Evaluate** the effects of this decline on the Australian economy.

Question 4 (6 marks)

'More could be done to ensure that there is a culture of business innovation in our nation.' **Discuss** this statement, providing a contemporary example to support your answer.

More exam questions are available online.

1.15 Review

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1.15.1 Summary

Entrepreneurship

- Entrepreneurship is the process whereby a person creates and operates a new business, in response to opportunities, while taking on the risk of the venture in the hope of making a profit.

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.

Characteristics of successful business managers and business entrepreneurs

- 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.

Identifying business opportunities

- A business opportunity can come from innovation, 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, which can form the basis for the establishment of a business to sell those products.
- Converting an innovative idea into a business concept often requires the creativity and risk-taking ability of an entrepreneur for success to be achieved.

Goal setting and decision-making in business

- A business goal refers to 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.
- Businesses strive to achieve three broad goals: financial, social and personal.
- Decision-making is the ability to identify the options available and then choose a specific course of action from the alternatives. It is an essential aspect of creating and developing the business idea.

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.
- 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 of businesses to the 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.

Methods for fostering a culture of business innovation and entrepreneurship 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, school-based educational programs in entrepreneurship, and the creation of regional business start-up hubs.

1.15.2 Key terms

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 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
decision-making the ability to identify the options available and then choose a specific course of action from the alternatives
economic growth an increase in the real value of goods and services 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 a measure of how well we do things; for example, if we are able to produce more outputs 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 act of starting and operating a new business in response to opportunities, assuming all the risk 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
financial independence the capacity to support a lifestyle without having to be employed or be dependent on others
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
manager a person who has responsibility for overseeing the operations of the business to ensure that it successfully achieves its goals
market conditions the features of a market into which a new good or service is to be introduced, including factors such as the number of potential customers, level of competition and potential for growth
market need the goods or services that customers require that are not readily available
market research a process of systematically collecting, recording and analysing information concerning a specific market

mission statement describes what the business does and how it will achieve its vision
personal independence the capacity to be in control of decisions that affect one's everyday actions or activities
productivity a measure of business efficiency comparing output produced with the quantity of inputs. It is calculated using the formula: *Productivity = 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.
social need the production and/or selling of goods and services for the purpose of making the world (or the community) a better place
vision statement describes where the business wants to be in the future (e.g. five years from now)

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Digital documents Key terms glossary (doc-37629)
Missing word glossary quiz (doc-29409)
Crossword (doc-29410)

1.15.3 Practice school-assessed coursework

OUTCOME 1

Describe a process for creating and developing a business idea, and explain how innovative and entrepreneurial practices can contribute to the national economy and social wellbeing.

ASSESSMENT task — case study analysis

Time allowed:	50 minutes
Marks allocated:	28 marks
Conditions:	Read the following case study and then complete the questions.

Linfox



Linfox was founded in 1956 by Lindsay Fox. Over 60 years later, the business has over 20 000 employees and a fleet of over 5000 vehicles. Although it originated in Australia, Linfox now operates in 12 countries, including New Zealand, China, Hong Kong, Thailand and India. Linfox made over $3 billion in revenue in the 2020–21 financial year and a net profit of $6.1 million — a decline on the net profit of $16.8 million recorded in the 2019–20 financial year. The 2021 result was attributed to COVID lockdowns and border closures, including the increased cost of doing business throughout the pandemic.

Fox purchased his first truck when he was 19 years old and began carting coal and briquettes in the winter and soft drinks in summer. Fox's father was also a truck driver, but Fox had decided that he wanted to own trucks, not just drive them. He purchased a second truck the following year, and through hard work and determination, Lindsay Fox Cartage, as the business was known then, continued to grow. Fox's first goal was to achieve £10 a day, five days a week. He achieved this goal and then moved on to the next one, then the next. Eventually, Fox realised that for the business to continue to thrive, he needed to stop driving trucks and start working on the business. In 1961 the business was incorporated (became a company) and five years later, was renamed Linfox Transport Pty Ltd.

Fox has never been afraid of change and believes that it is important to learn by making mistakes. In fact, he 'celebrates' each mistake that he makes to ensure that it is not duplicated. Fox has said that 'anybody who fears failure can never succeed'. By contrast, he has also said that if a person applies themselves to do their best, and they do their best, they will succeed.

Linfox is committed to making a positive difference to the communities in which we live and work. The company acts in a sustainable manner through its GreenFox program. This is focused primarily on reducing net carbon dioxide emissions to zero. Through the program, Linfox has managed to reduce greenhouse gas emissions by more than 50 per cent between 2007 and 2016. Since then, net environmental emissions have been cut by 8 per cent each year. This has been achieved through vehicle technology, moving freight from road to rail and driver education.

In 2022 Linfox began trialling electric vehicles with a number of its customers, including two all-electric trucks in the Bunnings fleet. In addition, it has trialled electric trucks with Coles and the BevChain Lion fleet.

Question 1 (2 marks)
Explain Lindsay Fox's motivation for starting Linfox.

Question 2 (4 marks)
Describe two characteristics of entrepreneurs that Lindsay demonstrated in starting his business.

Question 3 (4 marks)
Identify and **explain** two sources of business opportunity that influenced Lindsay in establishing Linfox.

Question 4 (4 marks)
Analyse why it was important for Lindsay to set goals for his business.

Question 5 (3 marks)
Would market research or an initial feasibility study have been appropriate when Lindsay was starting his business? **Justify** your answer.

Question 6 (2 marks)
Describe one contribution that Linfox makes to Australia's economic wellbeing.

Question 7 (2 marks)
Describe one contribution that Linfox makes to Australia's social wellbeing.

Question 8 (4 marks)
Explain one method by which a culture of business innovation and entrepreneurship may be fostered in a nation. **Justify** whether or not this method would be applicable to the case of Lindsay Fox.

Question 9 (3 marks)
Describe how Linfox has demonstrated a commitment to innovation.

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Digital document School-assessed coursework (doc-38068)

1.15 Exercises

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1.15 Multiple choice quiz on | 1.15 Exercise | 1.15 Exam questions

1.15 Exercise

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:
   a. recognising and taking advantage of market opportunities
   b. changing customer needs
   c. research and development
   d. technological development
   e. global markets.
3. **Identify** two key factors that may motivate an individual to become a business owner.
4. **Outline** three broad types of business goals.
5. **Identify** three key characteristics that are likely to be present in a successful business manager.
6. **Explain** what is meant by the term 'business concept'.
7. **Identify** two ways in which a prospective business owner might devise a business concept.
8. Briefly **outline** the steps in an initial market research process that could be used by a prospective business owner to determine market conditions for their proposed product.
9. **Describe** two possible contents of an initial feasibility study.
10. **Outline** the economic contribution that businesses make to our nation.
11. **Outline** the contribution that businesses make to the social wellbeing of Australia.
12. **Identify** two methods by which a culture of business innovation and entrepreneurship may be fostered in a nation.

APPLY your understanding

13. 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.
    a. **Identify** Jonathon's major problem areas in terms of the characteristics needed to operate a business.
    b. **Outline** how Jonathon's personal characteristics might have an impact on his business if he started one.
    c. **Apply** your understanding of the characteristics of successful business managers and entrepreneurs to Jonathon's situation.
14. You are going to start your own restaurant. **Describe** the market research or initial feasibility studies you would conduct.
15. Using an example of a real business, **outline** how businesses contribute to the economic and social wellbeing of Australia.

1.15 Exam questions

Question 1 (2 marks)

Define the term ‘entrepreneur’.

Question 2 (3 marks)

Outline the personal motivation of the founder of a contemporary business that you are familiar with and **explain** how the business helps the owner to achieve their personal goal(s).

Question 3 (3 marks)

Distinguish between ‘research and development’ and ‘technological development’, referring to examples of each.

Question 4 (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 business might help. **Analyse** the importance of goal setting for Jane’s business.

Question 5 (4 marks)

Explain a decision-making process that could be used by a potential business owner developing a new business idea.

Question 6 (2 marks)

Explain the relationship between business opportunities and business concept development.

Question 7 (3 marks)

Describe what might be included in a feasibility study.

Question 8 (4 marks)

Explain two ways that businesses contribute to the economic wellbeing of a nation.

Question 9 (4 marks)

Explain two methods by which a culture of business innovation and entrepreneurship may be fostered in a nation.

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TOPIC 2

Internal business environment and planning

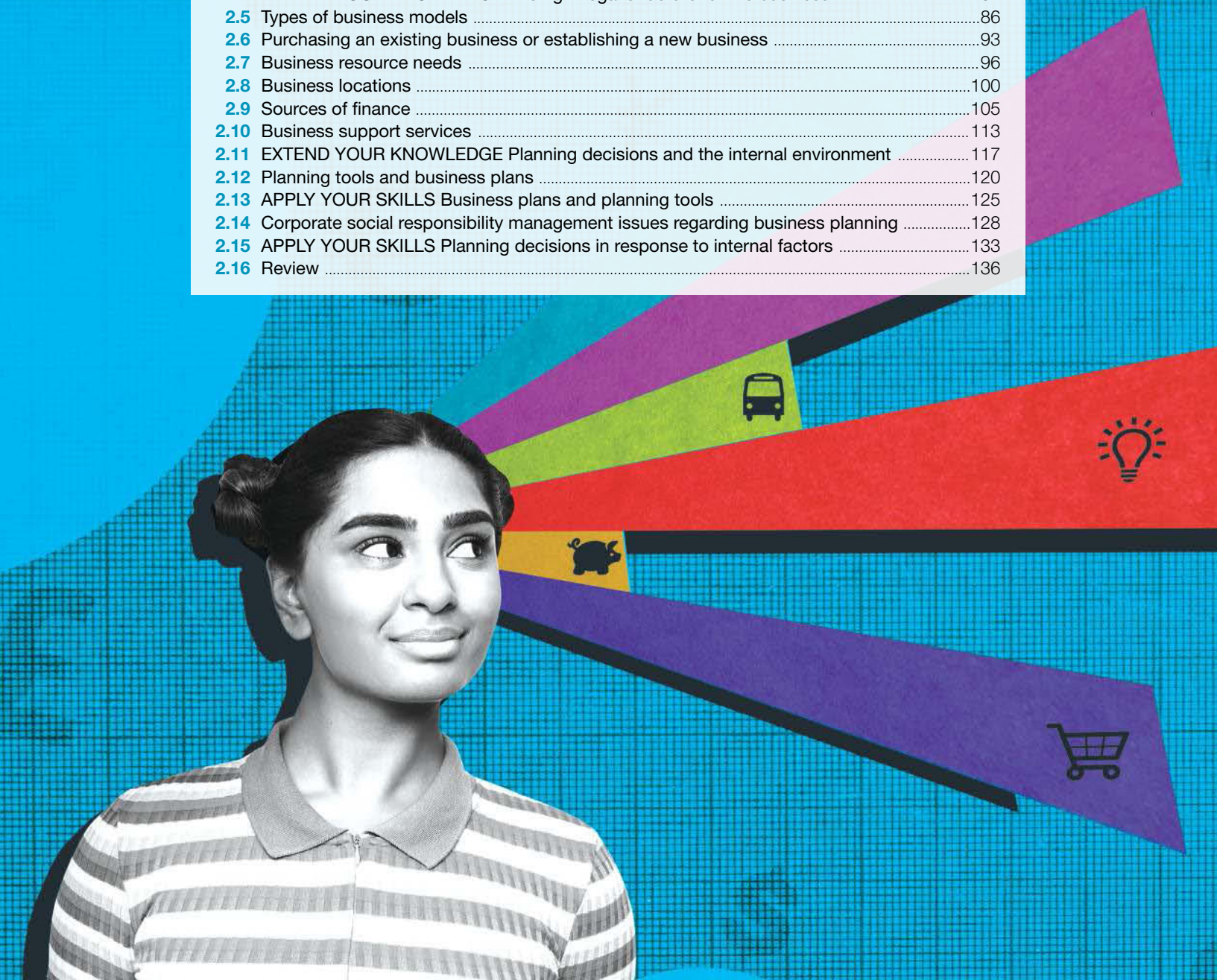
UNIT 1 AREA OF STUDY 2

OUTCOME 2

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

LEARNING SEQUENCE

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2.1 Overview

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2.1.1 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.

CONTEMPORARY CASE STUDY

MANUFACTURING BUSINESS: Mars Incorporated

Number of employees	130 000
Revenue	US$40 billion (2021)
CEO	Grant F. Reid
Flagship products	M&M'S®, SNICKERS®, TWIX®, MASTERFOODS®, DOLMIO®, PEDIGREE®



Mars Incorporated is a private company that manufactures (or makes in a factory on a large scale) some of the world's leading confectionery, food and pet care products, and has growing beverage and health and nutrition businesses. Mars was founded by Frank C. Mars in 1911 in Tacoma, United States, and is owned by the founder's grandchildren. Now headquartered in McLean, Virginia, Mars operates in more than eighty countries around the globe. The company launched in Australia back in 1954, and today employs more than two thousand Australians. Its products are consumed by nine out of ten Australian households.

CONTEMPORARY CASE STUDY

SERVICE BUSINESS: Netflix Incorporated

Number of employees	More than 12 000
Net profit	US$5.12 billion (2021)
Revenue	US$26.7 billion (2021)
Market capitalisation	US$270 billion (December 2021)
CEO	Ted Sarandos and Reed Hastings
Flagship products	Netflix (streaming service)



Netflix Incorporated is a subscription streaming service and production company with over 214 million subscribers worldwide. Founded in California, United States, in 1997 by Marc Randolph and Reed Hastings, Netflix began by renting DVDs through its online store. In 2006, Netflix began producing original content and by 2007 it had launched its video-on-demand streaming service. Recently, Netflix has announced its expansion into gaming, where the content developed will also be included in the Netflix subscription.

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 knowledge	Subtopic
◯ The relationship between the internal environment and the external environment of a business	**2.2**
◯ Types of businesses such as sole trader, partnership, private limited company, public listed company, social enterprises and government business enterprises, and the factors affecting the choice of business structure	**2.3**
◯ Types of business models such as online business, direct-to-consumer business, bricks-and-mortar business, franchise, importer and exporter	**2.5**
◯ Costs and benefits of purchasing an existing business compared with establishing a new business	**2.6**
◯ Business resource needs (natural, labour and capital) and the factors affecting the use of business resources	**2.7**
◯ Business locations and the factors affecting choice of location	**2.8**
◯ Sources of finance available to establish a business and the factors affecting the type and source of finance chosen	**2.9**
◯ Business support services such as legal, financial, technological, community-based, formal and informal networks, and business mentors	**2.10**
◯ Planning analysis tools to assist in determining the strengths and weaknesses of decisions regarding changing internal factors, such as SWOT analysis	**2.12**
◯ Overview of business plans, including the benefits of using them and an outline of their key features	**2.12**
◯ Corporate social responsibility considerations and business planning	**2.14**

Key skills

These are the skills you need to demonstrate:

Key skills
◯ Identify, define, describe and apply business management concepts and terms
◯ Interpret, discuss, compare and evaluate business information and ideas
◯ Analyse case studies and contemporary examples of business management
◯ Apply business management knowledge to practical and/or simulated business situations.

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Digital document Key terms glossary (doc-37630)

Weblinks Mars
Netflix

2.2 The relationship between the internal and the external environment of a business

KEY KNOWLEDGE

- The relationship between the internal environment and the external environment of a business

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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.

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 to play 'Spotify Sessions'.



The **external environment** consists of all the elements outside a business that may act as pressures or forces on business operations. This includes legal, political, social, economic, technological, global and corporate social responsibility factors. The external environment 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.

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

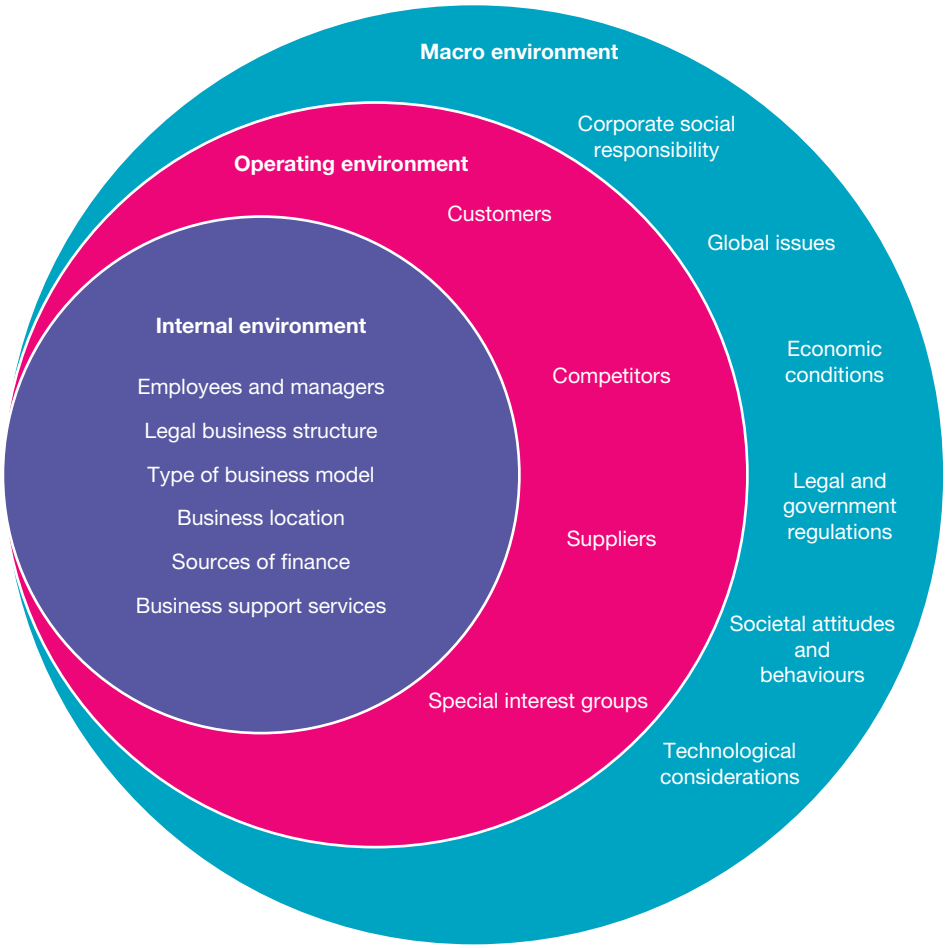
internal environment factors over which the business has some degree of control; it is sometimes called the micro environment.

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

operating environment the specific outside stakeholders with whom the business interacts in conducting its business; it is sometimes called the task environment.

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

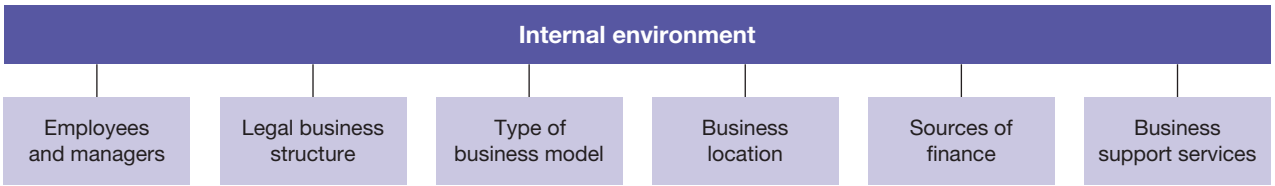
An overview of the internal (micro) and external (operating and macro) business environment



2.2.1 The internal environment

The internal environment is made up of elements created by the people within the business. Over time, these forces interact with each other to give each business its unique characteristics.

An overview of the internal business environment



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

Element	Description
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.
Managers	These are the people who have the responsibility for successfully achieving the objectives of the business.
Location	The location of the business will determine whether or not the business is visible and accessible to potential customers.
Legal business structure	One of the main decisions that the business owner will need to make is about the most appropriate legal structure to use. The four main structures include sole trader, partnership, private limited company or public listed company.

2.2.2 The operating environment

A business's operating environment is made up of stakeholders external to the business which have a direct impact on the operation of the business.

An overview of the operating business environment



The business has less control over these factors than internal environment factors. The four main stakeholders are:

Stakeholder	Description
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

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.

An overview of the macro business environment



The business has no control over these factors. The main factors that make up the macro environment are:

Factor	Description
Legal and government regulations	The laws or regulations made by parliaments and courts, which affect how businesses operate and behave
Societal attitudes and behavior	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 considerations	The issues related to the growing use of tools, techniques or systems
Global considerations	The pressures that arise as a result of businesses operating in worldwide markets and competing on a global scale
Corporate social responsibility considerations	The pressures on a business to take into account environmental considerations to ensure broader social welfare

2.2.4 The ways in which the external environment affects the internal environment of a business

There are many external influences on the internal environment of a business. The external environment has a much greater degree of influence on the internal environment of a business than the internal environment has on the external environment of a business.

Because of this imbalance of influence, a business often finds itself at the mercy of factors from the external environment. To increase its chances of success, a business must take a proactive approach to planning for, and responding to, such external factors.

Scientists predict that over the next several decades, climate change will reduce cocoa production and cause chocolate shortages. This is an external factor that the Mars business may not be able to control.



CONTEMPORARY CASE STUDY

MANUFACTURING BUSINESS: Mars Incorporated

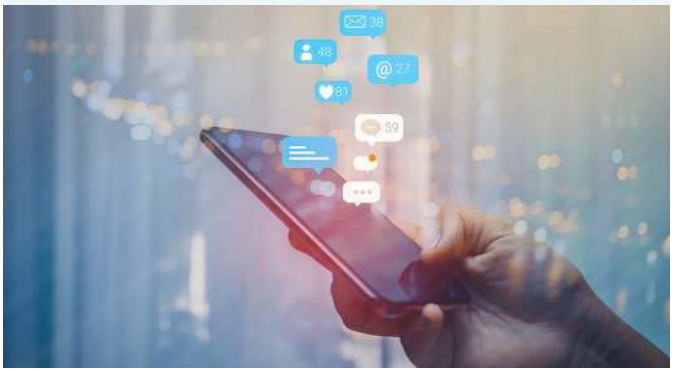
Factor from external environment	Description	Impact on internal environment Mars
Social trends and customer preferences	People are becoming increasingly health conscious and have an increasing preference for low-sugar products. Consumers also want more sustainable and ethical products.	Mars has committed to working towards a more ethical and transparent supply chain that takes better care of its suppliers, reducing its use of palm oil as part of its 'Palm Positive Plan'. Mars Edge is a new segment of the business that provides people with nutrition solutions that incorporate the things they want to eat while maintaining a healthy and balanced diet.

Environmental issues	A global shortage of cocoa will make it increasingly difficult for Mars to obtain raw ingredients.	Mars has committed to developing sustainable sources of chocolate to meet future demand. It invests in researching and adapting practices to make more efficient use of land and water in cocoa production.
Legal	There are different laws regarding labour, marketing and pricing in the 73+ countries around the world in which Mars operates.	Mars must employ an extensive team of legal and taxation professionals to ensure that the company adheres to the laws of each country within which it operates.
Competitors	Mars operates in a highly competitive market in which consumers can easily switch their consumption habits between the many substitute products on offer.	Mars must ensure that it consistently provides its customers with quality products by fostering a culture of continuous improvement and ensuring practices adhere to world-class standards. Mars uses advanced technology in its production lines to maximise efficiency and reduce its production costs. This makes it an industry cost leader, which allows the company to offer competitive prices to its customers.

2.2.5 The ways in which the internal environment of a business can affect the external environment

While the internal environment of a business is greatly affected by the external environment, it is not a one-way street. Businesses can have an impact on the various aspects of their operating environment and, in rare instances, can even affect the macro environment to a small degree. Businesses can affect the external environment in the following ways:

The average Australian spends 5.5 hours a day on their smartphone, which equates to one third of their waking hours.



Factor from the internal environment	Impact on external environment
Customers	Often, the products and how they are marketed can affect a business's customers. For example, smartphones and social media applications have changed the way humans think and behave.
Suppliers	Businesses can implement supplier policies that ensure that suppliers source their raw materials in accordance with the values of the business.
Competitors	In the quest for greater market share, competing businesses will regularly respond to each other's behaviour. For example, if a business lowers the price of its products, a competitor may do the same in order to retain its share of the market.

The local community	How a business operates can have a significant impact on the local community. While businesses often create jobs for people living in the local community, in some cases, they can also cause pollution, increased traffic and noise. This may affect how the community feels about the business.
Technological developments	While the internal environment of most businesses will have no noticeable effect on the macro environment, there are rare instances where innovations from within a company can drive widespread change. Many technological developments come from the internal environment of businesses.

CONTEMPORARY CASE STUDY

SERVICE BUSINESS: Netflix Incorporated

How Netflix affects what we watch and who we are — and it's not just the algorithm

Netflix's dystopian Korean drama *Squid Game* has become the streaming platform's biggest-ever series launch, with 111 million viewers watching at least two minutes of an episode.

Out of the thousands of programs available on Netflix globally, how did so many people end up watching the same show? The easy answer is an algorithm — a computer program that offers us personalised recommendations on a platform based on our data and that of other users.

Streaming platforms like Netflix, Spotify and Amazon Prime have undoubtedly reshaped the way we consume media, primarily by massively increasing the film, music and TV available to viewers.

How do we cope with so many options? Services like Netflix use algorithms to guide our attention in certain directions, organising content and keeping us active on the platform. As soon as we open the app the personalisation processes begin.

Our cultural landscape is now automated rather than simply being a product of our previous experiences, background and social circles. These algorithms don't just respond to our tastes, they also shape and influence them.

But focusing too much on the algorithm misses another important cultural transformation that has happened. To make all this content manageable, streaming platforms have introduced new ways of organising culture for us. The categories used to label culture into genres have always been important, but they took on new forms and power with streaming.

While *Squid Game* is labelled with the genres 'Korean, TV thrillers, drama' to the public, there are thousands of more specific categories in Netflix's metadata that are shaping our consumption. The personalised homepage uses algorithms to offer you certain genre categories, as well as specific shows. Because most of it is in the metadata, we may not be aware of what categories are being served to us.

Who is in control?

As everyday media consumers, we are still at the edge of what we understand about the workings and potential of these recommendation algorithms. We should also consider some of the potential consequences of the classificatory imagination.



The classification of culture could shut us out to certain categories or voices — this can be limiting or even harmful, as is the case with how misinformation is spread on social media.

Our social connections are also profoundly shaped by the culture we consume, so these labels can ultimately affect who we interact with.

The positives are obvious — personalised recommendations from Netflix and Spotify help us find exactly what we like in an incomprehensible number of options. The question is: who decides what the labels are, what gets put into these boxes and, therefore, what we end up watching, listening to and reading?

Source: Extracts from D. Beer, 'How Netflix affects what we watch and who we are — and it's not just the algorithm', *The Conversation*, 15 October 2021.

on Resources

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

KEY IDEAS

- 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 key 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, 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.
- While both environments will affect one another, it is the external environment that has a much greater degree of influence on the internal environment of a business.

2.2 Exercises

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2.2 Quick quiz on | **2.2 Exercise** | **2.2 Exam questions**

2.2 Exercise

TEST your understanding

1. **Define** the term 'business environment'.
2. **Identify** two factors from the external environment of a business.
3. **Explain** how a factor from the external environment of a business can affect the internal environment of a business.
4. **Identify** two factors from the internal environment of a business.
5. **Explain** how a factor from the internal environment of a business can affect the external environment of a business.

APPLY your understanding

6. **Distinguish** between the internal and external environment.
7. **Describe** one way in which the service offered by Netflix affects its customers.
8. **Explain** two ways in which factors from the external environment have affected the internal environment of Mars.

2.2 Exam questions

Question 1 (2 marks)

Describe the relationship between the internal and external environment of a business.

Question 2 (4 marks)

Compare the operating and macro environments of a business with the use of examples (include one similarity and one difference).

Question 3 (3 marks)

Explain what is meant by the internal environment and outline one stakeholder found in this environment.

Question 4 (5 marks)

With reference to a contemporary business that you are familiar with, **discuss** the ways in which factors from the external environment of a business can affect its policies and procedures.

Question 5 (5 marks)

With reference to a contemporary business that you are familiar with, **discuss** the ways in which factors from the internal environment of a business can affect groups from its external environment.

More exam questions are available online.

2.3 Types of legal business structure

KEY KNOWLEDGE

- Types of businesses such as sole trader, partnership, private limited company, public listed company, social enterprises and government business enterprises, and the factors affecting the choice of business structure

Source: VCE Business Management Study Design (2023–2027) extracts © VCAA; reproduced by permission.

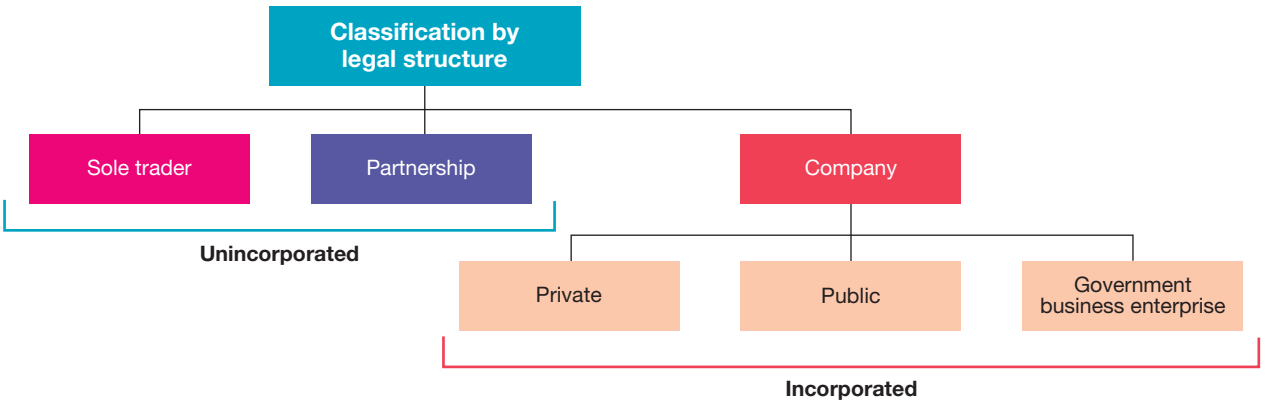
2.3.1 Different types of legal structure

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, and Government business enterprise (GBE).

business entity an organisation that exists separately to its owner in order to produce and sell goods and services

Types of businesses



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.

Another type of business is a social enterprise. In Australia, a social enterprise can operate in many ways — it can take the form of a cooperative (a business that is owned and operated by the group of members) or a privately owned business.

2.3.2 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.

incorporated a business that has a separate legal existence apart from its owner(s)

sole trader a business owned and operated by one person

unlimited liability when the business owner is personally responsible for all the debts of their 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?

2.3.3 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 (i.e. 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.

partnership an unincorporated business structure with a minimum of 2 and a maximum of 20 owners

silent or sleeping partner one who contributes financially to a business but takes no part in the running of the business

The advantages and disadvantages of a 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.

2.3.4 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 they 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.

2.3.5 Proprietary (private) companies

A **private limited company** (or proprietary company) is the most common type of structure in Australia, and must have at least one 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, although Mars Inc. is one example of a private company that is larger than most publicly listed companies. 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'

incorporation the process that a business goes through to become a registered company and a separate legal entity

shareholders the owners of a company who are entitled to a share of its profits

limited liability when the shareholders of a company cannot be held personally responsible for the debts of the business

private limited company an incorporated business with a minimum of 1 shareholder and a maximum of 50 non-employee shareholders

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.

2.3.6 Public listed companies

The shares for a **public listed company** are listed on the Australian Securities Exchange, and the general public may buy and sell shares in this type of company. 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, Woolworths, Virgin Australia and Westpac. Netflix, our contemporary case study business, is a public company registered on the Nasdaq — an American stock exchange based in New York City.

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.

There are over 2200 public companies listed on the Australian Securities Exchange. The share price for each company changes according to demand and supply. If a company is considered a 'good buy', its share price is likely to rise (green indicates the stock or share price is rising, and red indicates the share price is falling).



public listed company an incorporated business with a minimum of one shareholder (and no maximum), and whose shares are openly traded on the Australian Securities Exchange

prospectus a legal document that provides details about investment in the company

The advantages and disadvantages of the company form of business ownership

Advantages

- Easier to attract public finance
- Limited liability — separate legal entity
- Easy transfer of ownership
- A long life — perpetual succession
- Experienced management — board of directors
- Greater spread of risk
- Company tax rate lower than personal income tax rate
- Growth potential
- Ability to have only one shareholder and one director



- Cost of formation
- Double taxation — company and personal
- Personal liability for business debts if directors knew at the time that the business could not pay loans
- Requirement to publish an annual report of audited accounts
- Public disclosure — reporting of certain information
- Too much growth, resulting in inefficiencies

Disadvantages

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?

In 2020–21, companies accounted for 41 per cent of all businesses, the largest of any type of legal business structure.

on Resources

Weblink Corporations Act 2001

2.3.7 Social enterprises

A **social enterprise** is a type of business that produces goods and services for the market, but this kind of business operates with the primary objective of fulfilling a social need. These businesses still have the objective of making a profit, however, the profit will be allocated to a community or environmental need. A social enterprise falls in the gap between a traditional business and a charity. Social enterprise businesses are becoming increasingly common as Australia's entrepreneurs attempt to respond to social, environmental and economic issues.

social enterprise a type of business that produces goods and services for the market. This kind of business operates with the primary objective of fulfilling a social need, yet it has profit as an objective.

Social enterprises can adopt a variety of legal structures, including being incorporated, which gives the owners and the business a separate legal identity.

The advantages and disadvantages of social enterprises



2.3.8 Government business enterprises (GBE)

A **government business enterprise (GBE)** is a type of business which is ultimately controlled by the government. These types of businesses provide a range of essential services, and they run in a similar way to companies. This means that they have shareholders, a board of directors, and they have the objective of making a profit. Perhaps the best-known example of a GBE in Australia is AusPost.

Government business enterprise a type of business which is controlled by the government. These types of businesses provide a range of essential services, but run in a similar way to companies with shareholders and a board of directors.

The advantages and disadvantages of social enterprises

Advantages

- Able to carry out government policies delivering community services in areas where private sector businesses might hesitate to invest
- Can operate with some independence from government
- Provision of healthy competition to businesses operating in the private sector — this can lead to lower prices in the markets where GBEs are competing



- Political interference in the day-to-day operation of the GBE
- Inefficiencies caused by government 'red-tape' — excessive regulation or rigid conformity to rules
- Management of GBEs can be less effective than that of the private sector.
- There can be less accountability within a GBE, resulting in less productivity.

Disadvantages

EXAM TIP

One of the **Unit 1, Area of Study 2** key skills states that you need to be able to 'discuss business information and ideas'. This suggests that you should know the advantages and disadvantages of each type of legal business structure.

KEY IDEAS

- There are a number of different legal ownership structures available to a person wishing to establish a business.
- The most common legal business structures are unincorporated businesses, such as sole traders and partnerships. Each has its own 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.
- Social enterprises are a type of business established to serve a community or environmental need. These businesses can adopt an incorporated legal structure, operating like a private business. This type of business, however, allocates its profits to fulfill a community or environmental need.
- Government business enterprises (GBE) are incorporated businesses, controlled by the government. These businesses operate much like a company and have the objective of making a profit.

2.3 Exercises

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2.3 Quick quiz on | 2.3 Exercise | 2.3 Exam questions

2.3 Exercise

TEST your understanding

1. **Distinguish** between an incorporated business and an unincorporated business.
2. **Identify** why unincorporated businesses are the most common form of legal business structure.
3. **Outline** the factors that a prospective business owner should consider when evaluating sole trader as a possible legal structure.
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. **What** factors should a prospective business owner consider when evaluating a partnership as a possible legal structure?
8. You are planning to establish the following types of business. What form of business ownership would be preferable? In each case, **explain** why that form of ownership would be best.
   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
   g. A local cafe that employees local people with disability.
   h. A national service provider of public transport (including trams, trains and buses)
9. **Identify** the legal business structure/entity for each of the businesses in the following list. You may use ABN Lookup to assist you.

Business	Legal business structure/entity
a. Ray Coulton Carpentry	
b. Fairfax Limited	
c. Equity Trustees	
d. Reilly and Sons	
e. Trammo Fish & Chips	
f. R&R Antiques Pty Ltd	
g. Globe International Limited	
h. Dan Evans Motors	
i. Perpetual Limited	
j. Newcrest Mining Ltd	
k. Etiko	
l. Singtel Optus Pty Ltd	

10. Use the **Corporations Act 2001** weblink in the resources tab to answer the following questions.
    a. **Identify** which section of the Act relates to proprietary companies.
    b. **Identify** the part of the Act that explains how a company is to be registered.
    c. **List** the powers that a company has as a separate legal entity.
    d. **Summarise** what section 516 of the Act says about the liability of shareholders.
11. a. In what ways does a social enterprise differ from a company?
    b. **Summarise** two advantages and disadvantages of a social enterprise.
12. a. What is the main purpose of a government business enterprise?
    b. **Outline** two advantages and disadvantages of a government business enterprise.

2.3 Exam questions

Question 1 (4 marks)

Outline one similarity and one difference between a sole trader and a partnership.

Question 2 (4 marks)

Analyse how a business owner's decision to operate as a sole trader may affect the planning for their business.

Question 3 (4 marks)

Referring to a contemporary business case study that you are familiar with, **outline** two benefits of a partnership business structure.

Question 4 (4 marks)

Analyse how a business owner's decision to use an incorporated business structure may affect the planning for their business.

Question 5 (5 marks)

With reference to a contemporary business case study that you have studied this year, **explain** one cost and one benefit of going public for a private limited company.

Question 6 (6 marks)

Compare private companies with public companies, providing an example of each.

More exam questions are available online.

2.4 EXTEND YOUR KNOWLEDGE The right legal structure for the business

EXTEND YOUR UNDERSTANDING OF THIS 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 at a certain point in time.

When planning for a business, the owner 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 to maintain control over the business, remain flexible and sensitive to the needs of customers, minimise costs or keep 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 ongoing costs.

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. The management of a public company is 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. As 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.

CASE STUDY

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 money.

'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, during the 2021–21 financial year there was a 3.8 per cent increase in the number of businesses operating in Australia. The highest entry rate was for sole proprietors, at 20.3 per cent, with 139 559 entries.

'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.'

Many sole traders such as Helen D'Silva make the decision to stay small.



D'Silva is confident her business will grow substantially in future years despite a slow start.

Source: Adapted from L. White 2017, 'Sole traders doing it all by themselves', *The Sydney Morning Herald*, 11 May 2017.

CONTEMPORARY CASE STUDY Myer's struggle

Myer is Australia's largest and perhaps its best-known department store group. Today, Myer has 60 stores across Australia and employs more than 14 000 staff. 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 Street, Melbourne. This store is still trading and is considered to be the flagship in the Myer department store chain.

Growth of the business

The Myer business continued to expand, and in 1925 Myer Emporium Ltd was incorporated and listed on the Melbourne Stock Exchange. Myer led the way in 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. After a period of under-performance, Coles Myer sold Myer to a United States consortium (individuals or businesses that combine finances to achieve a common goal). This group included members of the Myer family, who retained a 5 per cent share in the business. Myer was delisted from the Australian Securities Exchange (ASX) and became a private limited company (Myer Pty Ltd).

Over the course of its history, Myer has alternated between being a private limited company and a public listed company.



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.

Profits declined once again, and in 2015 Myer implemented a turnaround plan. The plan known as 'New Myer' included online ordering, click-and-collect hubs and new higher value brands. It also included job cuts. The turnaround plan improved financial performance; however, this hasn't been sustained. The rise in competition from online fashion retailers with low overheads is a contributing factor. In 2020, serious concerns were raised about the liquidity of Myer, with a large number of major insurers reducing their credit limits. In March 2020, Myer's share price fell to a historic low of 10 cents but partially recovered to 48 cents by December 2021.

CONTEMPORARY CASE STUDY

The rise 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 were listed at $2.20. The chairman at the time, Patrick Elliott, said that

JB Hi-Fi became a public listed company after it floated on the ASX in 2003.



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.

Since the establishment of the business, JB Hi-Fi 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 acquired 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 approximately 130 00 staff.

During the COVID-19 lockdown of 2020, JB Hi-Fi boasted bumper sales as consumers stocked up on technology products for work and entertainment purposes. While the vast majority of retailers saw huge declines in profitability during this period, JB Hi-Fi's share price increased to a historic high of $53.96 on 26 March 2021.

CONTEMPORARY CASE STUDY

Kathmandu acquires Rip Curl

Doug 'Claw' Warbrick and Brian 'Sing Ding' Singer founded Rip Curl 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, with its global head office remaining in Torquay.

Rip Curl remained a private company until 2019 when it was purchased by Kathmandu.



Despite having high potential for international growth, the owners of Rip Curl resisted moving the company into public ownership. However, rival businesses Quiksilver and Billabong listed on the stock exchange in 1998 and 2000 respectively. 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.

Rip Curl expanded globally through a licensing system whereby it sells its technology, designs and ideas to businesses around the world. In 2019, after several unsuccessful negotiations to sell the business, the owners struck a $350 million deal with New Zealand specialist outdoor retailer Kathmandu. In a statement, Rip Curl's founders said the sale was an emotional event, with the company being an 'integral part' of their lives for over 50 years.

'We realise Rip Curl, our baby, has grown into an adult recognised all over the planet and we are proud that we have created one of the world's great brands,' they said.

2.4 Exercises

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2.4 Exercise | 2.4 Exam questions

2.4 Exercise

TEST your understanding

1. 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.
2. Read 'Myer's struggle'. **Describe** Myer's experience as a private limited company and as a public listed company.
3. Myer seems to have struggled financially when operating under a public listed company structure. **Explain** why you think this might be the case.
4. Read 'The rise of JB Hi-Fi'. **Describe** JB Hi-Fi's experience as a private limited company and as a public listed company.
5. Read 'Kathmandu acquires Rip Curl'. **Explain** how Rip Curl expanded globally while remaining private.

EXTEND your understanding

6. **Explain** what a business owner needs to consider when planning and deciding on the legal structure of a business.
7. 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 below 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 2017.
   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 2017. 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 2017	$0.84	$23.37
30 June 2018	$0.37	$22.52
30 June 2019	$0.55	$25.85
30 June 2020	$0.21	$42.24
30 June 2021	$0.36	$50.58

8. 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.

2.4 Exam questions

Question 1 (5 marks)

With reference to a contemporary business, **discuss** one advantage and one disadvantage of going public for a private company.

Question 2 (5 marks)

With reference to a contemporary business that you are familiar with, **outline** two benefits of staying small (i.e. not taking on partners or employees) for sole proprietors employing fewer than four people.

Question 3 (4 marks)

Describe two circumstances under which it might be beneficial for a business owner to plan for a private limited company structure rather than a public listed company structure.

Question 4 (4 marks)

Explain why a business owner might decide to adopt a sole trader structure, rather than any other legal business structure, when planning their business.

Question 5 (4 marks)

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.

More exam questions are available online.

2.5 Types of business models

KEY KNOWLEDGE

- Types of business models such as online business, direct-to-consumer business, bricks-and-mortar business, franchise, importer and exporter

Source: VCE Business Management Study Design (2023–2027) extracts © VCAA; reproduced by permission.

2.5.1 The business models

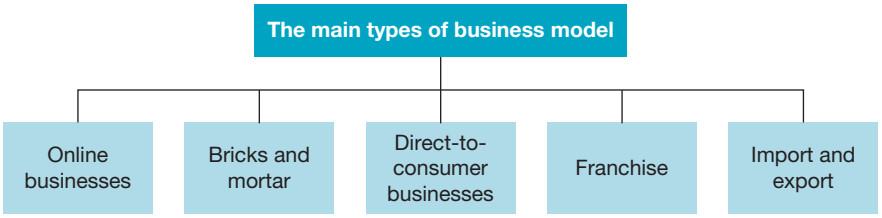
A **business model** is the way in which the business will run its operations to generate a profit. It acts as a general framework for how the business will earn its income and function on a day-to-day basis. In many instances the business model arises in the earliest stages of planning for a business. As the business grows and circumstances change, the business model may need to be adapted to reflect changes in the way in which 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 models in operation today, reflecting the diverse nature of business in the twenty-first century. Some business models are based on traditional practices that have been in operation for centuries, while others are completely new. Let's look at the main types of business model that a business may choose as part of its planning.

business model the way in which the business will run its operations to generate a profit



2.5.2 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 do not have factories, warehouses, shops or face-to-face customer contact. They exist solely on the internet, with 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 businesses in the world.

The rapid advancement of internet technology and infrastructure, such as fibre-optics and 5G, has allowed for much greater access to high-speed internet. This has created a far larger market for streaming services, such as Netflix, as compared with previous years.



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 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.

A disadvantage of an online business model is that customers are not able to physically see, touch or try an item before purchasing it. Furthermore, some online businesses may expose customers to the risk of credit card theft when making payments online.

Within the broad category of online businesses there are many different types of models 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.

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

Descriptions of different types of online business models	
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 that 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.

2.5.3 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 goods prior to purchase. However, bricks and mortar businesses are far more expensive to establish and maintain than online businesses, and this can make it difficult for them to remain competitive on price.

Traditional bricks and mortar businesses such as Woolworths have also adapted to offer consumers the option of grocery shopping online with home delivery.



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**.

2.5.4 Direct-to-consumer businesses

Direct-to-consumer businesses (DTC), also known as business-to-consumer businesses (BTC), are businesses that sell their products directly to consumers without any intermediaries, such as retailers or wholesalers. These businesses can take the form of bricks-and-mortar, clicks-and-mortar and, most commonly, online retail businesses.

Although DTC businesses, such as Dollar Shave Club, BarkBox and Blue Apron, are becoming increasingly common thanks to advances in internet technology, the DTC business model is not a new idea. In fact, prior to industrialisation, most businesses sold directly to consumers in their local community.

As with other business models, the DTC business model has its advantages and disadvantages. DTC businesses have a strong focus on and connection with their customers, which tends to build customer loyalty. They also tend to have lower costs when compared with models that rely on more complicated networks to reach their customers, particularly as they often don't require expensive real estate for shops and warehouses. These lower costs allow the business to be more competitive in terms of price. The model does have problems, however. The business must master all the steps required for each product to reach the customer, which can be time consuming and less efficient than selling to retailers that specialise in selling. Furthermore, if the business relies on online selling, it is exposed to the risks associated with cybersecurity and data protection.

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.

manufacturing a business that produces physical goods, often in a factory. These goods are then sold to wholesalers or directly to retailers who then sell the good on to customers at a marked-up price.

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.

bricks and clicks the business model that offers customers the choice of online shopping as well as shopping at the physical store

CONTEMPORARY CASE STUDY

Farmers are tapping into subscription model to sell farm fresh produce direct to consumers

In the last few years consumer shopping habits have changed in many ways. While consumers have moved to streaming services for entertainment, they have also become more frequent users of subscription delivery services for groceries.

Alicia Kidd and Adam Burrows left their lucrative jobs in the mines to follow their dream of growing fresh produce on their Eungella block in north Queensland. They sell the fresh fruit and vegetables that they grow directly to the consumer.

For them a subscription model helps save on potential food waste, filling boxes with the first crop of their market garden.

'Whatever is good in the paddock that week all gets put into a pre-purchased box, and it's delivered to their [the consumers'] door,' Ms Kidd said.

Alicia Kidd and Adam Burrows left their lucrative jobs in the mines to follow their dream of growing fresh produce.



'The model we are following is minimising handling and buying directly through the farmer, so it doesn't go through three different sets of hands before it's distributed,' Mr Burrows said.

Mr Burrows said consumers were looking for a direct connection with their growers, providing transparency in the food chain.

The couple studied permaculture before starting their farm and encourage their consumers to learn about their practices.

Source: Adapted from M. Groves, T. Major and O. Wykeham, 'Farmers are tapping into subscription model to see farm fresh produce direct to consumers', *ABC Online*, 13 August 2020.

2.5.5 Franchise

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, The Coffee Club, Mad Mex, Roll'd and Gelatissimo.

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.

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

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

franchisee a business that is licensed to operate under the name of an existing business and distribute its goods or services

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.

Many well-known businesses operate under a franchise agreement.





CONTEMPORARY CASE STUDY

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. Word of mouth spread and the popularity of the business meant that it soon opened other stores.

Initially, the owners had chosen a company-owned model for Gelatissimo. However, in 2004 they started franchising. 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. The franchisees could then bring passion and commitment to their own store.

Gelatissimo now has stores in more than forty locations across Australia, as well as in China, the Philippines, Singapore, Saudi Arabia, Kuwait India and Bangladesh. With close to fifty 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 influenced 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

Weblinks Franchise Council of Australia
Franchise business

2.5.6 Import and export

The import and export business model involves businesses generating sales revenue by trading goods internationally. Consumers are more aware than ever of international products. It is this demand combined with reductions in trade barriers between nations, advances in technology and continued industrialisation of nations with cheaper labour resources that enables import and export businesses to prosper.

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.

Approximately 97 per cent of Australia's international trade takes place through shipping, while only 3 per cent occurs via aeroplane.



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 iron ore and beef are competitive internationally. There 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.

imports goods and services that are produced overseas and sold to Australian consumers

exports goods and services that are produced in Australia to be sold overseas

KEY IDEAS

- 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 also a popular business model.
- Direct-to-consumer businesses sell their products directly to consumers without any intermediaries, such as retailers or wholesalers.

2.5 Exercises

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2.5 Quick quiz on | **2.5 Exercise** | **2.5 Exam questions**

2.5 Exercise

TEST your understanding

1. **Outline** what is meant by the term 'business model'.
2. **Identify** three things that should be considered when developing a business model.
3. **Complete** the following table to summarise the different types of business models.

	Online	Bricks and mortar	Direct-to-consumer	Franchise	Importer and exporter
Description					
Advantages					
Disadvantages					
Examples					

4. **Distinguish** between a retail business model and a wholesale business model.
5. Read 'Farmers are tapping into subscription model to sell farm fresh produce direct to consumers' and answer the following questions.
   a. **Explain** two advantages to businesses of using a direct-to-consumer model.
   b. **Explain** one reason why customers choose to buy produce directly from the farm.
6. A franchise agreement is a popular business model.
   a. **Outline** what the franchisor receives in a franchise agreement.
   b. **Outline** what the franchisee receives.
   c. **Outline** what each party provides.
7. **Suggest why** businesses operating as a franchise have a success rate three times that of independent businesses.
8. **Explain** one main benefit of franchising for the:
   a. franchisor
   b. franchisee.
9. Read '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 Gelatissmo? **Justify** your response.

APPLY your understanding

10. **Identify** four different franchise businesses that operate in your suburb or town.
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. **Identify** five businesses that you interact with on a regular basis and describe the type of business model that they operate under.
13. **Identify** one example each of a retail, wholesale and manufacturing business in Australia.

2.5 Exam questions

Question 1 (7 marks)

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. **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**

Question 2 (4 marks)

Analyse how a prospective business owner's decision to use an 'importer' or 'exporter' model may affect the planning for their business.

Question 3 (4 marks)

With reference to a contemporary direct-to-consumer business that you are familiar with, **explain** how this business model differs from other business models.

Question 4 (5 marks)

Distinguish between an importer and exporter as types of business models. With reference to a contemporary business that you are familiar with, explain one advantage of adopting an importer business model and one advantage of adopting an exporter business model.

Question 5 (5 marks)

Explain what is meant by the term 'franchise' as a business model. With reference to a contemporary franchise business that you are familiar with, outline one advantage and one disadvantage of operating a business under a franchise model.

More exam questions are available online.

2.6 Purchasing an existing business or establishing a new business

KEY KNOWLEDGE

- Costs and benefits of purchasing an existing business compared with establishing a new business

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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.

2.6.1 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.

goodwill the monetary value attached to the reputation of a business

The benefits and costs of purchasing an existing business

Benefits	Costs
• Sales to existing customers generate instant income. • A good business history increases the likelihood of business success. • A proven track record makes it easier to obtain finance. • Stock has already been acquired and is ready for sale. • The seller may offer advice and training. • Equipment is available for immediate use. • Existing employees can provide valuable knowledge and assistance.	• The existing image and policies of the business may be difficult to change, especially if the business has a poor reputation. • 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. • It may be difficult to assess the value of goodwill, with the likelihood of the new owner paying more than the goodwill is worth. • Some employees may resent the change to the business operation.

CONTEMPORARY CASE STUDY

MANUFACTURING BUSINESS: Mars Incorporated's acquisitions

In 1935, Forrest Mars Sr. saw an opportunity to enter a market with very little competition and bought Chappell brothers, a business that produced canned dog food. Soon after, Mars launched its pet food business, Pedigree. In recent years, Mars has continued to acquire businesses it believes it can add value to, such as chewing gum manufacturer Wrigley and pet care business VCA, which it acquired for US$7.7 billion in 2017.



2.6.2 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 benefits and costs of setting up a new business

Benefits	Costs
• The owner has the freedom to set up the business exactly as they wish. • The owner can determine the pace of growth and change. • There is no goodwill for which the owner has to pay. • If funds are limited, it is possible to begin on a smaller scale.	• There is a high risk and a measure of uncertainty. • Without a previous business reputation, it may prove difficult to secure finance. • Time is needed to develop a customer base, employ staff and develop lines of credit from suppliers. • If the start-up period is slow, then profits may not be generated for some time.

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.

Resources

Video eLesson Purchasing an existing business or establishing a new business (eles-2977)

Weblink Steps for starting up

KEY IDEAS

- 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.

2.6 Exercises

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2.6 Quick quiz | **2.6 Exercise** | **2.6 Exam questions**

2.6 Exercise

TEST your understanding

1. **Describe** the circumstances in which someone might choose to start a business from scratch.
2. **Identify** and **explain** the two most significant benefits and costs of starting a new business from scratch.
3. **Explain** what a franchise agreement is.
4. **Explain** why operating as a franchise addresses some of the problems associated with starting a business from scratch.

APPLY your understanding

5. 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. **Explain** if it would have been wiser for Bianca to purchase an established business rather than starting from scratch.
   b. **Outline** one piece of advice that could assist Bianca.
6. Select a business that you buy from regularly and answer the following questions.
   a. **Outline** why you use this particular business.
   b. **Identify** the strengths and weaknesses of this business.
   c. If this business were for sale, would you consider purchasing it? **Justify** your answer.

2.6 Exam questions

Question 1 (3 marks)

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 business model for Tori. **Justify** your response.

Question 2 (4 marks)

Purchasing an existing business is less risky than establishing a new business. **Discuss**.

Question 3 (2 marks)

Explain how the decision to purchase an established business will affect business planning and ultimately the success of the business.

Question 4 (4 marks)

Paul has decided to establish a new business. **Explain** why he might have chosen this way to start a business rather than buy an existing business.

Question 5 (4 marks)

With reference to a contemporary business that you are familiar with, **explain** one benefit and one cost of purchasing an existing business.

More exam questions are available online.

2.7 Business resource needs

KEY KNOWLEDGE

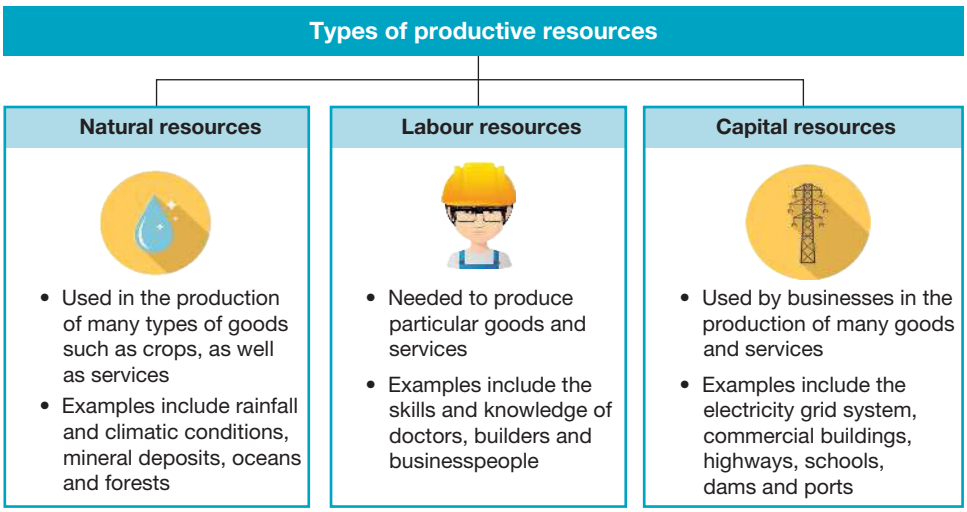
- Business resource needs (natural, labour and capital) and the factors affecting the use of business resources

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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 the things, including people and objects, needed for the business to function properly. There are three main categories of resources: natural, labour and capital.

resources the people and objects that are needed for the business to function properly

The three categories of resources needed for a business to function



2.7.1 Natural

Natural resources are items used by the business that come from the natural environment. These include 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 and employees.

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

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

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



natural resources items the business uses that come from the natural environment. Examples include land, water and raw materials.

labour resources the people that provide their skills, effort and knowledge to the business

subcontractor a person that is not directly employed by the business but has been contracted to perform certain tasks

2.7.2 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 direct effect on the lives of the people working for that business. A business must ensure that it treats its workers both legally and fairly, and not as just another resource that contributes to the profitability of the business.

capital resources the tools and machinery that are used to produce goods or perform services

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?

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



CONTEMPORARY CASE STUDY

MANUFACTURING BUSINESS: Mars

Mars has been recognised as one of the 'World's Best Workplaces' for ten years in a row. By providing excellent working conditions, Mars is not only achieving its social responsibility goals, but also ensuring that its workforce is motivated. This leads to a more productive workforce and, ultimately, a more successful business.

2.7.3 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.



KEY IDEAS

- Resources are all the 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.

2.7 Exercises

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2.7 Quick quiz on | 2.7 Exercise | 2.7 Exam questions

2.7 Exercise

TEST your understanding

1. **Define** the term 'resources'.
2. **Explain** the three types of resources available to a business and provide an example of each.
3. **Describe** what makes labour unique when compared with natural and capital resources.
4. **Identify** three factors that a business must consider when planning for its:
   a. natural resource needs b. labour resource needs c. capital resource needs.

APPLY your understanding

5. **Identify** the resources that would be used by the following businesses:
   a. beauty salon
   b. fast-food restaurant
   c. veterinary clinic
   d. plumbing business
   e. wedding reception business.
6. **Categorise** the following resources as either natural, labour or capital resources.

Resource	Resource category
a. A tractor on a small commercial farm	
b. The raw fish used by a fish and chips shop	
c. A drill press in a cabinet-making factory	
d. A delivery driver for a pizza shop	
e. A lawyer who runs his own legal practice	
f. A computer used at a medical clinic	
g. A worker in a factory	
h. The land on which a new office will be built	
i. A boat used by a commercial fishing business	
j. A computer program used by an accountant	

7. **Research** a contemporary business of your choice via the internet or by interviewing the manager, then complete the following.
   a. **Identify** as many resources as you can that might be used by the business and **classify** them as natural, labour or capital.
   b. **Identify** four factors relating to each resource that the business would have to consider when planning.
   c. **Outline** one difficulty that the business might encounter when planning for each resource.
   d. **Describe** how the business might overcome these difficulties.

2.7 Exam questions

Question 1 (3 marks)

Distinguish between natural resources and capital resources.

Question 2 (4 marks)

Talia is planning the resource needs for her new business. **Explain** one factor that will affect her choice of labour resources, and **explain** one factor that will affect her choice of capital resources.

Question 3 (4 marks)

Identify two business resource needs relevant to a bakery and provide an example of each resource.

Question 4 (6 marks)

Identify three types of resources and provide an example of how each is used by a contemporary manufacturing business that you are familiar with.

Question 5 (6 marks)

Compare the resource needs of two contemporary businesses that you are familiar with.

More exam questions are available online.

2.8 Business locations

KEY KNOWLEDGE

- Business locations and the factors affecting choice of location

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Location, location, location! An 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.

2.8.1 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 households from 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.

zoning a means by which local councils allocate land for different uses, such as residential, commercial, recreational and industrial

Shopping centres

The first modern Australian shopping centre opened in Brisbane in 1957. 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.

Shopping centres provide an ideal location for a wide variety of retail businesses.



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 more 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.

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 roads during the second half of the nineteenth 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.

Retail shopping strips have developed on major roads.



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.

Online presence

Businesses are increasingly seeing the need to expand through the use of the internet. Many businesses, such as Netflix, 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 and benefit from online sales, while retaining their physical stores. According to the Australian Bureau of Statistics, in 2019–2020 half of all Australian businesses received online orders.

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.

Having an online presence has many benefits for a business, including increased access to new customers. However, businesses may find that the costs of planning, designing and maintaining an online presence are significant. Furthermore, customers and businesses owners should always be careful to protect personal information.

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. Technology that is affordable and creative is the main reason businesses can be run from home. Most home businesses use the internet, computer applications and software, and a mobile phone with relevant apps. 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 reduces 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.

on Resources

Weblink Scamwatch

2.8.2 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.

search engine optimisation (SEO) the strategies used to increase the number of visitors to a website by making it more visible on search engines

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 a little over 6000 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 13 500 hectares of industrial land.

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 several 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.

Many homemaker centres contain complementary businesses, such as furniture stores.



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.

complementary businesses businesses that sell products which are aimed at the same customers

EXAM TIP

The **Unit 1**, **Area of Study 2** outcome states that you need to 'discuss and evaluate business information and ideas'. 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.

KEY IDEAS

- 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.

2.8 Exercises

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2.8 Quick quiz on | **2.8 Exercise** | **2.8 Exam questions**

2.8 Exercise

TEST your understanding

1. **Explain** how local council decisions affect the location of different types of business.
2. **Describe** the advantages shopping centres have over traditional 'main street' shopping strips.
3. **Outline** the main activities of an online store.
4. **Define** 'search engine optimisation' and **explain** how it helps an online store achieve visibility.
5. **Explain** how an online presence can assist a business owner to operate from home.

APPLY your understanding

6. Choose a contemporary 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.

7. **Discuss** the factors that 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. a vehicle panel beater.

2.8 Exam questions

Question 1 (4 marks)

Explain two factors that a business must consider when selecting an appropriate location.

Question 2 (4 marks)

Lorenzo and Jamal have decided to locate their fruit and vegetable business in a shopping centre. **Discuss** the suitability of their decision.

Question 3 (4 marks)

Analyse how decisions about location affect business planning.

Question 4 (4 marks)

'Proximity to suppliers is more important than proximity to customers.' **Discuss** this statement.

Question 5 (6 marks)

Explain two advantages and one disadvantage of operating a business from home.

More exam questions are available online.

2.9 Sources of finance

KEY KNOWLEDGE

- Sources of finance available to establish a business and the factors affecting the type and source of finance chosen

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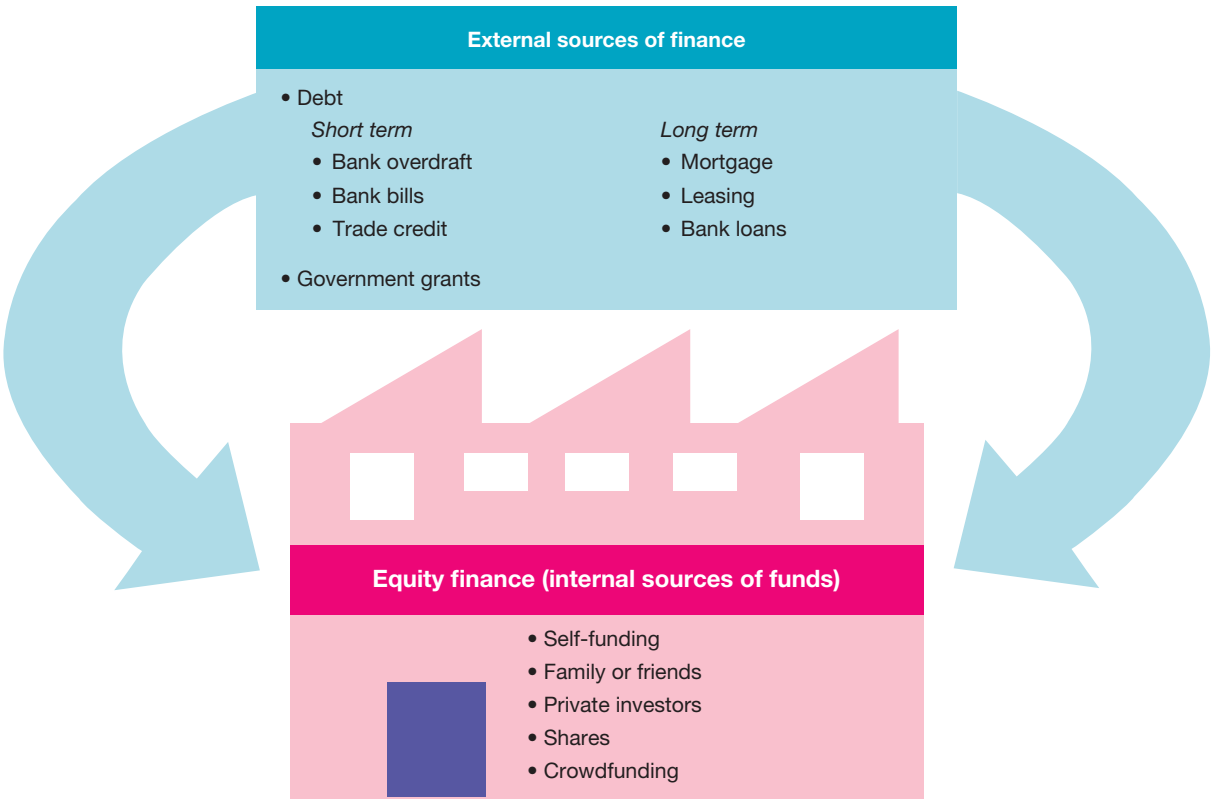
A business cannot start without funds. Effective business planning requires the owner to know where to obtain finance as well as decide on the finance option that is best suited to the business. The funds that a business requires can come from a variety of people and/or institutions. These groups or 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, such as a bank loan. There are advantages and disadvantages associated with each source of finance.

2.9.1 Equity finance (internal sources of funds)

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 the funds contributed by the owner(s) of a business to start and build the business

Sources of funds



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 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

bootstrapping starting a business using personal finance or the revenue from the business

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.

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 selling shares in the business. However, only companies can make use of this source of finance. As we will see later in the topic, public listed companies can access more capital than private limited companies, because they are able to sell and 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 a method of raising finance through appeals for donations via social media and the internet

CONTEMPORARY CASE STUDY

SERVICE BUSINESS: Netflix

On 23 May 2002, Netflix listed its shares on the New York Stock Exchange at a price of US$15 per share. Not only did the US$82.5 million raised in its initial public offering (IPO) help Netflix to significantly grow its online DVD rental business, but also it proved to be a fantastic investment for its shareholders. Their investment has grown more than 100 times in value to date. This means that if you had purchased US$1000 of Netflix shares in its IPO, these shares would today be worth over US$100 000.



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.



2.9.2 External sources of finance: debt finance

Most external sources of finance are in the form of **debt** (through borrowing), 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.

debt the funds provided by banks, other financial institutions, government and suppliers, which must be paid back over time with interest

working capital the funds available for the short-term financial commitments of a business

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

A **mortgage** is a loan on a property, 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 listed below:

- 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, and industrial and office equipment are often leased. Leasing is especially recommended for equipment that becomes obsolete quickly, such as computers.

2.9.3 External sources of finance: government 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 Regional Jobs Fund, which supports projects that create employment opportunities across certain industry sectors in regional areas. 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.

mortgage a loan on a property, secured by the property of the borrower (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

In 2021, Flavorite Hydroponic Tomatoes Pty Ltd received funding from the Victorian Government through the Regional Jobs Fund. The funding went towards the construction of additional glasshouses which allowed the business to expand its operations and employ more people from the Gippsland region.



2.9.4 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.

It is important to calculate the overall cost of each source of finance when comparing the available options.



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 need to 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.

terms of finance the amount of the repayments and frequency at which they must be made

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 unfavourable expenses, such as interest on a loan that is no longer needed.

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 large 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.

on Resources

Weblinks Business Victoria Grants and Assistance
Austrade

KEY IDEAS

- There are two types of finance sources available to a business: internal and external funds.
- 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 (through borrowing) or applying for a government 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.

2.9 Exercises

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2.9 Exercise

TEST your understanding

1. **Distinguish** between equity and debt.
2. **List** the advantages and disadvantages of using equity to finance a business.
3. **Create** 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		
Business loan or mortgage		

5. **Explain** why is it important to match the term of a loan to the life of the asset for which the loan was obtained.
6. **Describe** five factors that a business should consider when deciding on a source of finance.

APPLY your understanding

7. In small groups, 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. Share your findings with the class.

Source	Interest rate	Borrowing limit	Terms	Main advantage

8. Access the **Business Victoria Grants and Assistance** weblink in the resources tab. **Outline** one grant available for business owners.
9. Use the **Austrade** weblink in the resources tab. **Evaluate** the benefits of Austrade's Export Market Development Grants to businesses.

2.9 Exam questions

Question 1 (2 marks)

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.

Question 2 (4 marks)

Polly is hoping to finance her business using crowdfunding. **Discuss** Polly's decision to use crowdfunding as a source of finance.

Question 3 (4 marks)

Analyse how decisions about finance will affect business planning.

Question 4 (4 marks)

Identify two sources of finance and explain one advantage and one disadvantage of each.

Question 5 (3 marks)

Distinguish between internal and external sources of funds.

More exam questions are available online.

2.10 Business support services

KEY KNOWLEDGE

- Business support services such as legal, financial, technological, community-based, formal and informal networks, and business mentors

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2.10.1 Legal and financial advice

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 consequences 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.

Business owners should regularly seek legal and financial advice from professionals.



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.

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.

2.10.2 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 supplier 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 — that includes information relating

accountant a professional who provides advice on all financial management issues and taxation obligations

solicitor a professional who provides advice on legal matters such as business formation, registration, contracts and legislation

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.

2.10.3 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 business people 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 topic 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.

on Resources

Weblink BEC Australia

2.10.4 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

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.

on Resources

Weblink VCCI

2.10.5 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

The federal government delivers assistance, programs and services that support businesses. The Department of Industry, Science, Energy and Resources maintains a website, a contact centre and a national network to streamline access to information and advice for businesses. The website 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 Jobs, Precincts and Regions' 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.

2.10.6 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.

2.10.7 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

KEY IDEAS

- 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, 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.

2.10 Exercises

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2.10 Quick quiz | 2.10 Exercise | 2.10 Exam questions

2.10 Exercise

TEST your understanding

1. **Explain** the type of support and advice that can be provided by each of the following:
   - a. solicitors
   - b. accountants
   - c. bank managers
   - d. BEC Australia
   - e. SBCVs
   - f. chambers of commerce
   - g. VCCI
   - h. trade associations
   - i. federal government
   - j. state government
   - k. local government.
2. **Outline** the benefits that a business owner can gain by joining a service club, such as Rotary or Lions.

3. **Explain** why 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. **List** five questions you would ask a mentor.

2.10 Exam questions

Question 1 (2 marks)

Explain the importance of business support services.

Question 2 (6 marks)

Hugo is in the initial stages of planning for a new business and is seeking support and advice. **Analyse** two business support services that Hugo could use.

Question 3 (2 marks)

Explain the effect that using business support services will have on business planning.

Question 4 (2 marks)

Explain how a mentor can assist business planning.

Question 5 (3 marks)

Distinguish between the formal and informal networks used to assist business owners with planning.

More exam questions are available online.

2.11 EXTEND YOUR KNOWLEDGE Planning decisions and the internal environment

EXTEND YOUR UNDERSTANDING OF THIS CONCEPT

- Many factors from within the internal business environment affect business planning.

CONTEMPORARY CASE STUDY

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 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 money 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 a 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.

on Resources

Weblinks Business support services 1
Business support services 2
Business support services 3
BEC Australia
Franchise Council of Australia

2.11 Exercises

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2.11 Exercise | **2.11 Exam questions**

2.11 Exercise

TEST your understanding

1. In pairs, arrange an interview with a local business owner. You might like to use the questions in the 'Researching local business' interview, 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. 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. **Describe** the advantages that a shopping centre has in terms of location, parking facilities and public transport access.
   b. **Identify** examples of businesses in direct competition with each other. How might this affect the success of each business?
   c. **Suggest** 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? **Discuss** whether the presence of the supermarket draws consumers to the centre. (Ask a sample of shoppers and business owners to get their opinions.)
   f. **Name** examples of complementary businesses.
   g. Is there a traditional shopping strip nearby? **Identify** any evidence that suggests 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? **Outline** the role that this association plays 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 of the following:
   a. Law Institute of Victoria
   b. Institute of Chartered Accountants
   c. VCCI.

   Your report should include the following:
   i. The major objectives of the organisation
   ii. The services offered by each organisation to its members
   iii. How a person or business becomes a member
   iv. The services offered to consumers and other members of the community
   v. The role of the organisation in education, training and career progression.
6. Use the **BEC Australia** weblink in the resources tab to answer the following questions about Business Enterprise Centres (BEC) Australia:
   a. **Identify** when and by whom the organisation was set up.
   b. **Describe** how the organisation has developed and grown following its establishment.
   c. BEC Australia is a not-for-profit organisation. **Explain** how it funds its services.
   d. **List** the key objectives of BEC Australia.
   e. **Identify** five different services offered by BEC Australia, and explain how each operates.
   f. **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.
   a. **List** the main objectives of this organisation.
   b. **Identify** who can be a member of the organisation.
   c. **List** the services 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. 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.

2.11 Exam questions

Question 1 (6 marks)

With reference to a contemporary business you are familiar with, **analyse** how two factors from within the internal environment may affect business planning.

Question 2 (4 marks)

Discuss one decision made in response to the internal factors that affect a contemporary business you are familiar with.

More exam questions are available online.

2.12 Planning tools and business plans

KEY KNOWLEDGE

- Planning analysis tools to assist in determining the strengths and weaknesses of decisions regarding changing internal factors, such as SWOT analysis
- Overview of business plans, including the benefits of using them and an outline of their key features

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In this topic 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.

2.12.1 SWOT analysis

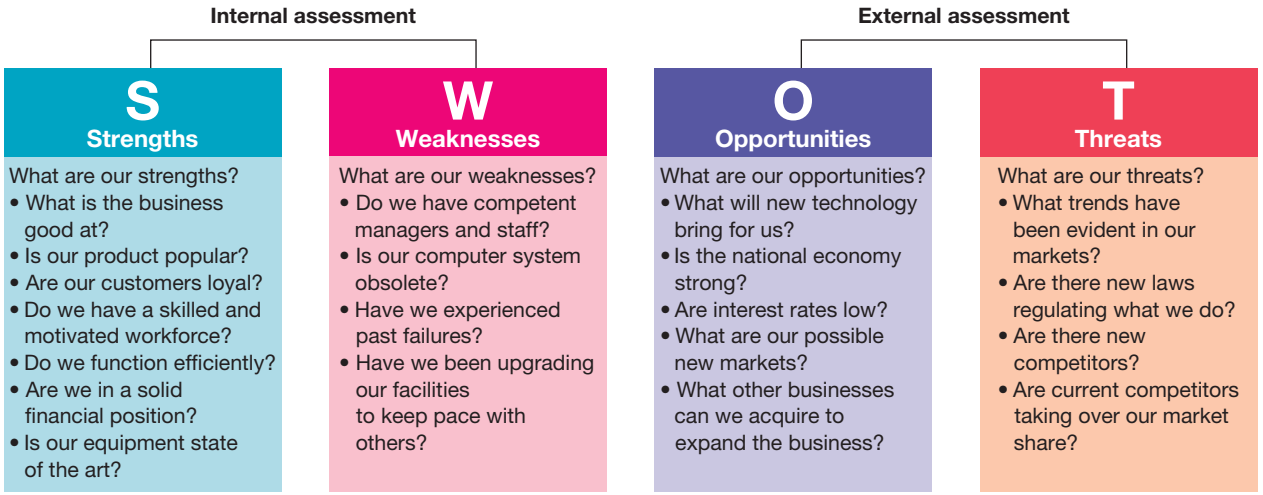
In order to plan for the successful future of a business, the owner must have an understanding of where the business currently stands. A SWOT analysis is a planning tool that identifies the business's internal strengths and weaknesses, as well as any opportunities and threats from the external environment.

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.

A SWOT analysis



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.

on Resources

Video eLesson SWOT analysis (eles-2978)

2.12.2 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, they are at a greater risk of business failure, and optimism will turn to despair.

CONTEMPORARY CASE STUDY

kikki.K — the importance and limitations of planning

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.'

Kristina Karlsson says that it is important to put plans down on paper as a business plan, in order to have a clear vision

Kristina Karlsson developed a business plan very early on for her business, kikki.K.



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.

kikki.K meticulously planned its expansion into international markets, opening stores in Singapore, Hong Kong, UK and New Zealand as part of a long-term strategy to become a global brand. Despite this, the expansion took its toll on the profitability of the company, with a range of external factors, from Brexit to protests in Hong Kong, affecting the success of the expansion. This, coupled with an inability to clearly differentiate its products from those of cheaper competitors, sent the business into decline. In March 2020, kikki.K went into voluntary administration, with the effects of the COVID-19 pandemic being the last straw for the already struggling company. In October 2021, after over a year of uncertainty as to whether or not the business would survive, Brandbank Group announced its intention to acquire kikki.K, saving it from collapse. The news provided great relief to kikki.K's loyal customers, creditors and employees across its 30 stores and head office. Brandbank planned to reopen physical stores in the run up to the Christmas shopping season and build on the already well-known brand name of the business.

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 adage, 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.

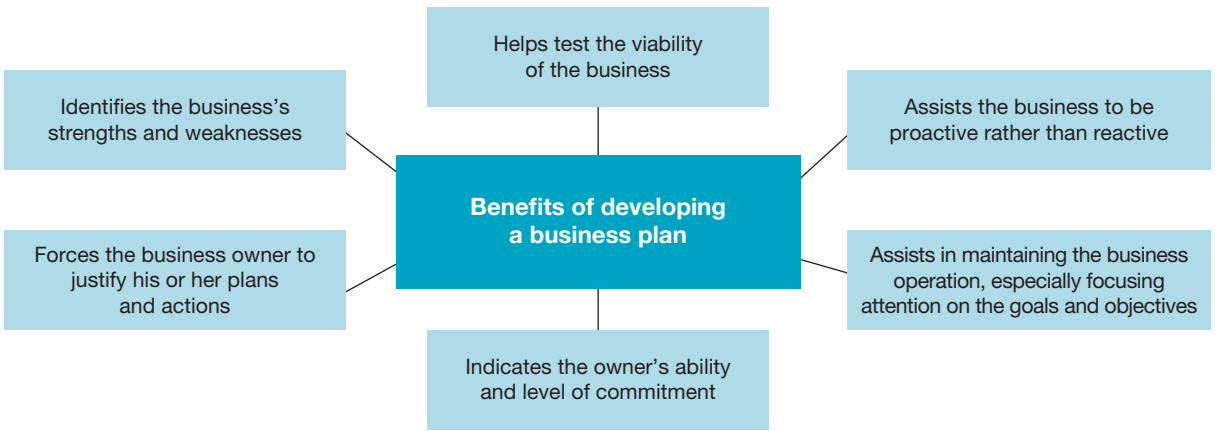
A comprehensive business plan will also assist when arranging finance for the business. The plan provides information that lenders need to know, and it shows that the business is being properly organised and managed.

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.

business plan a written statement of the goals and objectives for the business, and the steps to be taken to achieve them

planning a process or series of actions to achieve an objective

The benefits of developing a business plan



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 the gap in the market that the business will be filling. The marketing strategy is included in this section.

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 of a range of factors out of the owner's control. 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.

on Resources

Weblinks SMBS business planning tools
Business plan

KEY IDEAS

- Planning is an essential part of establishing and running a business.
- A business has many tools available to assist in the planning process.
- 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, an operations plan, a financial plan and a marketing plan.

2.12 Exercises

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2.12 Exercise

TEST your understanding

1. **Explain** what is meant by a SWOT analysis and why it is an important planning tool for a business.
2. **Outline** the benefits and limitations of conducting a SWOT analysis.
3. **Explain** what a business plan is.
4. **Explain** why it was important for Kristina Karlsson to have a business plan.
5. **List** at least six benefits of a business plan.
6. **Outline** the limitations of completing a business plan.
7. **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.
8. A friend has asked you to help him prepare a business plan for a new fitness centre he wants to open. **Identify** the elements that he should include in the business plan.

APPLY your understanding

9. **Prepare** a SWOT analysis for a business you deal with regularly, such as a retail store.

2.12 Exam questions

Question 1 (2 marks)

Define the term 'business plan'.

Question 2 (2 marks)

Explain how a SWOT analysis can be used to evaluate a business's current situation.

Question 3 (4 marks)

Discuss the use of a business plan.

Question 4 (3 marks)

Explain how a business plan contributed to the success of a contemporary business.

Question 5 (4marks)

Outline two elements of a typical business plan and explain why they are important.

Question 6 (4 marks)

Referring to a contemporary business that you are familiar with, **analyse** the effectiveness of a business plan.

More exam questions are available online.

2.13 APPLY YOUR SKILLS Business plans and planning tools

PRACTISE YOUR SKILLS

- Identify, define, describe and apply business management concepts and terms
- Interpret, discuss, compare and evaluate business information and ideas
- Analyse case studies and contemporary examples of business management
- Apply business management knowledge to practical and/or simulated business situations.

Source: VCE Business Management Study Design (2023–2027) extracts © VCAA; reproduced by permission.

2.13.1 Developing and constructing a business plan

In topic 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. Other resources, such as support files and weblinks, are supplied 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 *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.

on Resources

ProjectsPLUS Planning for success (pro-0105)

2.13.2 SWOT analysis

As discussed in section 2.12.1, 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.

CONTEMPORARY CASE STUDY

MANUFACTURING BUSINESS: Mars

As a global company that produces some of the world's leading confectionary, food, pet care, beverage, health and nutrition products, Mars must be aware of its business environment at all times. This requires detailed analysis and careful planning at all levels of the business and concerns a wide range of factors that ultimately affect the overall success of the business.

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 employees 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 a long history of seizing opportunities and successfully expanding into new markets.



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. Since 2018, Mars has been committed to investing US$1 billion over ten years to help transform the cocoa supply chain for the better. This includes the goal of ensuring all cocoa is responsibly sourced by 2025.

The company has a long-term goal to reduce its total environmental impact in line with what science indicates is necessary. It also aims to improve the lives of 1 million people in its value chain, while advancing science innovation and marketing in ways that help people.

Mars is a reputable employer. Teamwork is seen as very important at the company — units work with each other to achieve broad corporate objectives. The business has been recognised as a great place to work numerous times. For example, in 2021, Mars ranked in the top 25 World's Best Workplaces list for the tenth consecutive year.

Mars' employees shared all of the reasons why they are #ProudlyMars on the Great Place To Work survey, which covers more than 8000 organisations and represents the voices of 3.4 million employees at companies worldwide.

Source: Adapted from Mars website, 'Mars ranks in top 25 world's best workplaces for eighth consecutive year', https://www.mars.com/news-and-stories/articles/the-worlds-best-workplaces.

2.13 Exercises

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2.13 Exercise | 2.13 Exam questions

2.13 Exercise

TEST your skills

1. **Explain** the purpose of a business plan.
2. **List** each of Mars' strengths and weaknesses in the table. These should relate to the internal aspects of the business.

Strengths	Weaknesses

3. **List** each of Mars' opportunities and threats in the table. These should relate to the external aspects of the business.

Opportunities	Threats

4. **Explain** what a SWOT analysis is.

APPLY your skills

5. a. **Outline** the objective for your business developed in section 2.13.1.
   b. **Explain** how you will achieve those 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	

7. **Suggest** how Mars could use its strengths to seize the opportunities you listed in question **3**.
8. **Suggest** how Mars could use its strengths to overcome the threats you listed in question **3**.
9. **Outline** what could Mars do to make sure that its weaknesses do not prevent it from seizing its opportunities.
10. **Discuss** the importance of undertaking research before completing the business plan.
11. **Outline** some of the main reasons that business owners should complete a business plan.

2.13 Exam questions

Question 1 (4 marks)

Referring to a contemporary business you are familiar with, **explain** how a planning tool may be used to analyse a business's current situation.

Question 2 (6 marks)

Discuss the degree to which business planning can ensure the success of a business, with reference to a contemporary business you are familiar with.

More exam questions are available online.

2.14 Corporate social responsibility management issues regarding business planning

KEY KNOWLEDGE

- Corporate social responsibility considerations and business planning

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When planning a business, a business owner needs to consider corporate social responsibility management issues. The federal government's business.gov.au website recommends that a business plan include 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.

stakeholders any group or individual who has an interest in, or is affected by, the activities of a business

boycotting when a customer refuses to purchase goods or services from a business as a form of protest against the undesirable activities of the business

staff morale the general level of satisfaction and wellbeing of employees

employee retention the ability of a business to keep employees

2.14.1 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 damage the relationship it has with its most important asset. Dissatisfied workers are 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 leads to a more productive workplace and greater **employee retention**.

The way in which it treats people is considered a key element of a business's commitment to corporate social responsibility.



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.

2.14.2 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 in a socially responsible way. 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 very important 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 moving production overseas where labour is cheaper and laws ensuring the fair treatment of workers are not enforced (or

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

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.
- ***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 First Nations Australian 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.

Failing to ensure the fair treatment of workers in less developed nations may seem like a cheaper option for businesses; however, it can result in socially conscious customers boycotting the business.



Businesses can choose to positively discriminate and offer increased opportunities to people with disabilities.



DID YOU KNOW?

As a general rule, it costs 40 per cent of the annual salary of a departed worker to replace them.

2.14.3 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.

CONTEMPORARY CASE STUDY

SERVICE BUSINESS: Corporate social responsibility at Netflix

Sustainability initiatives

Netflix has made a commitment to environmental sustainability by moving towards net-zero greenhouse gas emissions by 2022. It offers shuttle commuting options for employees, free charging stations for electric vehicles and 100 per cent renewable energy provided by solar panels. Despite this, environmentalists are concerned about the excessive amount of energy that is used in the streaming process.

Content

Netflix actively focuses on delivering content that raises awareness of sustainability, including a range of documentaries about climate change. In 2021, Netflix came under fire for streaming a controversial comedy show by Dave Chappelle that reportedly contained transphobic jokes. The company denied the content as being harmful but was not able to dissuade certain members of the community from boycotting the company.

Ethical employer

Netflix has also committed to promoting equality and diversity in the workplace. Since 2013, over one-third of people in leadership positions at Netflix come from underrepresented ethnic backgrounds. The company promotes equitable pay, monitoring any pay gaps that need to be rectified. Netflix holds workshops to increase awareness of privilege and inequality. It is constantly looking at ways in which it can create a workplace that is free from the inequality that is present in society as a whole.

Netflix CEO Ted Sarandos (left) refused to remove controversial content by comedian Dave Chappelle (right).



KEY IDEAS

- 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.

2.14 Exercises

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2.14 Quick quiz on | **2.14 Exercise** | **2.14 Exam questions**

2.14 Exercise

TEST your understanding

1. **Outline** the benefits of a business being socially responsible.
2. **Explain** what might happen if a business fails to consider corporate social responsibility.
3. **Discuss** why it might be 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. **Identify** the customer issues that a business owner should 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. **Identify** 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 its 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. **Evaluate** the corporate social responsibility practices of Netflix.

2.14 Exam questions

Question 1 (4 marks)

Describe two corporate social responsibility management issues regarding business planning.

Question 2 (4 marks)

Discuss the issues that should be considered by a business planning to implement practices related to corporate social responsibility.

Question 3 (5 marks)

Define 'corporate social responsibility' and **analyse** the impact of being socially responsible on a business.

Question 4 (5 marks)

Discuss two socially responsible practices of a contemporary business you are familiar with.

Question 5 (5 marks)

Discuss two consequences of failing to behave in a socially responsible manner, referring to a contemporary business with which you are familiar.

More exam questions are available online.

2.15 APPLY YOUR SKILLS Planning decisions in response to internal factors

PRACTISE YOUR SKILLS

- Identify, define, describe and apply business management concepts and terms
- Interpret, discuss, compare and evaluate business information and ideas
- Analyse case studies and contemporary examples of business management
- Apply business management knowledge to practical and/or simulated business situations

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CASE STUDY

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 they were so distorted we had to re-shoot the whole thing.'

Vera Yan and Katia Santilli started their business through an online store, and then also established bricks and mortar stores in Bondi and Armadale.



Clicks 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 traditional 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.'

Nimble now employs more than 50 people, with physical stores across Melbourne, Sydney and Brisbane.

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.'

'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.'

Activewear was one of the few industries that saw a huge boost in sales during the COVID-19 pandemic. People working from home stocked up on the comfortable apparel, no longer needing traditional work attire. Industry leader Lululemon saw its shares increase by 92 per cent from March to May in 2020.

Nimble Activewear's growth has been driven by the strong demand for fashionable activewear from socially responsible businesses. The brand uses recycled plastics in the production of its core product range and has raised tens of thousands of dollars for charities that support women in Australia and the rest of the world.



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.'

'We think activewear is the Australian apparel product that swimwear was,' says Yan.

Source: Adapted from C. Waters, 'Not just for the gym: How Nimble jumped on the activewear fashion trend', *The Sydney Morning Herald*, 22 December 2017.

2.15 Exercises

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2.15 Exercise | **2.15 Exam questions**

2.15 Exercise

TEST your skills

1. Read '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. **Explain** why 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. **Explain** what this means.
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. 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.

2.15 Exam questions

Question 1 (6 marks)

Referring to a contemporary business you are familiar with, **explain** two factors from within the internal environment that may affect business planning.

Question 2 (6 marks)

Explain one advantage and one disadvantage of operating an online-only business as opposed to using a bricks and mortar model. In your response, refer to a contemporary business with which you are familiar.

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2.16 Review

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2.16.1 Summary

The relationship between the internal and the external environment of a business

- 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 key 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.
- While both environments will affect one another, it is the external environment that has a much greater degree of influence on the internal environment of a business.

Types of legal business structure

- There are a number of different legal ownership structures available to a person wishing to establish a business.
- The most common legal business structures are unincorporated businesses such as sole traders and partnerships. Each has its own 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.
- Social enterprises are a type of business established to serve a community or environmental need. These businesses can adopt an incorporated legal structure, operating like a private business. This type of business, however, allocates its profits to fulfill a community or environmental need.
- Government business enterprises (GBE) are incorporated businesses, controlled by the government. These businesses operate much like a company and have the objective of making a profit.

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 also a popular business model.
- Direct-to-consumer businesses sell their products directly to consumers without any intermediaries, such as retailers or wholesalers.

Purchasing an existing business or establishing 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.

Business resource needs

- Resources are all the 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: internal and external funds.
- 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 (through borrowing) or applying for a government grant.
- 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.

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 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 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 regarding business planning

- 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.

2.16.2 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
boycotting 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 an 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 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 businesses that sell products which 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, 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
exports goods and services that are produced in Australia to be sold overseas
external environment factors over which the business has little control. It may be further divided into two categories: operating and macro.
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 business
Government business enterprise a type of business which is controlled by the government. These types of businesses provide a range of essential services, but run in a similar way to companies with shareholders and a board of directors.
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

internal environment factors over which the business has some degree of control; it is sometimes called the micro environment.
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
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. 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 on a property, secured by the property of the borrower (the business)
natural resources items the business uses that come from the natural environment. Examples include land, water and raw materials.
operating environment the specific outside stakeholders with whom the business interacts in conducting its business; it is sometimes called the task environment.
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
private limited 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
public listed company an incorporated business with a minimum of one shareholder (and no maximum), and whose shares are openly traded on the Australian Securities Exchange
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
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 type of business that produces goods and services for the market. This kind of business operates with the primary objective of fulfilling a social need, yet it has profit as an objective.
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
stakeholders 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 their 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

on Resources

Digital documents Key terms glossary (doc-37630)
Missing word glossary quiz (doc-39036)
Crossword (doc-39037)

2.16.3 Practice 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

Time allowed:	80 minutes
Marks allocated:	40 marks
Conditions:	Read the following case study and then complete the questions.

Mars Incorporated



Mars Incorporated is a private company that manufactures some of the world's leading confectionery, food and pet care products, and has growing health and nutrition and beverage businesses. In 1911, Mars was founded by Frank C. Mars, who made a variety of butter cream candy in his home. Quality and value were the foundations of his first candy factory, which employed 125 people.

In 1935, Forrest Mars Senior saw an opportunity to enter a market with very little competition and bought Chappell brothers, a business that produced canned dog food. Soon after, Mars launched its pet food business, Pedigree. In recent years, Mars Inc. has continued to acquire businesses that it believes it can add value to, including chewing gum manufacturer Wrigley and pet care business VCA, which it acquired for $US7.7 billion in 2017.

The company attributes part of its success to the fact that it has stayed private. Its small number of shareholders allow the business to make quick decisions and allows it to focus on the long-term growth, as opposed to the short-term profits many stock market investors seek.

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 employees all over the world and have developed into a practical, effective and unique way of doing business that collectively and individually sets Mars apart.

Mars employs around 130 000 employees worldwide and has been recognised as one of the 'World's Best Workplaces' for ten years in a row. By providing excellent working conditions, Mars is not only achieving its social responsibility goals, but also it is ensuring that its workforce is motivated. This leads to a more productive workforce and, ultimately, a more successful business.

Since 2018, Mars has been committed to investing US$1 billion over ten years to help transform the cocoa supply chain for the better. This includes the goal of ensuring all cocoa is responsibly sourced by 2025. The company has a long-term goal to reduce its total environmental impact in accordance with what science indicates is necessary. It also aims to improve the lives of 1 million people in its value chain while advancing science innovation and marketing in ways that help people.

Mars announced an investment of $30 million into its Ballarat factory over 2021–22. Mars established its operations in Ballarat over forty years ago and is now one of Australia's largest manufacturers.

Consider this information as your answer the following questions:

Question 1 (2 marks)

Define what is meant by the term 'private limited company'.

Question 2 (2 marks)

Identify two resources that Mars would use in its operations at its Ballarat factory.

Question 3 (2 marks)
Identify two types of business support services that Mars might rely on to help in the running of the business.

Question 4 (4 marks)
Explain two factors that Mars would have considered when establishing its factory in Ballarat.

Question 5 (2 marks)
Describe the type of business model used by Mars.

Question 6 (5 marks)
Evaluate the decision made by Mars to purchase Chappell brothers, as opposed to starting a pet food business from scratch.

Question 7 (5 marks)
Evaluate the decision by Mars to remain a private company.

Question 8 (8 marks)
Discuss the extent to which you believe Mars is a socially responsible company and **explain** two benefits to the business of being socially responsible.

Question 9 (10 marks)
Explain what a 'SWOT analysis' is and provide an example of each element of the analysis as it might apply to Mars, explaining the effect that this could have on the business.

Resources

Digital document School-assessed coursework (doc-38069)

2.16 Exercises

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2.16 Multiple choice quiz | 2.16 Exercise | 2.16 Exam questions

2.16 Exercise

TEST your understanding

1. **Define** the term 'business environment'.
2. **Outline** the three types of resource used in production.
3. **Describe** five factors that affect the choice of a business location.
4. **Name** the two main types of external funding.
5. **Identify** and **describe** three forms of short-term debt.
6. **Identify** and **describe** five factors a business should consider when choosing a source of finance.
7. **Describe** three benefits of purchasing an existing business as opposed to starting from scratch.
8. **Outline** three advantages and three disadvantages of running a business as a sole trader.
9. **Explain** what it means for a business to be incorporated.
10. **Explain** the concept of limited liability and why it is beneficial to the owners of a business.
11. **Describe** two types of online business models, giving real-life examples of each.
12. **Outline** the difference between imports and exports.

13. **Briefly** explain the role of an accountant in supporting a business.
14. **Identify** and **describe** one example of a professional organisation that provides support services to businesses.
15. **Explain** the importance of developing a business plan.
16. **Outline** how a policy can be used to help a business achieve a greater level of corporate social responsibility.
17. **Describe** the relationship between the internal and external environment of a business.

APPLY your understanding

18. **Identify** a contemporary 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 listed below. Bring a copy of this page to 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. **What** are the 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. **Identify** if the business is 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. **Identify** if the business has any policies related to corporate social responsibility.
19. Using a contemporary business case study that you are familiar with, **outline** the advantages and disadvantages of a government business enterprise.
20. **Use** internet sources to research a social enterprise. An example is KereKere. Answer the following questions for the social enterprise that you find.
    a. Who owns the social enterprise?
    b. Who manages this business?
    c. What is the objective of the social enterprise?
    d. How does the business contribute to the community?

2.16 Exam questions

Question 1 (3 marks)

Distinguish between labour resources and capital resources.

Question 2 (4 marks)

Analyse the decision to purchase an existing business rather than establish a new business from scratch.

Question 3 (3 marks)

Identify a business model and explain the effect that choosing this model will have on the planning of a business.

Question 4 (21 marks)

Justin and Maynard are considering locating their new computer business in a retail shopping strip.

a. **Analyse** this business location and justify whether it is suitable for Justin and Maynard. **6 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**

Question 5 (2 marks)

Explain why a SWOT analysis is an important planning tool for a business.

Question 6 (4 marks)

Analyse how corporate social responsibility management issues may affect business planning.

Question 7 (6 marks)

Discuss the importance of establishing an online presence for a contemporary business you are familiar with.

Question 8 (6 marks)

With reference to a contemporary business that you are familiar with, **explain** three important factors that the business would have considered when choosing a location.

Question 9 (2 marks)

Identify two external sources of finance for a business.

Question 10 (4 marks)

Outline two types of business support services and how they can be useful to a business owner.

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TOPIC

3 External business environment and planning

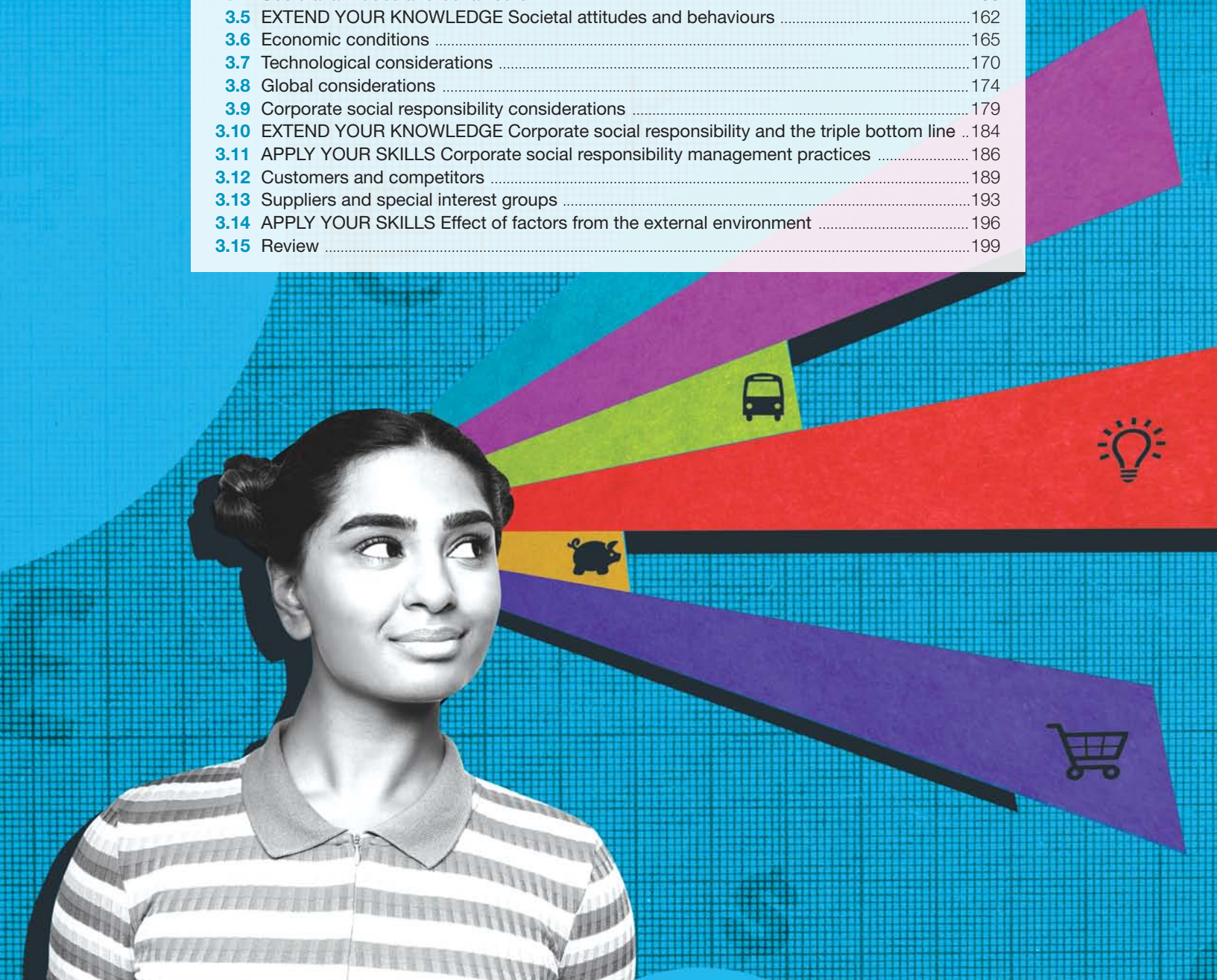
UNIT 1 AREA OF STUDY 3

OUTCOME 3

On completion of this topic you should be able to describe the external environment of a business and explain how the macro and operating factors within it may affect business planning.

LEARNING SEQUENCE

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3.1 Overview

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3.1.1 Why it is important

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 topic, you'll be studying how factors in the external environment affect business planning.

CONTEMPORARY CASE STUDY

MANUFACTURING BUSINESS: Etiko committed to manufacturing ethically

Etiko is an apparel, footwear and sports gear business that has had the respect and promotion of human rights at its core for over 15 years.

Number of employees	2–10
CEO/Founder	Nick Savaidis
Head office	Brunswick, Melbourne
Flagship products	Eco-conscious range of sneakers, casual wear and sports gear



Etiko is an apparel, footwear and sports gear business that has manufacturing bases in India, Sri Lanka and Pakistan. Products without child labour and worker exploitation were the impetus for Nick Savaidis (founder) to create the business. Nick started Etiko at the end of 2005 after finding that, no matter how hard he tried, he couldn't buy stuff, such as sports balls, clothing and footwear, which he could be 100 per cent confident hadn't been made by a child or some poor worker being ripped off in a developing country. Sweatshops, corporate greed, globalisation, call it what you want, Nick knew that it was time for an alternative.

Nick set about planning to create a manufacturing company that supported the human and labour rights of cotton growers, rubber tappers, workers in apparel, sports ball and shoe production, and their families.

When starting out, Nick made it a priority to make Etiko's products as ethically as possible. This meant ensuring that supply chains were transparent. (Etiko identifies its suppliers on its website.) Etiko further made sure that the workers were paid living wages, had safe working conditions and were treated with respect.

For a small Australian apparel, footwear and sports goods business, Etiko has received many awards since its establishment. These include the Fairtrade Product of the Year 2013–2014. Etiko were finalists in the Victorian Premier's Design Awards in 2020 and have received the Baptist World Aid Ethical Fashion Report A+ ranking eight years in a row, from 2016–2021.

Source: Extracts from Etiko website, https://etiko.com.au/pages/our-story.

CONTEMPORARY CASE STUDY

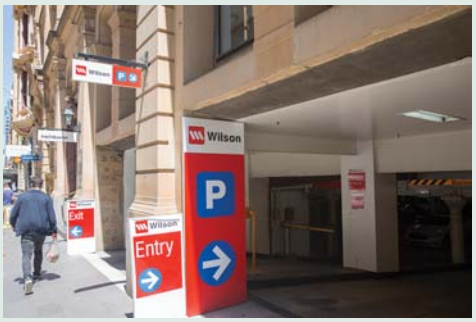
SERVICE BUSINESS: Wilson Parking Australia

Number of employees	7460 total employees across all of its locations
CEO	Stephan Wuffli
Head office	Perth, Western Australia
Flagship products	Car park operator

Wilson Parking has won several awards for its Wilson Parking app, recognising its focus on using innovation to improve its customer experience.

These include:

- ABA100 Winner for Business Innovation
- Service Excellence
- Digital CX Management in the Australian Business Awards.



The aim of the app is to improve the experience of parking for customers, forming part of Wilson Parking's service delivery model. Benefits of using the app for customers include easily finding, booking and paying for their parking. The Wilson Parking app is the highest rated off street parking app on the App Store and Google Play.

Stephan Wuffli, the CEO of Wilson Parking Australia, has noted in interviews that technology is a key part of how the company interacts with customers. However, the COVID-19 pandemic led to an increased need for innovation in the app to respond to urgent consumer demand for touchless technology.

The Wilson Parking app includes various features to encourage customers to use it:

- the Parking Perks program (offering customers $5 reward credit for every five times they book via the app)
- Rewards Referral program (rewarding customers who refer friends to book via the app receive a reward)
- integration of the app with Apple CarPlay.

Source: Adapted from Wilson Parking website, https://www.wilsonparking.com.au.

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 knowledge	Subtopic
◯ An overview of the factors within the external (macro and operating) environment that affect business planning	**3.2**
Macro factors affecting business planning	
◯ An overview of key legal and government regulations affecting businesses in the planning stage	**3.3**

◯	Societal attitudes and behaviour, such as values, beliefs and trends	**3.4**
◯	Economic conditions, such as interest rates, employment levels, tax rates and levels of consumer confidence	**3.6**
◯	Technological considerations, such as how the market may change in the future and how businesses adapt to developments in technology	**3.7**
◯	Global considerations, such as overseas competitors, overseas markets, offshoring of labour, exchange rates, patenting, copyrights, trademarks and online sales	**3.8**
◯	Corporate social responsibility considerations related to business planning, such as environmental considerations and planning for socially responsible production of goods and services	**3.9**
Operating factors affecting business planning		
◯	Customer needs and expectations	**3.12**
◯	Competitors' behaviour	**3.12**
◯	Suppliers of business resources and considerations regarding the supply chain, such as from where resources are sourced and how they reach the business	**3.13**
◯	Special interest groups, such as environmental lobby groups, business associations and unions	**3.13**

Key skills

These are the skills you need to demonstrate:

Key skills	
◯	Identify, define, describe and apply business management concepts and terms
◯	Interpret, discuss, compare and evaluate business information and ideas
◯	Analyse case studies and contemporary examples of business management
◯	Apply business management knowledge to practical and/or simulated business situations.

Source: VCE Business Management Study Design (2023–2027) extracts © VCAA; reproduced by permission.

on Resources

Digital document Key terms glossary (doc-37631)

Weblinks Etiko
Wilson Parking

3.2 Overview of the external (macro and operating) environment

KEY KNOWLEDGE

Macro factors that affect business planning

- An overview of the factors within the external (macro and operating) environment that affect business planning

Source: VCE Business Management Study Design (2023–2027) extracts © VCAA; reproduced by permission.

In topic 2, we learnt that the surrounding conditions in which the business operates are called the business environment. We learnt that 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.

We learnt that the internal environment, or the micro environment, includes those factors over which the business has some control, such as employees, managers, management style, type of business model and business location.

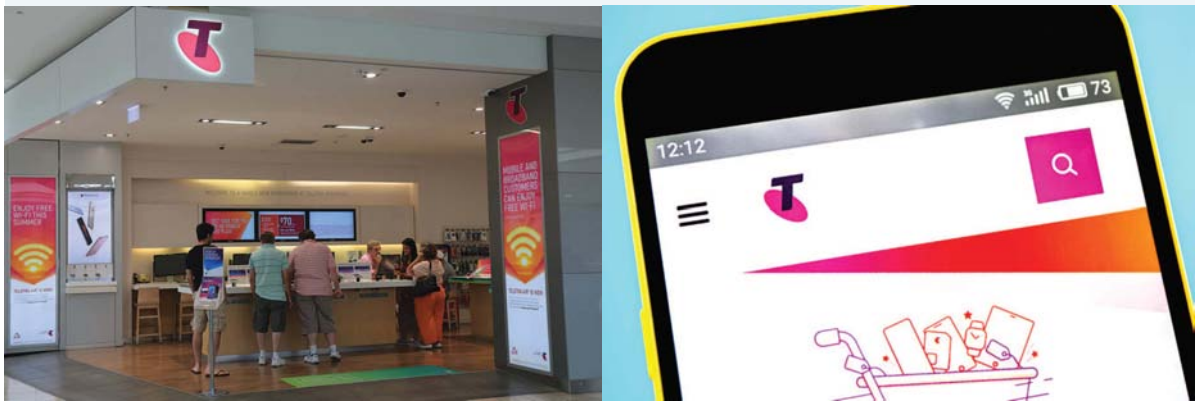
The external environment consists of all elements outside a business that may act as pressures or forces on business operations. These include legal, political, social, economic, technological, global and corporate social responsibility factors. The external environment may be further divided into the operating environment and the macro environment.

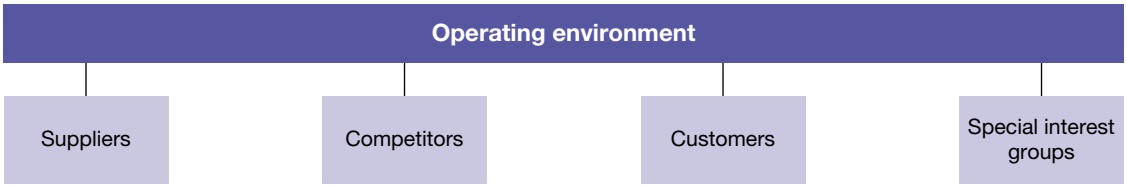
The factors that make up the business environment are continually undergoing change and act as pressures on the operations of a business. A business owner such as Nick Savaidis, founder of Etiko, would have had to consider these factors when planning.

3.2.1 The operating environment

A business's operating 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. You will remember the operating environment diagram from topic 2. It shows the operating environment of a business. The business has some influence over these stakeholders. However, it has considerably less influence than it would have over its internal environment. This is particularly the case when we consider that many suppliers are located overseas.

Customers browse in a Telstra store. Businesses do not have complete control over customers, although they can influence their purchasing decisions.





The four main stakeholders are:

Stakeholder	Description
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

CONTEMPORARY CASE STUDY

MANUFACTURING BUSINESS: Etiko

Etiko is very aware of its operating environment. The business takes conscious steps to meet the needs of stakeholders in this particular environment.

Etiko pays premiums to all of its suppliers to ensure they get proper living wages, and this means that the cost of manufacture is two to three times more than other manufacturers. Despite this, they made a commitment to sell their items for a similar price, which means a sacrifice on profit margins.

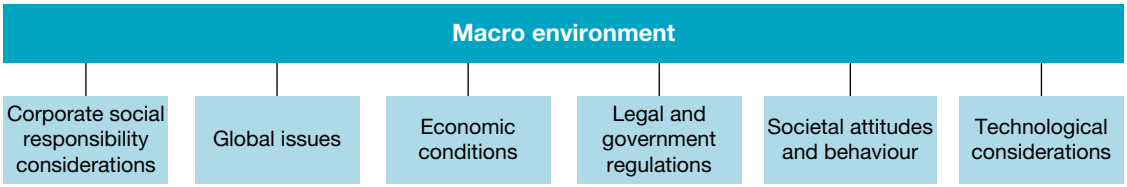
In line with Etiko's business philosophy, many citizens of the world feel that the present climate era requires immediate action. People are changing their purchasing habits to promote social and environmental justice. Commercial research says 46 per cent of consumers are more inclined to buy a product if it is eco-friendly.

3.2.2 The macro environment

As we have already learnt, the macro environment refers to the broad forces, conditions and trends in the economy and society within which the business operates. Changes in the macro environment can affect all businesses. 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 business has no control over economic conditions such as the levels of employment.





The main factors that make up the macro environment are:

Factor	Description
Legal and government regulations	The laws or regulations made by parliaments and courts, which affect how businesses operate and behave
Societal attitudes and behaviour	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 considerations	The issues related to the growing use of tools, techniques or systems
Global considerations	The pressures that arise as a result of businesses operating in worldwide markets and competing on a global scale
Corporate social responsibility considerations	The pressures on a business to take into account environmental considerations to ensure broader social welfare

on Resources

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

KEY IDEAS

- 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 key 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.

3.2 Exercises

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3.2 Quick quiz on | 3.2 Exercise | 3.2 Exam questions

3.2 Exercise

TEST your understanding

1. **Define** the term 'business environment'.

2. 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 resources 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'.
3. **Define** the term 'operating environment'.
4. **List** the four main stakeholders in the operating environment.
5. **Outline** what is meant by the term 'macro environment'.

APPLY your understanding

6. Choose a contemporary business that you are familiar with and research the following:
   a. The internal environment of the business. This might include the following: the business's ethical standards, its equal opportunity policy, the number of employees and who the managers are.
   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?
7. 'Large businesses have no control over the external environment in which they operate. They are at the mercy of any external change.' **Discuss**.

3.2 Exam questions

Question 1 (4 marks)

Compare the operating and macro environments of a business with the use of examples (include one similarity and one difference).

Question 2 (3 marks)

Explain what is meant by the internal environment and outline one stakeholder found in this environment.

Question 3 (2 marks)

Outline two stakeholders from the operating environment.

Question 4 (3 marks)

Distinguish between the internal and external environment.

More exam questions are available online.

3.3 Key legal and government regulations

KEY KNOWLEDGE

Macro factors that affect business planning

- An overview of key legal and government regulations affecting businesses in the planning stage

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3.3.1 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: • payment of taxes for employees (earning above the minimum taxable income level) and for businesses with company tax and GST • provision of employee superannuation • observance of customs regulations • abiding by relevant legislation that would affect business operations.	State government obligations include: • provision of employee entitlements, including workers compensation, work health and safety (WHS) requirements, award rates of pay and entitlements • payment of payroll taxes • abiding by relevant state legislation (e.g. health, trade practices, employment) • abiding by pollution controls.	Local governments (city, municipal and shire councils) have control over the following business activities: • approving new development and alteration (to an existing building) applications • fire regulations • parking regulations (e.g. provision of parking by new businesses) • size, location and shape of business signs.

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 in section 3.3.2.

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.

3.3.2 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.



3.3.3 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.

3.3.4 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.



3.3.5 Employment regulations

While the majority of businesses are owner-operated, many also employ casual, part-time or full-time 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 who are responsible for ensuring that the business is acting in accordance with all legislation related to employment.

Organisations must take proactive steps to avoid discrimination.



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, disability, gender identity, marital status, parental status, physical features, political belief, race, religious belief, sex or sexual orientation.

Under the *Equal Opportunity Act 2010* (Vic), an employer must take reasonable steps to eliminate discrimination, sexual harassment and victimisation from the workplace. This includes the employer having a

'positive duty' towards such discrimination, harassment or victimisation. Instead of reacting to complaints of discrimination or sexual harassment, organisations must be proactive about these behaviours and take steps to prevent them from occurring. 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.

3.3.6 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.

3.3.7 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.

In 2021, Australia's consumer watchdog, the ACCC, began court proceedings against Telstra, Optus and TPG. The ACCC alleges these companies misled hundreds of thousands of consumers over NBN speeds.



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.

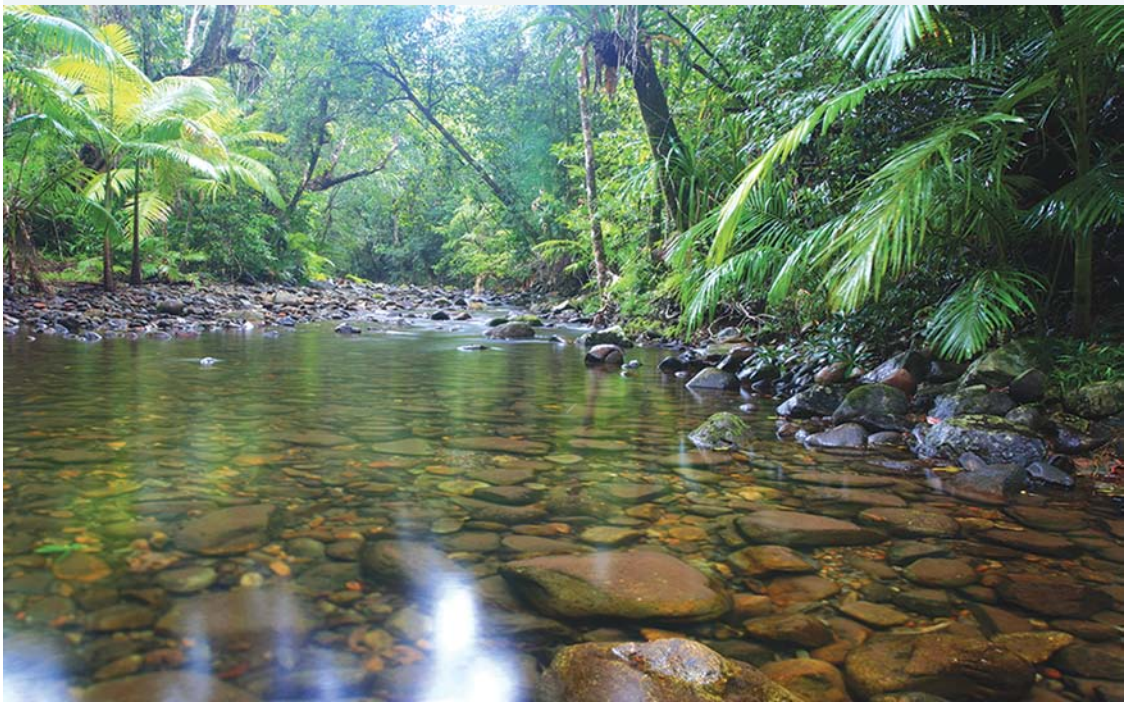
business activity statement (BAS) records of a business's claims for input tax credits and accounts for GST payable

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

3.3.8 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. Our contemporary business case study, Etiko, has a strong commitment to the environment. Etiko operates a 'Take Back Program', which allows customers to return used footwear to the business. This is then sent to a specific recycling business in Queensland which breaks down the textiles for reuse in indoor matting and new shoe soles.

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.



KEY IDEAS

- There are many key legal and government regulations that business owners must ensure their business will complies with during the planning stage.
- Some important regulations 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.

3.3 Exercises

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3.3 Quick quiz on | 3.3 Exercise | 3.3 Exam questions

3.3 Exercise

TEST your understanding

1. **Outline** two reasons why business owners should understand their legal rights and responsibilities.
2. **Identify** and **describe** three aspects of running a business that involve legal responsibilities.
3. **Identify** three business activities over which local government has control.
4. **Explain** what is meant by anti-discrimination regulations.
5. **Outline** the key legal and government regulations that promote fair trade and competition, and provide consumer protection.

APPLY your understanding

6. **Examine** each of the following situations, and **explain** whether the owner has met their legal obligations and why.
   a. Alyce is an electrician who is planning to open her own business. She does not apply for an ABN as she believes it is not necessary.
   b. Katie and Marie are planning a partnership in a dressmaking shop. They decide to use Marie's tax file number as the official tax file number 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. Mitchell owns a small grocery store. He sells multiple jars of tahini that have a recall notice due to the presence of an undeclared allergen (peanuts).
7. **Outline** the key legal and government regulations that apply to a school canteen or after-school sports club.

3.3 Exam questions

Question 1 (4 marks)

Explain what the *Competition and Consumer Act 2010* (Cwlth) is. **Outline** two ways in which the *Competition and Consumer Act 2010* (Cwlth) protects businesses and consumers from unfair treatment.

Question 2 (2 marks)

Outline the importance of having anti-discrimination laws such as those in the *Equal Opportunity Act 2010* (Vic).

Question 3 (3 marks)

Outline three possible consequences for a business that does not adhere to key legal and government regulations.

Question 4 (4 marks)

With reference to a contemporary business case study, **discuss** the potential consequences of failing to abide by laws such as the *Competition and Consumer Act 2010* (Cwlth).

Question 5 (4 marks)

Explain two legal or government regulations affecting a business in the planning stage.

More exam questions are available online.

3.4 Societal attitudes and behaviours

KEY KNOWLEDGE

Macro factors that affect business planning

- Societal attitudes and behaviour such as values, beliefs and trends

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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.

3.4.1 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 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 they are managed. Global access to information and communication has made the world's population acutely aware of what businesses are doing. Pressure from society continues to force 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. The 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.

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.

3.4.2 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 and flexible 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. While COVID-19 restrictions meant that many employees were forced to work from home, there is now an expectation that this remain an option for those who find home working more productive or convenient.

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. In recent years, more people have made requests to increase their flexibility around work location and hours.



on Resources

Weblink Creating a family-friendly workplace

KEY IDEAS

- 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. For example, trends can be seen in changing demographics and workplace culture.

3.4 Exercises

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3.4 Quick quiz on	3.4 Exercise	3.4 Exam questions

3.4 Exercise

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. **Provide** an example of a recent trend.
5. **Outline** two trends that may have led to significant business planning and change.

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 a social issue affecting businesses in your local area. You may prepare a PowerPoint presentation or use desktop publishing software to produce a report.
   a. **Outline** the issue.
   b. **Explain** how local businesses have reacted to the issue.
   c. **What** indicators would you use to determine the success or failure of a business's response to the issue?
9. **Explain** a value that you hold and discuss how it influences your decisions as a consumer.

3.4 Exam questions

Question 1 (4 marks)

Explain, with reference to a contemporary business you have studied this year, why it is important for a business to be aware of trends.

Question 2 (3 marks)

Describe one value that society holds and outline how it may affect business planning.

Question 3 (4 marks)

Explain how businesses benefit from aligning their values with that of their customers. Support your answer with an example from a contemporary business with which you are familiar.

Question 4 (3 marks)

With reference to a contemporary business case study, **explain** how one trend may affect business planning.

Question 5 (3 marks)

Distinguish between values and trends.

More exam questions are available online.

3.5 EXTEND YOUR KNOWLEDGE Societal attitudes and behaviours

EXTEND YOUR UNDERSTANDING OF THIS CONCEPT

- Societal attitudes and behaviour such as values, beliefs and trends affect business planning.

CONTEMPORARY CASE STUDY

MANUFACTURING BUSINESS: Etiko — Australians begin to value ethical fashion

Research suggests that we are buying up to 60 per cent more clothing than we did 15 years ago, and with the rise of 'fast fashion' — cheap, low-quality clothes produced quickly to respond to changing trends — consumption of clothing has reached unprecedented levels. Unfortunately, waste is part of the business model of fashion, and Australians donate 310 000 tonnes of unwanted clothing to charities every year. Many of these clothes are sold to raise $527 million for the funding of social welfare programs. But one-third of these clothes can't be sold in local op shops. Instead, they are shipped overseas.

A 2021 ABC report highlighted how over 15 million used garments pour into Accra (capital city of Ghana) every week. The clothing, donated from the UK, Europe, North America and Australia, floods the city's sprawling clothing markets and is sold on by local traders in the hope of a profit. Unfortunately, at least 40 per cent of this clothing is of too poor quality to be sold on or even used and it ends up in landfill, becoming part of Ghana's waste crisis.

As part of a growing awareness of the problems associated with fast fashion and over-consumption of clothing, 2021 research suggests that up to 87 per cent of consumers do want to change their fashion consumption habits to include more ethically produced and sustainable items.

To ensure Etiko garments don't end up on the donation pile, Etiko's range is kept minimal, and they don't make styles that will quickly go out of fashion. By sticking to wardrobe staples that have stood the test of time, Etiko creates *ethical clothing* and *ethical shoes* or footwear with longevity.

By only using organic natural textiles, Etiko's clothing can also be recycled and will biodegrade if composted. They also offer a footwear take-back scheme, which allows for the sustainably farmed natural rubber in sneakers and thongs to be recycled locally in Melbourne.

To take things a step further, Etiko's Customer Service Officer, Mackenna Elwin, found two new ways to improve Etiko's sustainability. 'The Etiko team did some brainstorming about how we can make our cotton T-shirts more sustainable, and the obvious areas to change were the polyester garment tags and the plastic bags they're packaged in before shipping,' explains Mackenna.

The fix was easy. All new Etiko T-shirts now come with a 100 per cent cotton garment tag (that's the tag at the back of your shirt saying the size), and the protective plastic bags have been replaced with home-compostable packaging. The solutions were simple, but how many brands actually take steps to put them in place?

Source: Extracts from Etiko website, 'The donated fashion disaster', https://etiko.com.au/blogs/blog/the-donated-fashion-disaster.

CONTEMPORARY CASE STUDY

v2food — 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 concerned about the cruelty that is involved in the creation of animal-based products, such as fur, leather, meat and dairy.
2. **Environmental impact.** A growing amount of research is suggesting that the meat and dairy industry is environmentally unsustainable. The following 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.

v2food founder and plant-based Soul Burger founder with burgers



Nearly 2.5 million Australians have all, or almost all, vegetarian diets, according to recent research. Plant-based 'meat' is an emerging food sector that is worth around $180 million in Australian manufacturing and retail sales annually and employs 265 workers. There are forecasts that the industry could be worth more than $6 billion in Australia by 2030. This is good news for business owner Nick Hazell. Nick is a former British aerospace engineer who migrated to Australia. He later turned his attention to global food production and founded v2food. v2food produces a meat-substitute made from dried soybeans.

Businesses like Nick's are a clear indicator of how rapidly the population is changing its attitudes towards food. Other vegan products that have increased in popularity include dairy alternatives such as almond, soy and oat milk, dairy-free sweets, tofu, and, of course, fruit and vegetables. Demand has also increased for vegan pet foods, clothing, accessories and restaurants that cater for vegan diets. Mainstream supermarkets such as Coles and Woolworths have increased the number of vegan products they stock on their shelves. Meanwhile fast-food retail outlets such as 7-Eleven, Crust, Domino's, Grill'd and Hungry Jack's offer vegan options.

3.5 Exercises

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3.5 Exercise | **3.5 Exam questions**

3.5 Exercise

TEST your understanding

1. **Outline** the three main reasons why people embrace a vegan lifestyle.
2. **Outline** two facts that support the notion that veganism is a growing trend in Australia.

EXTEND your understanding

3. With reference to the text, **identify** and **explain** two planning decisions that Etiko would have made to address the growing trend for ethical fashion.
4. **Explain** how trends may affect business planning.
5. 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.

3.5 Exam questions

Question 1 (4 marks)

Identify a business opportunity that arose as a result of changing societal values and **describe** how a contemporary business you are familiar with seized this opportunity.

Question 2 (4 marks)

Explain what 'societal attitudes and behaviour' refers to and why it is important for businesses to consider this factor when planning.

Question 3 (3 marks)

Using an example of a business you have studied this year, **explain** the effect on business planning of a change in societal attitude or behaviour.

More exam questions are available online.

3.6 Economic conditions

KEY KNOWLEDGE

Macro factors that affect business planning

- Economic conditions such as interest rates, employment levels, tax rates and levels of consumer confidence

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3.6.1 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.

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



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

Expansion — key features

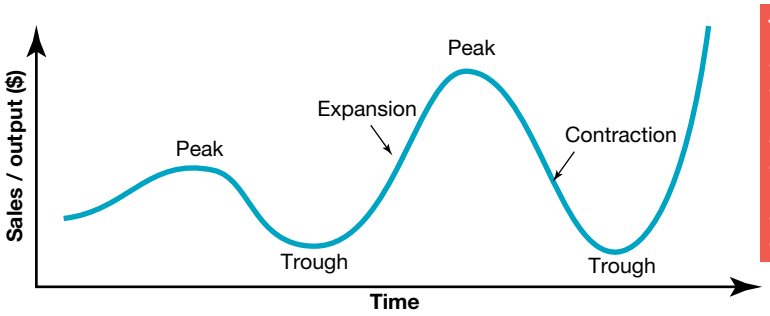
- Increasing consumer spending
- Business expectations increasingly optimistic
- Increasing business investment
- Sales and profits rising
- Employment increases
- Unemployment decreases

Contraction — key features

- Decreasing consumer spending
- Business expectations increasingly pessimistic
- Decreasing business investment
- Sales and profits falling
- Employment decreases
- Unemployment increases

Peaks — key features

- Wages and salaries at high levels
- Business operating at full capacity
- Sales and profits at highest levels
- High levels of employment
- 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
- Lower levels of employment
- 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.

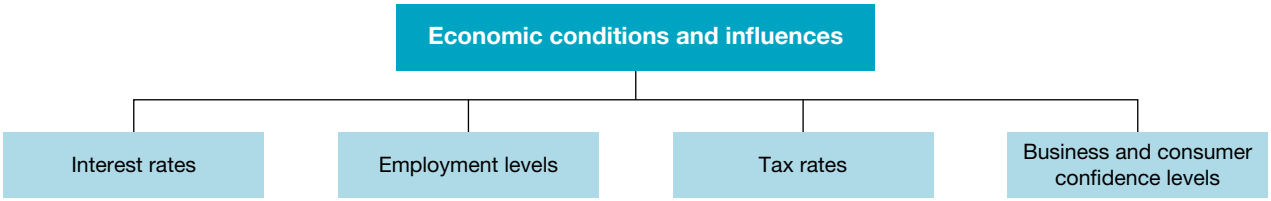
economic conditions the set of influences that relate to economic activity, including interest rates, wages, unemployment, exchange rates and inflation

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, and associated indicators such as 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.

DID YOU KNOW?

Australia recorded nearly 4000 company failures during the 2021–22 financial year. A significant number of these were blamed on poor economic conditions, such as falling consumer sentiment, rising interest rates and cost of living pressures.



3.6.2 Interest rates

An **interest rate** is the price charged or paid for the use of money. In other words, it is the cost of borrowing. 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 makes 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.

3.6.3 Employment levels

The Australian Bureau of Statistics defines people as 'employed' if they work one hour or more in a specified week. However, the vast majority of employed people work more than 15 hours per week. **Employment** levels fluctuate with the phases of the business cycle. During an expansion, employment levels will typically rise while **unemployment** levels will fall. During an economic contraction, employment levels will fall and unemployment levels will rise.

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

employment when a person works one hour or more in a specified week

unemployment when a person who, during a specified period, is not employed for one hour or more, but is actively seeking work and is currently available for work

Changing employment levels within our economy will have an effect on business planning. In times of economic expansion, businesses may find it difficult to hire suitable employees due to labour shortages. This is because most people are already employed. In these situations, businesses will have to pay higher wages to attract suitable staff or consider overseas employees as an alternative. This may mean that businesses have to change their plans or put some plans on hold until they find the employees that they need.

Employment levels fluctuate with economic conditions and can lead to labour shortages in certain industries. This affects business planning.



3.6.4 Tax rates

Taxes 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.

- Progressive tax — the rate of tax rises as the taxable amount increases (for example, income tax).
- Proportional tax — the rate of tax stays the same as the amount rises (for example, company tax).
- Regressive tax — 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.

3.6.5 Business and consumer confidence levels

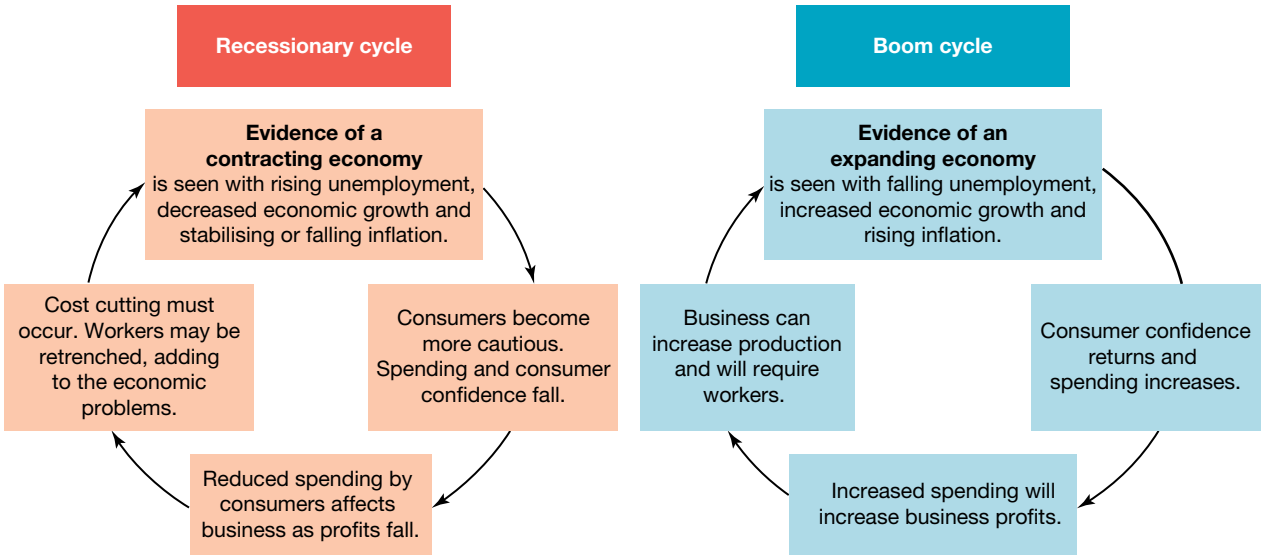
Business and consumer confidence levels refer to how businesses and customers are feeling about the economy. When consumer confidence is high, for example, consumers will generally be optimistic about their financial situation, particularly their ability to find and maintain employment, and they are 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.

When business confidence is high, a business may think about expanding.



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

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 fixed 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.



Exam Tip

The business management study design specifies that students should be able to apply business management knowledge to practical and/or simulated business situations. This means that you should be able to describe economic conditions such as interest rates, employment levels, tax rates and levels of consumer confidence and explain how these factors might affect a contemporary business that you are familiar with, or a simulated business in a case study.

on Resources

Weblink Monetary policy

KEY IDEAS

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

3.6 Exercises

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3.6 Quick quiz on | 3.6 Exercise | 3.6 Exam questions

3.6 Exercise

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. **Describe** how economic forces influence the actions of customers.
4. **Define** interest rates and **outline** how they affect the decisions made when planning a business.
5. **Outline** how business and consumer confidence levels affect the decisions made when planning a business.

APPLY your understanding

6. 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. **Describe** how the decision might affect a business owner's planning.
7. The Westpac-Melbourne Institute Index of Consumer Sentiment is 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. Throughout 2021, this figure continued to grow, placing it above 100 in the index.
   a. **Explain** what the above information means in relation to business planning.
   b. A reading below 100 in the index means that pessimists outnumber optimists. **Discuss** what this means for businesses.
   c. **Explain** how a business owner is likely to feel about an increase in an index that measures consumer confidence.

3.6 Exam questions

Question 1 (4 marks)

Outline each phase of the business cycle.

Question 2 (4 marks)

Using examples, **distinguish** between tax rates and business confidence levels.

Question 3 (4 marks)

Explain two ways in which lowering interest rates may affect business planning.

Question 4 (6 marks)

Analyse how the economic conditions created by the COVID-19 pandemic have affected a contemporary business you are familiar with.

More exam questions are available online.

3.7 Technological considerations

KEY KNOWLEDGE

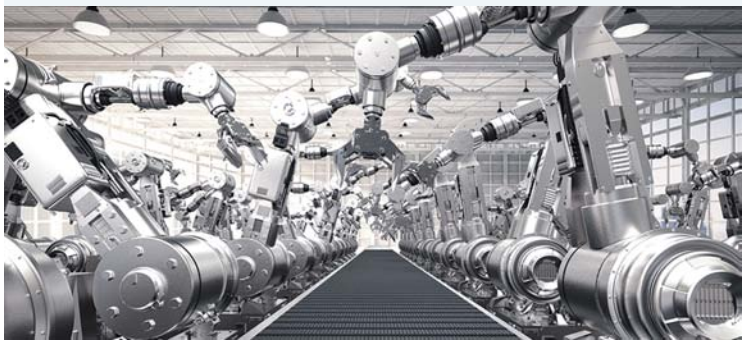
Macro factors that affect business planning

- Technological considerations, such as how the market may change in the future and how businesses adapt to developments in technology

Source: VCE Business Management Study Design (2023–2027) extracts © VCAA; reproduced by permission.

Technological considerations 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 continues to increase 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.

The World Economic Forum found that, as of 2021, 71 per cent of total task hours are completed by humans, compared to 29 per cent of total task hours completed by machines. However, if current trends continue, within four years these numbers will shift to just 58 per cent of total task hours completed by humans and 42 per cent completed by machines.



technological considerations methods, systems and devices that are the result of scientific knowledge being used for practical purposes

CONTEMPORARY CASE STUDY

SERVICE BUSINESS: Wilson Parking Australia

Wilson Parking relies heavily on technology to deliver its services. Customers are encouraged to use a Wilson Card, which eliminates paper tickets or queues at a pay machine. The cost of parking is automatically deducted from a customer's bank account.

This focus on technology has extended to working with PowerWell, an Australian owned and operated energy optimisation company. PowerWell specialises in providing smart energy-management solutions, such as LED lighting, to commercial operations.

By working with PowerWell, and the new technology in efficient lighting, Wilson Parking has improved lighting efficiency across a number of carparks. This ensures that lighting meets Australian standards, improves the safety for parkers, pedestrians and vehicles within carparks, as well as reducing energy consumption by 86 per cent.

3.7.1 Developments in technology

The use of hi-tech robotics in many manufacturing industries has long improved 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 increasingly easy to use.

New communication technologies allow information to be transmitted instantly to an ever-increasing number of customers. 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 continue to drive global trade.

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 because they have been replaced by the technologies that reduce costs and improve quality and delivery speed. The speed of change has resulted in product life cycles becoming shorter, which means that products do not last long and constantly need to be updated.

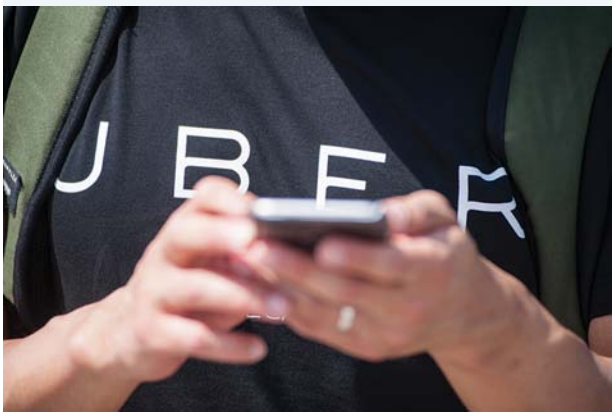
This is certainly the case for technology-based products and services, which require continual upgrades. A consequence is that businesses need to spend more time and money on research and development to remain competitive. On the other hand, changing technology opens up new markets, which can present 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 consideration of 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 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.



DID YOU KNOW?

The digital economy is a term that describes all parts of the economy that use digital technology to conduct business. This has resulted in transformations in markets, business models and day-to-day operations. It covers everything from e-commerce, digital banking, apps and technologies that improve agricultural production.

3.7.2 The future of business technology

Businesses and consumers will continue to increase their use of technology. This means living and interacting with more internet-connected devices, including computers, phones, appliances, vehicles and robotics. As we engage with technology, the potential for gathering and analysing huge amounts of data is a consideration for businesses. What data is useful and what is not?

The ability to analyse this 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 who do dangerous, repetitive or mundane jobs. Many businesses already take advantage of 3D printing, wearable technology and robotics.

As the COVID-19 pandemic accelerated the need for quick contact-less and 'safe' delivery drops, drone delivery was established. A number of Australian businesses have entered the market.



Driverless vehicles have been in use for some time in industries such as agriculture and mining. Most passenger cars already have basic automation features, but experiments currently being undertaken by companies such as Uber and Google will see the standard car evolve from merely assisting the driver to taking full control of all aspects of driving in most conditions. This includes augmented reality, smart glass, more sensors and thermal sensor technology for night driving.

CONTEMPORARY CASE STUDY

Technology set to change the way we live and work

Drone delivery company Wing, owned by Alphabet, the parent company of Google, celebrated its first 100 000 deliveries back in late 2021 with an unusual burst of media fanfare. Australia is at the forefront of Wing's plans, with the company's two biggest trial sites running in Canberra and Logan in Queensland.



Wing tells a simple story of barista coffee and roast chooks being dropped on your driveway at a moment's notice. Short on vegemite for the kids' brekky? Hop on the app, order, and a drone will lower a new jar to your doorstep before the toast is cool. It is quick, contactless and COVID-safe. However, the advancements in this type of technology lead to wider considerations around requirements for aerial infrastructure and drone regulations.

Wing operates much like many app delivery platforms. After signing up, customers use the smartphone app to place their orders. Orders are then packed at local base stations (using traditional human labour) and flown to their destinations by Wing's drones.

On arrival, the packages are lowered to customers by winch, automatically detaching from the drone before it returns to the base station. Wing's delivery drones can operate out of the operator's line of sight. Flight is fully autonomous, with one pilot monitoring several flights at once.



Source: Extracts from M. Richardson, J. Goldenfein and T. Phan, 'Privatising the sky: drone delivery promises comfort and speed, but at a cost to workers and communities', *The Conversation*, 4 October 2021.

DID YOU KNOW?

The most famous rule for predicting the rate of technology advancement was developed in 1965 and is known as Moore's law. Moore's law was used to describe the rate of improvement in the power of computer chips. It predicts a doubling in the power of computer chips every 18 months and has been touted as being one of the most accurate predictors of technological progress ever since.

KEY IDEAS

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

3.7 Exercises

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3.7 Quick quiz on	3.7 Exercise	3.7 Exam questions

3.7 Exercise

TEST your understanding

1. **Define** the term 'technology'.
2. **Explain** two benefits of technological development.

3. **Outline** two limitations of new technology.
4. **Suggest** how developments in technology might affect business planning.

APPLY your understanding

5. There are many new applications of technology outlined in this topic. **Discuss** how developments in technology will benefit the planning of businesses in the future.
6. Research the latest trends in technology. **Suggest** any technological developments that will be applicable to businesses in the near future.

3.7 Exam questions

Question 1 (4 marks)

Outline two effects of introducing new technology on the planning stages of a business you are familiar with.

Question 2 (4 marks)

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.

Question 3 (4 marks)

Explain two ways in which advances in technology are predicted to affect the workforce and how businesses should adapt to these changes.

Question 4 (3 marks)

Identify one technological advancement from the past four years and **explain** how it may affect the planning of a business.

Question 5 (4 marks)

Outline the importance of a business's ability to adapt to technological advances to its success. **Justify** your answer with reference to a contemporary business.

More exam questions are available online.

3.8 Global considerations

KEY KNOWLEDGE

Macro factors that affect business planning

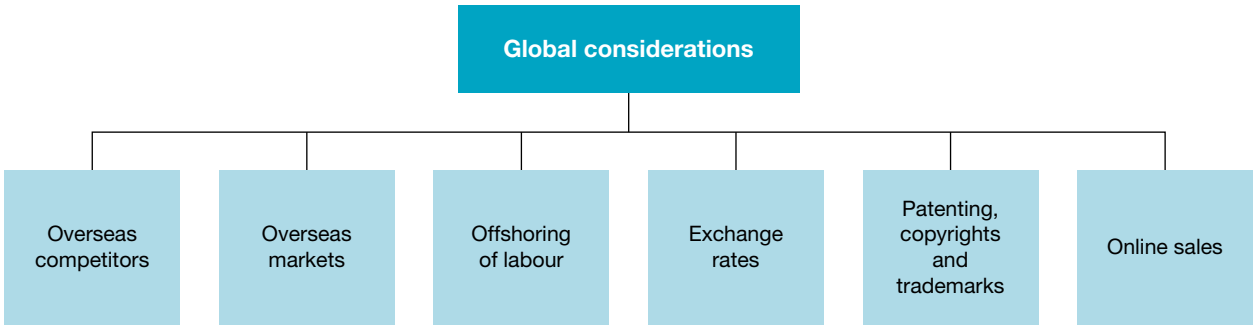
- Global considerations such as overseas competitors, overseas markets, offshoring of labour, exchange rates, patenting, copyrights, trademarks and online sales

Source: VCE Business Management Study Design (2023–2027) extracts © VCAA; reproduced by permission.

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 sales to overseas customers and increased profits.

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 overseas markets, offshoring of labour, exchange rates, patenting, copyrights and trademarks at a global level and online sales.

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



3.8.1 Overseas competitors and overseas markets

When undertaking business planning, a business owner must take into account the fact that it is highly likely 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 and legal considerations. 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.

CONTEMPORARY CASE STUDY

Select Harvest



Almonds are in huge demand worldwide, and Australian almonds are among the most popular. Exports of Australian almonds have risen by 213 per cent over the past decade.

Almond grower and processor Select Harvest is capitalising on this demand. Select Harvest was established more than forty years ago, but recent increases in demand for almonds has seen the company work with Austrade to diversify and export into Southeast Asia and the UK. Sales to Europe grew by 24 per cent in the last year.

The surge in demand has also prompted Australian growers to expand their farms and newcomers to plant fresh crops. Growers are adopting sustainable farming practices and new technologies to ensure these new plantings don't come at a cost to the environment.

3.8.2 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 the manufacture of clothing items). Similarly they will offshore labour-intensive 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.

3.8.3 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.

Exchange rates affect any financial transactions that a business may make, as well as demand for its products and the price of imported materials. Foreign exchange traders often make a profit on the difference between the buying and selling price of a particular currency.



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.

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

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

3.8.4 Patenting, copyrights and trademarks

It is important to ensure that competitors do not copy any creations of the mind that a business has developed, such as new inventions, new technologies, 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 patenting, copyrights and trademarks.

Mars fiercely protects its intellectual property, including the Mars brand and other brands including Snickers, M&M's and Dove.



Patenting

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.

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. To date, 179 out of 190 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.

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. 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. 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.

3.8.5 Online sales

Most businesses sell products directly to consumers online. 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 or mobile app can be expensive, and some expertise may be required. Websites still crash, and when the site 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.

on Resources

Weblinks Austrade
Intellectual property

KEY IDEAS

- 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, offshoring labour, exchange rates, protection of intellectual property (patenting, copyrights and trademarks) at a global level and online sales, must be considered.

3.8 Exercises

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3.8 Quick quiz on | **3.8 Exercise** | **3.8 Exam questions**

3.8 Exercise

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. **Outline** the benefits and costs involved in selling products in overseas markets.
4. **Explain** what is meant by the term 'offshoring'.
5. **Define** the term 'exchange rate'.
6. **Describe** how exchange rates might affect business planning.
7. **Identify** two benefits and two costs of online sales.

APPLY your understanding

8. 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. Present your answers to the rest of your class.
   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?
9. **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, 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.

10. Use the **Intellectual property** weblink in the resources tab to watch a video about intellectual property. Write down five suggestions that IP Australia has made for businesses.
11. **Explain** why many Australian workers' unions might argue against offshoring labour.

3.8 Exam questions

Question 1 (3 marks)

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.

Question 2 (3 marks)

Distinguish between copyrights and trademarks.

Question 3 (6 marks)

Explain two positive effects and one negative effect of globalisation on the Australian economy.

Question 4 (4 marks)

Analyse two ways in which a business you are familiar with has benefited from globalisation.

Question 5 (3 marks)

Describe how one global consideration has negatively affected the planning of a contemporary business that you are familiar with.

More exam questions are available online.

3.9 Corporate social responsibility considerations

KEY KNOWLEDGE

Macro factors that affect business planning

- Corporate social responsibility considerations related to business planning, such as environmental considerations and planning for socially responsible production of goods and services

Source: VCE Business Management Study Design (2023–2027) extracts © VCAA; reproduced by permission.

3.9.1 Corporate social responsibility

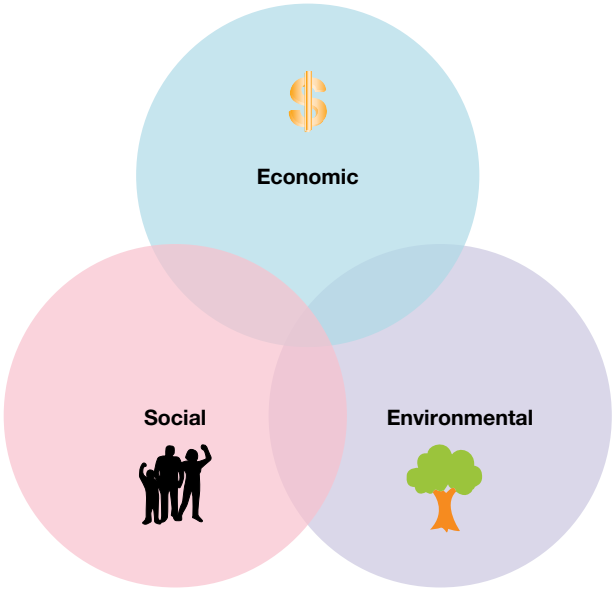
The traditional view of business is that it exists to create products, earn a profit and provide employment. As society's expectations of acceptable business behaviour change, socially aware business owners recognise the importance and necessity of planning business objectives that incorporate **corporate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

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

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

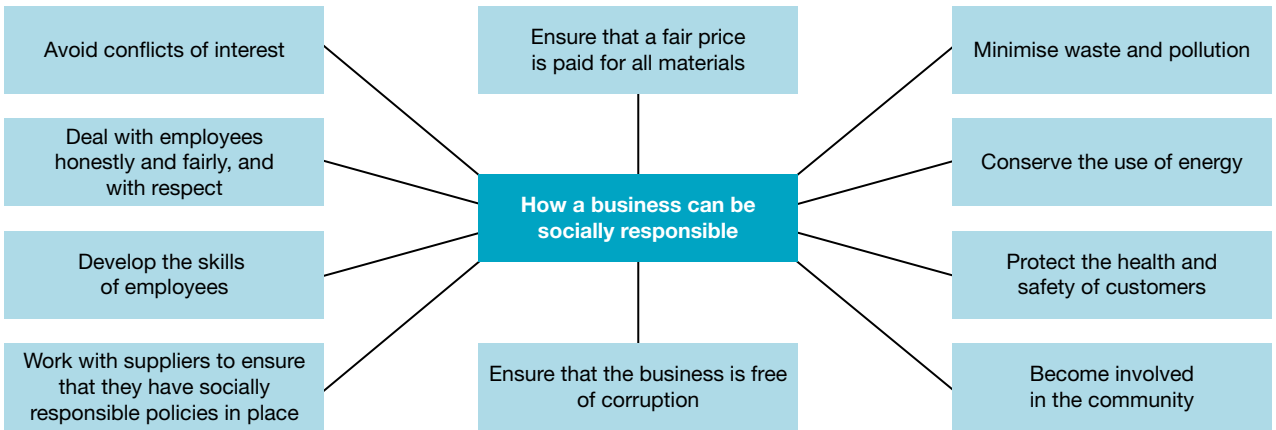
Businesses that take their social responsibilities seriously are often rewarded with improved business performance. Customers will purchase products from socially responsible businesses. Planning to incorporate socially responsible practices can result in the business becoming more competitive. The relationships that the business has with stakeholders such as other businesses, governments, the media, suppliers, specific interest groups and the community are also much more likely to be positive. Obviously, socially responsible behaviour costs money in the short term, as the contemporary case study on Etiko has demonstrated. It can also can be very time consuming and complicated to introduce policies and practices that are socially responsible. However, in the long run, corporate social responsibility does turn out to be in the business's, and society's, best interests.

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



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

Socially responsible approaches to business



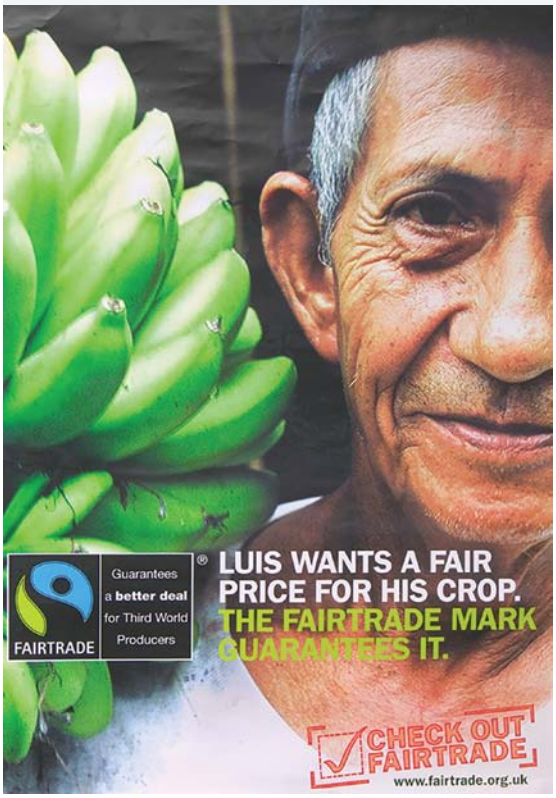
3.9.2 Environmental considerations

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.

3.9.3 Planning the production of goods and services in a way that benefits society

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.

CONTEMPORARY CASE STUDY

MANUFACTURING BUSINESS: Etiko plans for corporate social responsibility

The founder of Etiko, Nick Savaidis, believes that businesses should make a positive contribution to society. While Etiko sells fashion, footwear and sports equipment made using offshore labour, this labour comes from carefully chosen suppliers in Sri Lanka and India. Etiko fully integrates the principles of sustainability from all perspectives: economic, environmental and social.

Etiko assesses all its suppliers through a supplier code of conduct in regulation with national and/or international standards and its own high standards. Etiko looks for suppliers that provide fair, safe and healthy working conditions and which are environmentally responsible.

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



While Etiko acknowledges that suppliers are independent entities, the company also understands that supplier practices and actions may affect Etiko's reputation. Etiko's code of conduct is extensive, and it is applied to all of its suppliers. It includes, but is not limited to, paying workers a 'decent living wage'; providing a safe and hygienic working environment; taking adequate steps to prevent accidents; and ensuring workplaces are free from discrimination in hiring, compensation, access to training and promotion.

Etiko further understands the importance of protecting the environment and mandates that its suppliers respect animal welfare, reduce water consumption in manufacturing, assess their carbon footprint and reduce waste to landfill.

DID YOU KNOW?

According to research undertaken by the 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

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

Weblinks ISO
Etiko

KEY IDEAS

- 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.

3.9 Exercises

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3.9 Exercise

TEST your understanding

1. **Define** the term 'corporate social responsibility'.
2. **Identify** three aspects of the triple bottom line.
3. **Describe** the possible implications of planning for the triple bottom line on:
   a. the business
   b. employees
   c. competitors.
4. **Outline** what Etiko does that makes it a socially responsible business.
5. **Explain** two benefits of managing a business in a socially responsible manner.
6. **Explain** two costs of managing a business in a socially responsible manner.

APPLY your understanding

7. 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.
8. 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.
9. Use the **Etiko** weblink in the resources tab to read or watch an interview with Nick Savaidis. Summarise Mr Savaidis's approach to corporate social responsibility.
10. 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.
11. Do you think it would be more difficult to plan for positive social and environmental performance rather than successful economic performance? **Explain** your answer.

3.9 Exam questions

Question 1 (4 marks)

Explain the benefits and costs of corporate social responsibility management practices with respect to business planning.

Question 2 (4 marks)

Compare environmental considerations with considerations of society's best interests in the production of goods and services.

Question 3 (5 marks)

Describe two socially responsible practices of a business that you are familiar with and **outline** two benefits to the business of behaving in such a way.

Question 4 (4 marks)

Discuss how important it is for a business to include corporate social responsibility considerations when planning.

More exam questions are available online.

3.10 EXTEND YOUR KNOWLEDGE Corporate social responsibility and the triple bottom line

EXTEND YOUR UNDERSTANDING OF THIS CONCEPT

- Practices that 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, we go into debt and face the consequences of this. It is the same situation when it comes to the environment and our use of resources. The people of the world are consuming and taking away increasingly more resources than the Earth can provide.

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 2030 it is estimated that it will be 8.5 billion.

With increased numbers of people comes increased consumer spending. As an example, the number of vehicles purchased each year has increased from less than 10 million in the 1950s to more than 80 million in recent years. 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'.



Polling released by the Australia Institute shows climate change and its impacts are a concern to Australians. Experts continue to warn that Australia must cut emissions by 50 per cent or more in the next decade. Meeting this challenge will require everyone to do their bit, including big businesses.

The finance sector (our banking institutions), for example, contributes substantially to climate change and nature loss. It does this by providing loans, insurance or investment for business activities that produce greenhouse gas emissions or otherwise harm nature. A report found that Australia's 'big four' banks have contributed a total of A$84 billion to fossil fuel projects since the Paris climate agreement in 2015. However, motivation is growing from some businesses, including the finance sector itself, to protect the climate and nature. Since 2020 there has been a small decline in lending to fossil fuel projects from Australia's banks.

Investors are also starting to realise the cost of environmental damage. In January 2021, investors representing A$3.14 trillion in assets asked HSBC to set emissions reduction targets in line with the Paris Climate Agreement. There are also increasing calls for the federal government to tighten up environmental laws, and for both businesses and governments to accelerate action to stop climate change and nature loss.

Source: Extracts from J. Dee, *Small business big opportunity: sustainable growth*, Melbourne, 2010 Sensis Pty Ltd, pp. 4–13; M. Evans 'Taking care of business: the private sector is waking up to nature's value', *The Conversation*, 2 February 2021.

3.10 Exercises

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3.10 Exercise | **3.10 Exam questions**

3.10 Exercise

TEST your understanding

1. Read 'Understanding the triple bottom line'. **Define** what is meant by 'being sustainable'.
2. **Explain** why sustainability is important.
3. **Outline** some of the expected benefits of implementing a sustainability strategy.

EXTEND your understanding

4. **Explain** whether you think that sustainability is something that needs to be added to the list of things to do for a business, or if it should be something that business owners do naturally.

5. Using contemporary business case studies, **suggest** strategies that business owners can use to meet the following socially responsible expectations.

Corporate social responsibility expectations	An example of a strategy that a business has used
a. Customers demand healthy lifestyle products.	
b. Society wants a clean environment.	
c. Society expects businesses to treat employees appropriately.	
d. Customers expect businesses to understand their needs.	

6. Refer to the case study 'Sustainability and your business' and answer the following questions.
   a. **Explain** how the finance sector in Australia can be accused of not considering the environment.
   b. Customers who use a bank should not care about whether its activities harm the environment. **Discuss** this statement.

3.10 Exam questions

Question 1 (2 marks)

Define what is meant by socially responsible production of goods and services.

Question 2 (4 marks)

Explain the importance of corporate social responsibility issues in terms of business planning. In your response, refer to a contemporary business case study.

Question 3 (5 marks)

Describe how societal attitudes are changing towards corporate social responsibility. **Explain** two possible impacts of these changes on businesses.

More exam questions are available online.

3.11 APPLY YOUR SKILLS Corporate social responsibility management practices

PRACTISE YOUR SKILLS

- Identify, define, describe and apply business management concepts and terms
- Interpret, discuss, compare and evaluate business information and ideas
- Analyse case studies and contemporary examples of business management applicable to business planning
- Apply business management knowledge to practical and/or simulated business situations with respect to business planning

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A socially responsible business will take its obligations to the community seriously. It will seek to perform actions that go above and beyond making a profit, obeying laws and honouring contracts. 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.

CONTEMPORARY CASE STUDY

Pennicott Wilderness Journeys

Pennicott Wilderness Journeys operates seven tours in southern Tasmania and one in southern Victoria, highlighting the spectacular and unique wilderness and wildlife of the areas.

Pennicott Wilderness Journeys is a family business founded by Rob Pennicott in 1999. It is a highly acclaimed environmental tourism operator, and the business has won 29 Tasmanian, 1 Victorian and 14 Australian Tourism Awards. In 2021 the business was awarded the best new tourist business for their Wilsons Promontory Cruises.

Rob started the business with the mission to operate a tourism business that reveals the splendour and wonders of this very special place we call home. At the same time the business strives to educate customers and to create a legacy of conservation. Pennicott's ultimate aim is to reinvest into the local community and the environment.

As a business that showcases the natural environment, Pennicott Wilderness Journeys works hard to minimise its environmental footprint. Tours are 100 per cent carbon offset, and energy use, water consumption and waste output are measured through the internationally recognised EarthCheck system. Pennicott Wilderness Journeys consistently exceeds EarthCheck's global best practice level across all indicators.

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



Pennicott Wilderness Journeys has a strong commitment to environment and community. The company purchases around 80 per cent of its goods and services from local suppliers where possible. This is a $3.2 million direct injection into the regional economy. It also promotes local cafés, providores and tourist attractions as part of the tours.



CONTEMPORARY CASE STUDY

Good-Edi

Each year in Australia, 1 billion takeaway cups are sent to landfill. Good-Edi is a new business, based in Coburg, Victoria. It created the Good-Edi cup to provide a sustainable and eco-friendly choice when opting for a single-use takeaway cup. The cup is made from natural ingredients, including bran blend (rye, wheat, oats), sugar, coconut oil and salt. The business works only with ethical Australian suppliers to source ingredients. Good-Edi supply cafés, events, office parties, corporate functions, birthdays and weddings.



3.11 Exercises

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3.11 Exercise | **3.11 Exam questions**

3.11 Exercise

TEST your skills

1. Read 'Pennicott Wilderness Journeys' and answer the following questions.
   a. **Describe** the effect that corporate social responsibility issues had on Pennicott Wilderness Journeys' planning.
   b. **Outline** what Pennicott Wilderness Journeys does that makes it socially responsible.
   c. **Identify** any other macro or operating factors that have affected Pennicott Wilderness Journeys' planning.
2. In your own words, **explain** what is meant by the term 'corporate social responsibility'.
3. Read 'Good-Edi' and answer the following questions.
   a. Do you consider Good-Edi to be a socially responsible business? **Justify** your answer.
4. **Explain** the benefits and costs of corporate social responsibility management practices.

APPLY your skills

5. a. **Identify** two contemporary businesses that are known for their socially responsible actions. **Explain** why you think they are socially responsible.
   b. **How** might their actions assist the business?
6. 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 • Consumers • Health authorities • Employees	• Decreased orders for that manufacturer's products • Negative media image • Consumers will not buy products from that manufacturer • Loss of customers and profit • Employee dissatisfaction

7. Choose one of the examples from your table for question 6. Form a small group to roleplay 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.

3.11 Exam questions

Question 1 (2 marks)

Define the term 'corporate social responsibility'.

Question 2 (4 marks)

Describe two actions of a contemporary business you are familiar with that enabled it to be considered socially responsible.

Question 3 (4 marks)

Explain two possible consequences for a business of failing to act in a socially responsible manner.

More exam questions are available online.

3.12 Customers and competitors

KEY KNOWLEDGE

Operating factors that affect business planning

- customer needs and expectations
- competitors behaviour

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3.12.1 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.

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

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. There have been countless campaigns from pressure groups, backed by consumers, which have led to a business having to re-evaluate their business plans. For example, after PETA campaigned against them for years, Canada Goose (a Canadian winter clothing manufacturer) announced it would stop selling fur and goose-feathered items at the end of 2021. Protests surrounding its sale of fur included exposés, celebrity actions and legal battles. After the announcement, PETA suspended its campaign against Canada Goose and stated it would be 're-engaging with the company to push for an end to its use of feathers'.

Pressure groups, such as PETA, organise campaigns to raise awareness of unethical business practices.



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.



As we know, customer pressure has also forced businesses in the fast-food industry to change their product offerings. Customers expect products that are low in sugar, salt and fat, and free from allergens, colourings and flavourings. As a result, it is no longer just specialty businesses that cater for these customers but global businesses such as McDonald's that have been forced to offer healthier options.

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.

3.12.2 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.

Recently, free-to-air commercial television networks have had to navigate a whole new landscape, with competition from streaming services such as Netflix and Binge. In response to this new threat, Foxtel launched an online streaming platform, Presto, which has now ceased operations, while Nine Entertainment Co. partnered with Fairfax Media to introduce Stan.

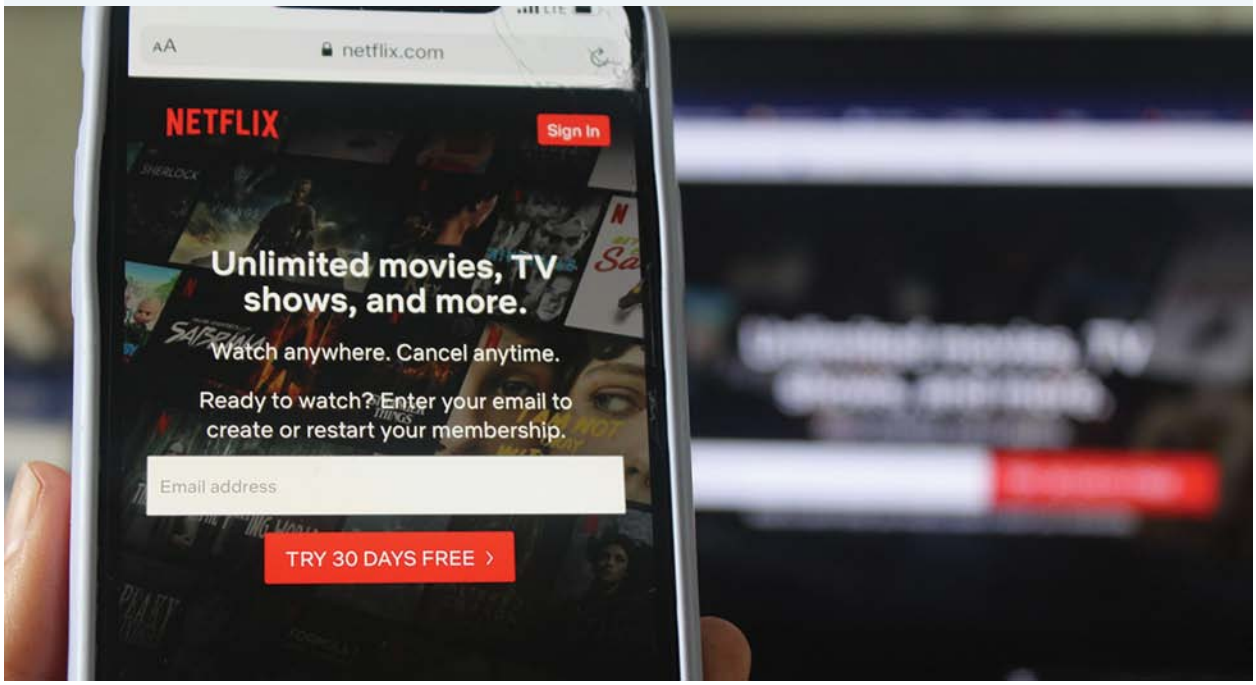
Our contemporary business case study, Wilson Parking Australia, has a number of competitors, including Secure Parking and Interpark. Both businesses offer similar services to Wilson Parking, including online booking and app-based parking.

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

From a planning point of view, the awareness of competition can stimulate the necessity for efficiency and for ongoing development of the product or service on offer. To achieve a sustainable **competitive advantage**, the business owner will need to plan to produce a high-quality good or service at the lowest cost, or aim to provide a superior offering.

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

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 an estimated 150 million subscribers, and earns billions of dollars in revenue.



DID YOU KNOW?

Blockbuster was once offered the opportunity to buy Netflix, but declined. 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, turned down the offer.

KEY IDEAS

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.

3.12 Exercises

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3.12 Quick quiz on	3.12 Exercise	3.12 Exam questions

3.12 Exercise

TEST your understanding

1. **Distinguish** between customers and competitors.
2. **Outline** the influence that customers have on a business.
3. **Explain** how customers can affect business planning.
4. **Describe** how a business can deal with the actions of competitors.
5. **Outline** how competitors can affect business planning.

APPLY your understanding

6. a. **Identify** the main competitors of the following well-known companies:
   - i. Coles
   - ii. BHP
   - iii. National Australia Bank
   - iv. Qantas
   - v. Optus.

   b. **How** might the actions of the competitors you have listed affect the planning of the business?
7. 'Businesses have no control over customers and competitors. They are at the mercy of these two operating factors.' **Discuss**.
8. '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.

3.12 Exam questions

Question 1 (3 marks)

Distinguish between 'customers' and 'competitors'.

Question 2 (3 marks)

Explain which business environment competitors belong to. **Justify** your answer.

Question 3 (4 marks)

Define the term 'competitive advantage' and **explain** how a business may plan to develop a competitive advantage.

Question 4 (3 marks)

With reference to a contemporary business you are familiar with, **explain** the benefits to a business of considering customer needs and expectations in its planning.

Question 5 (2 marks)

Outline why it is important for a business to monitor the behaviour of competitors.

More exam questions are available online.

3.13 Suppliers and special interest groups

KEY KNOWLEDGE

Operating factors that affect business planning

- suppliers of business resources and considerations regarding the supply chain, such as from where resources are sourced and how they reach the business
- special interest groups such as environmental lobby groups, business associations and unions

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3.13.1 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. However, having multiple suppliers means that a business may lose control over these groups and their activities. This has been the case with larger businesses who engage multiple overseas suppliers with no knowledge of their practices.

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.

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

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. This is to identify whether they can better meet the business's needs.

Etiko has full supplier transparency, including details of their address, employment practices, staff composition and the latest audit.



In recent years, many businesses have had to develop more sustainable supply chains or 'greener' supply chains. Businesses expect their suppliers to behave in a socially responsible manner.

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.

3.13.2 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 promotion of business interests to the public and government. 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 the groups of people who attempt to directly influence or persuade a business to adopt particular policies or procedures

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

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

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

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.



Resources

Weblink Woolworths supply chain

KEY IDEAS

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, such as environmental lobby groups, business associations and unions, affect business planning.

3.13 Exercises

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3.13 Quick quiz | 3.13 Exercise | 3.13 Exam questions

3.13 Exercise

TEST your understanding

1. **Explain** why businesses need suppliers.
2. **Define** the term 'supply chain'.
3. **Explain** what is meant by the term 'special interest group'.
4. **Outline** 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
a. Specific issue groups, such as environmental lobby groups		
b. Business associations		
c. Unions		
d. Consumer groups		

APPLY your understanding

5. 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. **Suggest** what she will need to consider in relation to her suppliers and the supply chain.

6. 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?

3.13 Exam questions

Question 1 (3 marks)

Explain what a union is and why unions play an important role in the workplace.

Question 2 (3 marks)

Describe how suppliers and the supply chain may affect business planning.

Question 3 (3 marks)

Explain what is meant by an Australian business association. Provide an example of an Australian business association in your answer.

Question 4 (3 marks)

Define the term 'special interest groups'. **Explain** how one special interest group has influenced the planning of a contemporary business with which you are familiar.

More exam questions are available online.

3.14 APPLY YOUR SKILLS Effect of factors from the external environment

PRACTISE YOUR SKILLS

- Identify, define, describe and apply business management concepts and terms
- Interpret, discuss, compare and evaluate business information and ideas
- Analyse case studies and contemporary examples of business management applicable to business planning
- Apply business management knowledge to practical and/or simulated business situations with respect to business planning

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CONTEMPORARY CASE STUDY

The end of an Aussie icon

On 17 February 2020, General Motors announced the permanent retirement of the Holden brand. Despite the predictable nature of the announcement given the steady decline of Holden over the past decades, it marked a sad day for many. Holden was an Australian icon that had operated for 164 years, pre-dating Australian federation by nearly half a century. Many Australians were employed by Holden, and many more had driven a Holden at some stage of their lives.



The main causes of Holden's failure came as a result of external factors over which it had little to no control. The biggest factor was a result of globalisation. For decades the Australian automotive industry received

protection from competition in the form of tariffs (as much as 50 per cent). As the tariffs were progressively slashed in line with a global shift away from economic protectionism, the manufacturer still relied on government subsidies, which were eventually also cut. A 5 per cent tariff on automotive imports still remains, but was not enough to protect Holden from the onslaught of cheap imports from Asia, where the majority of automotive workers receive an hourly wage of $2.

Holden's flagship model was the Commodore, a large sedan that defined the brand. Racing variations represented Holden on the track for decades. However, changing consumer tastes that likely resulted from rising fuel prices and greater urbanisation meant that the Commodore fell out of favour with consumers who were increasingly gravitating towards small cars or SUVs.

Globalisation has seen many winners and losers, with many economists attributing much of Australia's economic growth in recent decades to its liberal trade policies. This, however, will be little consolation to those who grew up with the iconic Australian brand as it retires into the annals of history.

CONTEMPORARY CASE STUDY

Changing customer needs and expectations



Changing customer needs and expectations, translated into consumer power and action when thousands of Australians cut ties with energy retailer, Powershop. Powershop operates across Australia, New Zealand and the UK, and was owned by New Zealand's Meridian Group. In late 2021, Shell announced that that it would be buying Powershop, along with Meridian's Australian wind farm and hydro projects. At the time Shell didn't directly sell power to Australian homes so its acquisition of Powershop was part of its move into that market.

Powershop was founded in 2007 and had since built up 185 000 customers in Australia. Its credentials in the renewable energy space included being Climate Active Certified. That is a standard certified by the Australian government that shows when a company is guaranteed as being carbon neutral. That's usually achieved by a company buying carbon credits to offset emissions. Powershop's reach was boosted by affiliations with several organisations, including GetUp and Environment Victoria, which encouraged their members to sign up to the energy provider.

Since the Shell deal, and in an email to members, Environment Victoria described the announcement as a 'sudden and extremely disappointing' move that 'changes everything'. '[Powershop] will now be owned by one of the world's biggest climate wreckers.' GetUp also ran a campaign on its website encouraging Powershop customers to switch to other providers. The vocal outcry had an impact, as customers switched from Powershop to other providers.

Smaller businesses like Cooperative Power had the biggest customer surge in its history 'It's been really great and really positive. But very tiring with an unexpected surge of traffic and switch on requests,' said co-founder of Cooperative Power Godfrey Moase.

Cooperative power on-sells power for EnergyLocals and takes a $50 fee for doing this. It uses this $50 fee to reinvest in community projects including supporting unions, workers who lose their jobs and renewable energy projects.

Source: Extract from E. Terzon, 'Powershop bleeding customers over Shell takeover, amid "greenwashing" concerns' *ABC Online*, 11 December 2021.

3.14 Exercises

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3.14 Exercise | **3.14 Exam questions**

3.14 Exercise

TEST your skills

1. Read 'The end of an Aussie icon' and answer the following questions.
   a. **Outline** how long Holden operated for and when it was announced that the brand would be retired.
   b. **Explain** what tariffs are and how they protected Holden in previous decades.
   c. What change in consumer needs and expectations was partly responsible for Holden's decline?
   d. **Explain** how global issues contributed to the demise of Holden in Australia.
   e. After reading the article, what conclusions can you draw about the importance of considering global issues and customer needs during the planning stage?
2. Read 'Changing customer needs and expectations' and answer the following questions.
   a. **Outline** the customer reaction to Shell's acquisition of Powershop.
   b. **Explain** why Powershop's stakeholders, such as GetUp, were disappointed with the change.
   c. **Identify** the market that Shell is trying to enter by buying Powershop.
   d. After reading this article, **what** conclusions can you draw about the importance of considering customer needs and how this might affect business planning?

APPLY your skills

3. With reference to a contemporary case study, **explain** how customer needs and expectations can negatively affect a business's plans.

3.14 Exam questions

Question 1 (6 marks)

'Customers are the most important external influence on a business'. **Discuss**.

Question 2 (4 marks)

With reference to a contemporary business with which you are familiar, **explain** one reason why a sustainable supply chain can be beneficial.

Question 3 (3 marks)

Define what is meant by a special interest group, referring to an example to support your answer.

More exam questions are available online.

3.15 Review

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3.15.1 Summary

Factors within the external (macro and operating) 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.

Key legal and government regulations

- There are many key legal and government regulations that, during the planning stage, business owners need to ensure their business will comply with.
- Some important laws and regulations 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 societal attitudes and behaviour such as 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. For example, trends can be seen in changing demographics and workplace culture.

Economic conditions

- Economic conditions need to be considered when planning a business.
- Economic considerations, such as interest rates, employment levels, tax rates and levels of consumer confidence, all have an effect on decisions made by business owners during the planning stage.

Technological considerations

- Technological considerations, including changing markets and technological development, need to be taken into account when planning a business.

Global considerations

- 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 operate in a worldwide market.
- During the planning stage of a business, global issues including overseas competitors and overseas markets, offshoring of labour, exchange rates, patenting, copyrights and trademarks at a global level and online sales must be considered.

Corporate social responsibility considerations

- 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 considerations will need to be addressed. These considerations include environmental considerations and planning the production of goods and services.
- Corporate social responsibility management practices have benefits and costs.

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 environmental lobby groups, business associations, and unions

3.15.2 Key terms

business activity statement (BAS) records of 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
employment when a person works one hour or more in a specified week
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 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
offshoring the practice of moving some of a business's processes or services to the same or another business located overseas
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
technological considerations methods, systems and devices that are the result of scientific knowledge being used for practical purposes
tax rate the percentage of income or the value of a good, service or asset paid as tax
triple bottom line the economic, environmental and social performance of a business
unemployment when a person who, during a specified period, is not employed for one hour or more, but is actively seeking work and is currently available for work
unions organisations formed by employees in an industry, trade or occupation to represent them in efforts to improve wages and working conditions

on Resources

Digital documents Key terms glossary (doc-37631)
Missing word glossary quiz (doc-39038)
Crossword (doc-39039)

3.15.3 Practice 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

Time allowed:	90 minutes
Marks allocated:	40 marks
Conditions:	Read the following case study and then complete the questions.

Wilson Parking — How carparking has been affected by the global pandemic

A neverending global pandemic threatening to make central business districts redundant, combined with the onset of electric vehicles and autonomous cars, all spell doom for the future of carparks in major cities around the world. Or do they?

Depending on who you talk to, carparks are either a good business investment for the next ten years or an asset that needs an exit strategy — and sooner rather than later.



‘Carparks can have excellent investment characteristics,’ M3 Property Managing Director Michael Coverdale says. ‘Typically, they require low levels of repairs and maintenance, and provide stable revenue streams.’ However, with parking levels low during the pandemic, revenue has also been negatively affected for many businesses in this industry. Despite this, Wilson Parking has invested heavily in parking technologies. This planning is something that should help secure its future.

Wilson ‘believe that the future of carparks will see them shaped by emerging technologies — and we have invested heavily in parking technologies that keep people safer and make it more convenient to get to their destination,’ Wilson Parking’s chief technology officer Paul Sidwell said. Wilson considers its parking app for bay booking and contactless payment as essential, especially during the pandemic.

Wilson have also started to invest heavily in hybrid carpark spaces which support electric vehicles, shared vehicles, bikes and scooters. Wilson is certainly responsive to consumer demand and is watching the environment carefully as pick up and drop off services for freight, logistics and business services become more popular.

Source: ‘Future of carpark real estate in limbo’, *The Urban Developer*, 14 September 2021.

Question 1 (4 marks)
With reference to the Wilson Parking case study, **explain** the difference between the operating environment and the macro environment.

Question 2 (4 marks)
Explain whether Wilson Parking’s planning was affected by an operating or macro environment factor in this instance.

Question 3 (4 marks)
Describe two legal and government regulations that might affect Wilson Parking’s planning.

Question 4 (4 marks)
Explain how Wilson Parking has used technology to its advantage.

Question 5 (6 marks)
Outline what ‘societal attitudes and behaviour’ refers to and, using examples from the case study, **explain** why it is important for businesses such as Wilson Parking to consider this factor when planning.

Question 6 (8 marks)
Explain how business and consumer confidence levels have affected Wilson Parking’s business planning.

Question 7 (10 marks)
Identify two ways in which corporate social responsibility considerations may have had an impact on the planning done by Wilson Parking.

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Digital documents School-assessed coursework (doc-38070)

3.15 Exercises

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3.15 Multiple choice quiz on | 3.15 Exercise | 3.15 Exam questions

3.15 Exercise

TEST your understanding

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

APPLY your understanding

19. 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
a. Key legal and government regulations	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		

c. Economic conditions		
d. Technological considerations		
e. Global		
f. Corporate social responsibility		
g. Customers		
h. Competitors		
i. Suppliers		
j. Special interest groups		

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

Arguments for	Arguments against
Benefits	**Costs**

21. Ritva and Lisa are interested in establishing a new horticulture business. **Advise** them on the macro factors that may affect their business planning.
22. 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.

3.15 Exam questions

Question 1 (4 marks)

Identify two factors from the macro environment and **explain** how they may affect the planning of a business.

Question 2 (3 marks)

Outline three legal and government regulations that a fast-food business would likely have to deal with in the planning stages.

Question 3 (4 marks)

Explain how two changes in economic conditions would affect the planning of a business.

Question 4 (4 marks)

Identify the business environment to which technological advances belong and **explain** two effects that technological advances can have on the planning of a business.

Question 5 (3 marks)

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

Question 6 (2 marks)

Describe the external environment of a business.

Question 7 (4 marks)

Identify two factors from the operating environment and **explain** how they may affect the planning of a business.

Question 8 (4 marks)

Distinguish between the internal and operating environments, providing an example of each.

Question 9 (4 marks)

Identify one recent change in societal attitudes or behaviour and **explain** how this has affected the planning of a business you are familiar with.

Question 10 (4 marks)

Discuss one positive and one negative impact that a global issue has had upon a business that you are familiar with.

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UNIT

2 Establishing a business

AREA OF STUDY 1

Legal requirements and financial considerations

OUTCOME 1

Outline the key legal requirements and financial record-keeping considerations when establishing a business, and explain the importance of establishing effective policies and procedures to achieve compliance with these requirements.

4 Legal requirements and financial considerations 209

AREA OF STUDY 2

Marketing a business

OUTCOME 2

Explain how establishing a customer base and a marketing presence supports the achievement of business objectives, analyse effective marketing and public relations strategies and apply these strategies to business-related case studies.

5 Marketing a business 283

AREA OF STUDY 3

Staffing a business

OUTCOME 3

Discuss the importance of staff to a business, discuss the staffing needs for a business, and evaluate staff-management strategies from both an employer and staff perspective.

6 Staffing a business 387

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TOPIC

4 Legal requirements and financial considerations

UNIT 2 AREA OF STUDY 1

OUTCOME 1

On completion of this topic you should be able to outline the key legal requirements and financial record-keeping considerations when establishing a business, and explain the importance of establishing effective policies and procedures to achieve compliance with these requirements.

LEARNING SEQUENCE

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4.1 Overview

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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 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.



CONTEMPORARY CASE STUDY

MANUFACTURING BUSINESS: Globe International Limited

Number of employees	700
Net profit	A$33.27 million (2021 FY)
Revenue	A$266.63 million (2021 FY)
Market capitalisation	A$283.61 million AUD
CEO	Matthew Patrick Hill
Flagship products	Globe skateboards and shoes, FXD workwear, Salty Crew clothing, Impala roller skates, dot electric skateboards

Globe International Limited is a global producer and distributor specialising in purpose-built apparel, footwear and skateboard hardgoods (decks, wheels, trucks etc.) for the boardsports, street fashion, outdoor and workwear markets. Its products are sold in more than one hundred countries worldwide. Founded in 1985 by three Australian brothers, Globe International's core business is divided between proprietary, licensed and distributed brands, which include Salty Crew, FXD, Impala Skate and Stussy.



CONTEMPORARY CASE STUDY

SERVICE BUSINESS: Bupa Group

Number of employees	85 000
Net profit (surplus)	£423 million (year ending 31 December 2021)
Revenue	£12.9 billion (year ending 31 December 2021)
CEO	Iñaki Ereño (Bupa Group) Hisham El-Ansary (Bupa ANZ)
Flagship products	Bupa Health Insurance, Bupa Healthcare



Since its establishment in the UK as a health-funding organisation in 1947, Bupa has grown to become a leading international healthcare company, providing health funding, treatment and other health services to over 31 million customers worldwide. Bupa is a not-for-profit private company limited by guarantee, which means it has no shareholders and reinvests its earnings into the business.

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 knowledge	Subtopic
An overview of key legal requirements for establishing a business such as registering the business name, registering a website domain, trade practices legislation, business tax compliance and work safe insurance	**4.2 & 4.3**
An overview of the role of external professionals when establishing a business	**4.5**
The importance of establishing bank accounts, financial control systems and record-keeping strategies	**4.6, 4.7, 4.8**
The importance of choosing appropriate suppliers, including the benefits and limitations of suppliers that meet the corporate social responsibility objectives of the business	**4.10**
The need for policies and procedures to achieve compliance with legal requirements and establish business routines	**4.11**
Technological and global issues that may affect decision-making when establishing a business, such as generating customer databases and contacts with overseas suppliers and retailers	**4.13**

Key skills

These are the skills you need to demonstrate:

Key skills	
◯	Identify, define, describe and apply business management concepts and terms
◯	Interpret, discuss, compare and evaluate business information and ideas
◯	Analyse case studies and contemporary examples of business management
◯	Apply business management knowledge to practical and/or simulated business situations.

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on Resources

Digital document Key terms glossary (doc-37632)

Weblinks Globe
Bupa

4.2 Key legal requirements — registration, taxation and government regulations

KEY KNOWLEDGE

- An overview of key legal requirements for establishing a business such as registering the business name, registering a website domain, trade practices legislation, business tax compliance and work safe insurance

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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.

All business names, including Cafe Del Sol at Safety Beach, 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

Having an online presence is a necessity for most businesses. A key element of a business's online presence will be the **domain name**, which is the address of its website on the internet.

A domain name is the address of a 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.

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.

on Resources

Weblink Domain name availability
Australian Domain Administration

4.2.4 Taxation compliance

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 that follow. 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 personal TFN when dealing with the ATO.

domain name the address of a website on the internet
Australian Taxation Office (ATO) the government body in charge of administering and collecting tax for the federal government

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 25 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 2021–22

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

Pay as you go (PAYG) withholding
- Taken from an employee's salary or wage directly
- Imposed on the employee

Goods and services tax (GST)
- A broad-based tax of 10 per cent on the supply of most goods and services consumed in Australia
- Imposed on all consumers
- Businesses are only required to register for GST if they earn $75 000 or more in a financial year.

Fringe benefits tax (FBT)
- 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
- Imposed on the employer

Major state taxes that apply to business

Stamp duty
- Placed on documents that give evidence to transactions, such as the purchase of property
- Imposed on the individual or business

Land tax
- Annually levied on the owner of the land

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.

progressive tax rate a tax rate that increases as the individual earns a higher income

4.2.5 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 effort. 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.

Keeping up with tax requirements can be a daunting task for individuals, and more so for businesses, which are likely to have many complicated transactions. A business owner should seek help from the Australian Taxation Office or a registered tax agent when unsure.

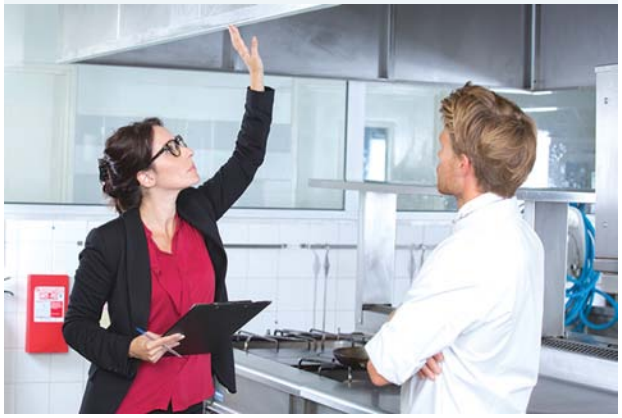


Zoning regulations

Local government ensures that business activities do not infringe on residential areas. Each council has a local planning scheme that describes the types of activities or developments that may occur in different areas of a suburb or district. Land is zoned for particular uses, such as residential, industrial, business or other.

When commencing a business, the owner must consult with the local council to find out 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 because of the noise pollution and the traffic hazards that 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.



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 meet hygiene and safety requirements.

KEY IDEAS

- 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 and domain name, and comply with tax regulations.
- Businesses must comply with local government regulations.

4.2 Exercises

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4.2 Quick quiz on | 4.2 Exercise | 4.2 Exam questions

4.2 Exercise

TEST your understanding

1. **Identify** the main objectives of imposing government regulations.
2. **Outline** when it is compulsory to register a business name.
3. **Explain** why it is important to register a website domain.
4. **Describe** two state taxes that a business would be likely to pay.
5. **Identify** the ways in which the local government ensures compliance with health regulations under the *Food Act 1984* (Vic).

APPLY your understanding

6. **Brainstorm** suitable business names for the following businesses and check 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 town 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.
7. **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'.
8. 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?
9. **Calculate** the amount of tax that Harry and his wife Sally would each have to pay if they earn a total of $80 000 from their 50/50 partnership running a florist business.
10. **Explain** whether a company is better or worse for tax purposes than a sole trader or partnership. **Justify** your response.

4.2 Exam questions

Question 1 (2 marks)

Explain why it is important to comply with legal requirements when establishing a new business.

Question 2 (4 marks)

Describe two legal requirements that need to be considered when establishing a business.

Question 3 (3 marks)

Distinguish between 'registering the business name' and 'registering a website domain' as legal requirements for establishing a business.

Question 4 (3 marks)

Explain how zoning regulations might affect business planning.

Question 5 (4 marks)

Identify two types of taxes a business owner must comply with and **outline** one strategy that they could implement to help ensure they are meeting their tax obligations.

More exam questions are available online.

4.3 Key legal requirements — trade practices legislation

KEY KNOWLEDGE

- An overview of key legal requirements for establishing a business such as registering the business name, registering a website domain, trade practices legislation, business tax compliance and work safe insurance

Source: VCE Business Management Study Design (2023–2027) extracts © VCAA; reproduced by permission.

4.3.1 Work health and safety regulations

A business owner is legally responsible for implementing health and safety practices in the workplace when they establish 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

Employers should ensure that the equipment used by employees is regularly checked for faults that may present a safety hazard.



- ensures that the health and safety of other members of the public are 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.

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 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.

WorkSafe Victoria a government agency that aims to reduce workplace injuries and support injured workers

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)

Australian Competition and Consumer Commission a government body that has the role of enforcing the *Competition and Consumer Act 2010* (Cwlth) and a range of additional legislation promoting competition and fair trading, and regulating national infrastructure

Consumer Affairs Victoria Victoria's government body established to regulate the marketplace, helping ensure fairness for businesses and consumers

4.3.2 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* (Cwlth) 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 competition. Planned mergers and acquisitions must be notified to the ACCC, which will determine if they can proceed.

merger the joining together of two or more businesses to form one business

acquisition when one business takes over another business

In 2020, the Federal Court dismissed the ACCC's bid to block a $15 billion dollar merger between Australia's third and fourth largest telecommunications companies, Vodafone and TPG. Judge Justice John Middleton ruled that the merger would not unduly reduce competition, despite the ACCC's argument that preventing TPG from building a fourth mobile network would significantly reduce competition in the Australian mobile market. In 2021, the ACCC produced analysis of increased mobile phone plan prices as validation of its stance to block the merger, arguing for the need for more rigorous laws regarding mergers and acquisitions.



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 avoid words that are deceptive or make false claims or impressions about a product. Businesses must reveal full information about prices (especially in 'buy one get one free' situations) and not mislead customers about the origin of products (e.g. using a 'Made in Australia' logo when the product was manufactured 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. Our contemporary case study Bupa provides an example of how a business can engage in unconscionable conduct.

In 2021, Australian fashion retailer Mosaic brands, owner of well-known brands such as Rivers, Noni B and Katies, was fined $630 000 for misleading customers. The company sold hand sanitisers advertised as containing 70 per cent alcohol, despite only containing 17 per cent alcohol.



- ***Unfair contract terms.*** A contract is a legally binding agreement between two or more parties. Unfortunately, some businesses draw up unfair contracts that are detrimental to the consumer. An example is if a contract allows a business to vary prices without notifying the consumer. Contracts must be clearly worded, 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 (legal) sales practices under the Competition and Consumer Act:

- ***Unsolicited consumer agreements.*** Unsolicited agreements refer to when a business contacts a consumer without the consumer having invited the contact. It happens most commonly through telephone and door-to-door sales. This practice is legal, but only between the hours of 9 am and 6 pm on weekdays, and 9 am and 5 pm on Saturdays. It is not permitted on Sundays or public holidays. A further limitation is that salespeople must show identity cards, must leave immediately if requested and must refrain from further contact for at least 30 days.
- ***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.

Door-to-door sales are tightly controlled by the Australian Consumer Law.



- ***'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.

CONTEMPORARY CASE STUDY

SERVICE BUSINESS: Court orders $6m in penalties against Bupa and compensation for consumers

In May 2020, the Federal Court ordered that Bupa Aged Care Australia Pty Ltd (Bupa) pay $6 million in penalties for making misleading representations and wrongly accepting payments for extra services not provided or only partially provided to residents at 20 aged care homes.



The Court has also ordered Bupa to compensate all affected current and past residents within 12 months. Bupa has already commenced paying compensation to affected residents and estimates that it will pay around $18.3 million in total.

From 15 April 2013 to June 2018, residents at 20 of Bupa's aged care homes in NSW, Victoria, Queensland and Tasmania paid for a package of extra services, which often amounted to thousands of dollars annually. Bupa admitted that it failed to supply some of these extra services, or only partially supplied them.

'Bupa's failure to provide services for which it accepted payment is extremely disappointing and likely lessened the quality of life of the aged care residents in Bupa's care,' ACCC Chair Rod Sims said.

A total of 95 extra services were either not provided or only partially provided by Bupa, despite being included in extra services agreements between Bupa and residents. These included:

- specialised gardens or rooms specifically designed to assist those living with dementia
- fully equipped physiotherapy rooms
- talking book libraries, to assist people who are blind or who have visual, physical or reading disabilities
- separate external buildings available for leisure activities
- hot breakfasts
- travel escorts for outside appointments
- individually controlled heating and cooling.

'The offer of these services may have played a part in residents and their families choosing a particular Bupa facility,' Mr Sims said.

'These vulnerable residents and their families may not have been aware that these extra services were not being provided, although they were being paid for.'

'The ACCC prioritises conduct that impacts vulnerable and disadvantaged consumers, who can be disproportionately affected by breaches of the Australian Consumer Law.'

Bupa began compensating affected residents in July 2018.

It is expected Bupa will compensate thousands of residents dating back to November 2011. Despite Bupa self-reporting the incident, the ACCC took the case to court based on the impact on a substantial number of elderly and vulnerable customers over a lengthy period.

Source: Adapted from Australian Competition and Consumer Commission, 'Court orders $6m in penalties against Bupa and compensation for consumers', media release, 12 May 2020.

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 the 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 that contained human hair or was past its use-by date, 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.

on Resources

Weblinks Business.gov.au — Industry fact sheets
Consumer Affairs Victoria

KEY IDEAS

- A business must follow legislation regarding workplace health and safety.
- Businesses must ensure they comply with state and federal laws regarding trade practices for their given industry.

4.3 Exercises

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4.3 Quick quiz on | 4.3 Exercise | 4.3 Exam questions

4.3 Exercise

TEST your understanding

1. **Describe** what WorkCover insurance is and who it protects.
2. **Explain** what the Competition and Consumer Act is and which federal body is in charge of administering it.
3. **Outline** what the Australian Consumer Law and Fair Trading Act is and which state body administers it.
4. **Explain** each of the following anti-competitive practices:
   - a. cartels
   - b. misuse of market power
   - c. exclusive dealing
   - d. resale price maintenance
   - e. mergers and acquisitions.
5. **Describe** each of the following practices that are illegal under the Competition and Consumer Act:
   - a. misleading or deceptive conduct
   - b. unconscionable conduct
   - c. unfair contract terms
   - d. bait advertising
   - e. pyramid schemes
   - f. referral selling.
6. **Describe** the following lawful sales practices:
   - a. unsolicited consumer agreements
   - b. lay-by agreements
   - c. 'proof of transaction' and itemised bills.
7. Read the case study 'Court orders $6 million penalties against Bupa and compensation for consumers'.
   - a. Briefly **outline** the details of the case.
   - b. **Explain** why the Federal Court found Bupa guilty of making misleading representations and wrongly accepting payments.
8. **Outline** the consumer guarantees set out by the Australian Consumer Law.

APPLY your understanding

9. In each of the following situations, **identify** 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 communicated 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.

10. In each of the following examples, **identify** 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.

4.3 Exam questions

Question 1 (2 marks)

Explain the role of WorkSafe Victoria.

Question 2 (3 marks)

Outline one consumer protection law and suggest one strategy that a business can implement to ensure that it follows this law.

Question 3 (4 marks)

Outline one anti-competitive practice and **explain** why Australian law prohibits this practice.

Question 4 (4 marks)

Discuss the importance of following Australian consumer law, with reference to a contemporary business with which you are familiar.

Question 5 (4 marks)

Discuss the importance of a business maintaining a safe working environment.

More exam questions are available online.

4.4 EXTEND YOUR KNOWLEDGE Legal requirements created by the three levels of government

EXTEND YOUR UNDERSTANDING OF THIS 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 make laws and regulations that affect the way in which businesses are established and operate. These laws not only influence the dealings that occur between businesses and customers but 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



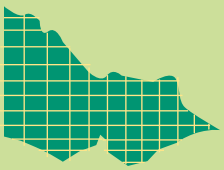
Federal government

- Taxation
- Foreign affairs
- Defence
- Social security
- Health
- Education
- Aboriginal welfare
- Trade
- Communication
- Immigration



State government

- Law and order
- Housing
- Health
- Education
- Transport
- Local government
- Industry and business development



Local government

- Parks
- Rubbish
- Minor roads
- Street lighting
- Zoning
- Signage
- Development applications
- Health regulations
- Fire regulations

CONTEMPORARY CASE STUDY

Uber faces $26 million fine after admitting to misleading customers



Uber has admitted that it engaged in misleading or deceptive conduct in regards to the trip cancellation warnings on its ride-sharing app.

This admission is the result of an investigation by the Australian Competition and Consumer Commission (ACCC), which is suing Uber in the Federal Court. Both parties are making joint submissions to the court for a fine of $26 million to be imposed.

Given that Uber has already admitted to breaching Australian consumer law, the court needs to decide on the appropriate penalty — which may end up being different to what Uber and the ACCC are seeking.

The consumer regulator alleged that, from at least December 2017 to September 2021, Uber's app displayed a misleading cancellation warning. Whenever consumers tried to cancel their bookings, they received a prompt saying words to the effect of 'You may be charged a small fee since your driver is already on their way'.

That was despite the fact these consumers were trying to cancel their trip within Uber's free cancellation period of five minutes.

The ACCC said more than 2 million Australian consumers were shown the misleading cancellation warning. Uber also admitted it misled customers of its 'Uber Taxi' ride option (which was only available in Sydney) by giving price estimates that were inaccurate and too high.

For example, Uber's app might give customers a price estimate of $30 to $40 for its 'Taxi' option. But the actual fare paid by the customer would nearly always fall below that range (say, $25).

Those misleading taxi fare estimates were displayed between June 2018 and August 2020, after which time the feature was removed from the app.

'Digital platforms like Uber need to take adequate measures to monitor the accuracy of their algorithms and the accuracy of statements they make, which may affect what service consumers choose. This is particularly important as online businesses often carefully design their user interfaces to influence consumer behaviour,' ACCC chair Gina Cass-Gottlieb said.

Source: Extracts from David Chau, 'Uber faces $26 million fine after admitting to misleading customers', *ABC Online,* 26 April 2022.

CONTEMPORARY CASE STUDY

Workplace bullying — Rio Tinto

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. If bullying does occur, the business should appropriately respond to the allegations.



In the 2019–20 financial year, more than 1800 people received compensation for a workplace injury that they sustained from bullying at work. While this increase could in part be attributed to the cultural shift away from stigmatising the act of speaking up as a victim or witness of bullying, it is clear that a great deal of bullying goes unreported.

Some industries and workplaces are particularly rife with bullying behaviour. A workplace review of the mining giant Rio Tinto found that almost half of 10 000 survey respondents employed globally by the company said they have been bullied, with more than 43 per cent of women working at Rio Tinto's fly-in fly-out (FIFO) and drive-in drive-out mine sites saying they have experienced sexual harassment, including threatening behaviour from male colleagues.

The review, which received responses from 10 000 of Rio Tinto's 45 000 employees, was conducted by Australia's former sex discrimination commissioner Elizabeth Broderick.

Examples of 'everyday sexism' experienced by women included:

- no women's toilet provided
- being left out of meetings
- being asked to do inappropriate tasks such as making the coffee or doing the washing.

Actual or attempted rape or sexual assault was reported by 21 women.

Discrimination was also reported because of race and sexual orientation. Almost 40 per cent of First Nations Australians working for Rio Tinto reported experiencing racism. LGBTIQ+ employees also reported high rates of bullying, racism or sexual harassment.

'Bullying is systemic, experienced by almost half of the survey respondents,' she [Elizabeth Broderick] said in the report released in January 2022.

Senior leadership at Rio Tinto supported the need for cultural change and supported implementation of all 26 recommendation from the report. The chief executive Jakob Stausholm asserted the finding were 'deeply disturbing'. 'I offer my heartfelt apology to every team member, past or present, who has suffered as a result of these behaviours,' he said on Tuesday. 'This is not the kind of company we want to be.'

Source: Adapted from Ben Butler, 'Bullying, sexual harassment and racism rife at Rio Tinto, workplace review finds', *The Guardian,* 1 February 2022.

CONTEMPORARY CASE STUDY

Live cockroaches in a kitchen force the closure of Domino's pizza branch in Willoughby

Willoughby Council inspectors descended on the pizza shop after a customer found a dead cockroach in their pizza. They found evidence of live and newly hatched cockroaches in the kitchen walls and floor.

In addition, the kitchen was found to be consistently dirty and unclean, including its appliances and preparation surfaces. This was despite two previous warning about cleanliness in prior inspections.

The inspection led to a fine of $1760 and the closure of the store by Domino's corporate office. Domino's head office stated that they would be taking over responsibility for the store and committed to:

- repairing, replacing and deep cleaning all equipment
- sanitising food preparation areas and utensils.

A spokesperson for the company said, 'This store will not reopen until it has been fully repaired, deep cleaned, and awarded an updated food safety licence… Domino's takes food safety extremely seriously and apologies to local customers'.

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.



Source: Adapted from Danyal Hussain, 'Is this Australia's DIRTIEST pizza shop? Domino's outlet is forced to shut down after a customer found a cockroach baked inside a pizza', *The Daily Mail*, 14 July 2022.

4.4 Exercises

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4.4 Exercise | **4.4 Exam questions**

4.4 Exercise

TEST your understanding

1. **Identify** the level of government that has responsibility for each of the following:
   - **a.** defence
   - **b.** street lighting
   - **c.** zoning
   - **d.** foreign affairs
   - **e.** health regulations
   - **f.** housing
   - **g.** transport
   - **h.** trade.
2. Read 'Uber faces $26 million fine after admitting to misleading customers' 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 Uber is being charged in this case.
   - **c. Explain** the legal consequences that are likely to be faced by Uber as a result of the ACCC findings.
3. Read 'Workplace bullying — Rio Tinto' and answer the following questions.
   - **a. Identify** the legislation under which business owners have an obligation to ensure workers are not bullied.
   - **b. Identify** three types of bullying behaviour that have been occurring across Rio Tinto's work sites.
   - **c. Suggest** two strategies that Rio Tinto's senior management could implement to address the company's bullying culture.
4. Read 'Live cockroaches in a kitchen force the closure of Domino's pizza branch in Willoughby' and answer the following questions.
   - **a. Outline** why the owner of the pizza restaurant business was fined.
   - **b. Suggest** one reason why Domino's took extra measures to ensure the restaurant did not reopen until all food safety regulations were met.
   - **c. Identify** the penalties that were applied to the owner.
   - **d. Explain** why the local council checks food-related businesses.

EXTEND your understanding

5. The ACCC may fine a business for a breach of the Competition and Consumer Act. Or it may rely on a business to change its behaviour to save its reputation. Locate the ACCC's website and answer the following questions based on a media release of your choice.
   - **a. Identify** the name of the business involved.
   - **b. Describe** the breach that has occurred.
   - **c. Outline** the solution agreed upon to resolve the issue.
6. Ali worked as a retail 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.** Ali's manager said that he needed more assistance and training so that mistakes did not continue to occur. Ali felt he was being bullied.
   - **b.** Ali's manager shouted at him every morning when she found that the appropriate closing procedure had not been used. Ali was repeatedly given a dunce hat and told to wear it. When Ali said he needed more training he was told that this was not possible. Ali found his manager's response upsetting.
7. 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.

8. Imagine you run a bakery. It is up to you to ensure food safety. In the following situations, **outline** what you would 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 sneezing.
   d. Geoff the baker doesn't check the use-by date on the flour before making today's fresh batch of patty cakes.

4.4 Exam questions

Question 1 (6 marks)

Businesses may be tempted to engage in anti-competitive behaviour. **Explain**, with reference to a contemporary business with which you are familiar, how the ACCC might deal with this.

Question 2 (6 marks)

With reference to a contemporary business you are familiar with, **discuss** the importance of business owners being aware of relevant state laws such as the *Food Act 1984* (Vic).

4.5 The role of external professionals when establishing a business

KEY KNOWLEDGE

- An overview of the role of external professionals when establishing a business

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External professionals such as accountants, solicitors and bank managers can support owners undertaking business planning by providing financial and legal services. These same professionals as well as others, such as bookkeepers, recruiters, sales professionals, marketing consultants, IT technicians may continue to act as a source of support for a business in its establishment phase and beyond. A business must evaluate whether it has the employees available to complete various tasks internally or whether it should recruit additional employees or engage the services of freelance professionals as outlined below.

freelancers independent workers who charge businesses or individuals for work on a per job basis

4.5.1 Freelancers

Freelancers can be any type of independent worker who charges businesses or individuals for work on a per-job basis. There are many different types of freelancers. The term 'freelancer' does not apply to a type of work, but rather the employment relationship with the businesses they work for. Businesses often engage the services of freelancers that specialise in photography, design, copywriting and web design.

Upwork is the largest freelancing platform in the world, with over three million jobs posted annually.



4.5.2 Bookkeepers

Bookkeepers assist a business in keeping and processing a business's financial records. Professional bookkeepers often charge an hourly rate for their services. The rate varies depending on the skills of the bookkeeper and complexity of the task, at an average of $40 per hour.

4.5.3 Recruiters

New and growing businesses may not be able to effectively address human resource needs on their own. Human resource and recruitment professionals are often used by businesses to find the right staff, often charging a fee based on the salary of the person employed. In this way, the most important and often quite complex aspect of the business, staffing, is handled by a professional who understands what the business needs.

DID YOU KNOW?

The market size, measured by revenue, of the Employment Placement and Recruitment Services industry was $16.4 billion in 2022.

4.5.4 Sales professionals

Often businesses are great at producing valuable goods and services but find it difficult to find customers. Sales professionals are trained and experienced in finding and persuading people to consume a product. External sales professionals will often charge a business a percentage or commission for every sale they bring the business.

In the world of sales, 92 per cent of all customer interactions happen over the phone.



4.5.5 Marketing consultants

Marketing consultants are responsible for raising awareness of a business's products and brand with their target markets. Such consultants often run campaigns that involve advertising and other forms of communication with potential customers. Successful campaigns will increase brand awareness among consumers and result in increased sales.

4.5.6 Information technology (IT) technicians

Virtually all businesses today use information technology. Often, the IT needs of a business are beyond the capabilities of the business owner. Many IT service businesses exist to support the needs of other businesses, with everything from the setup of servers and software to troubleshooting problems that arise on a daily basis.

KEY IDEAS

- When establishing a business, the owner can engage the services of a variety of professionals external to the business.
- There are many types of external professionals, including bookkeepers, recruiters, sales professionals, marketing consultants, IT technicians and various types of freelancers.

4.5 Exercises

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4.5 Quick quiz on | 4.5 Exercise | 4.5 Exam questions

4.5 Exercise

TEST your understanding

1. **Define** the role of a recruiter.
2. **Explain** how much a business can expect to pay for the services of a bookkeeper.
3. **Identify** two services provided by an IT technician.
4. **Explain** why a business might engage the services of a sales professional.
5. **Outline** the significance of recruitment services to businesses in Australia.

APPLY your understanding

6. Sonja has started a small tutoring business from home. She has a website, but wants to develop an app to reach more customers.
   a. **Identify** two external professionals that she may use.
   b. **Describe** how the external professionals listed above will be able to assist Sonja.

4.5 Exam questions

Question 1 (2 marks)

Define the term 'freelancer'.

Question 2 (4 marks)

Discuss the extent to which you agree or disagree with the statement 'Sales professionals are not needed if the business produces a quality product that sells itself'.

Question 3 (4 marks)

Compare the role of a freelance IT technician with that of an IT technician that is directly employed by the business on an ongoing basis.

Question 4 (5 marks)

With reference to a contemporary business with which you are familiar, **describe** two professional services that the business might use.

Question 5 (5 marks)

Evaluate the role of a marketing consultant in the establishment phase of a business.

More exam questions are available online.

4.6 Establishing bank accounts

KEY KNOWLEDGE

- The importance of establishing bank accounts

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4.6.1 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 be 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.



4.6.2 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 may charge 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 the choice of bank account 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.

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

- ***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 (physical banks and ATMs) 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 and apps 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, because many banks charge very high rates of interest on unpaid balances.



Factors to consider when choosing the right bank account

- Bank fees
- Interest rates
- Overdraft facility
- Credit cards
- Convenience and support

on Resources

Weblinks Commonwealth Bank of Australia
National Australia Bank
Westpac Banking Corporation
ANZ

KEY IDEAS

- 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.

4.6 Exercises

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4.6 Quick quiz on	4.6 Exercise	4.6 Exam questions

4.6 Exercise

TEST your understanding

1. **Explain** the 'separate entity' principle in accounting.
2. **Explain** why it is important to carefully read the terms of the agreement before signing up for a new bank account.

APPLY your understanding

3. **Outline** two reasons why a business owner might opt for a larger commercial bank, even though it has higher fees and interest rates than a smaller bank.
4. Use the following weblinks in the resources tab to visit the websites of the various banks. **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**

4.6 Exam questions

Question 1 (2 marks)

Outline why a business owner should have a separate bank account for their business.

Question 2 (4 marks)

Establishing a bank account is an important decision for a new business owner. **Discuss**.

Question 3 (4 marks)

Describe two factors that a new business owner should consider when establishing a bank account.

Question 4 (3 marks)

Define 'bank overdraft facility' and **describe** a situation where a business may use such a facility.

More exam questions are available online.

4.7 Establishing financial control systems

KEY KNOWLEDGE

- The importance of establishing financial control systems

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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 subtopic 4.8.

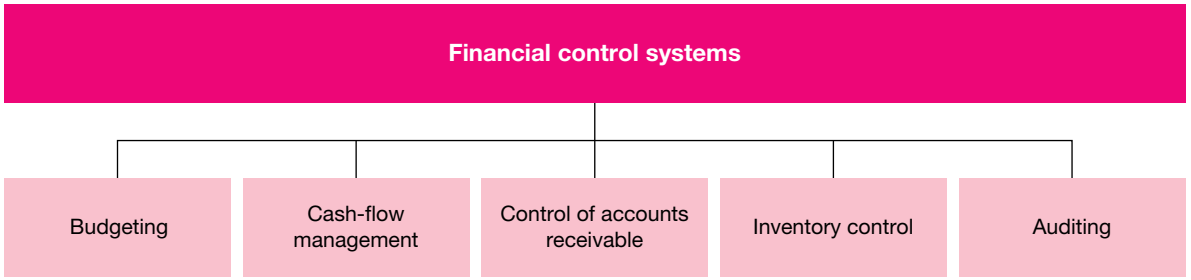
A new business could potentially suffer financial problems because of any of the following:

- poor systems
- mismanagement
- theft or fraud
- poor debt management
- lack of cash flow
- damage to assets
- incorrect pricing.

If these problems persist, 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 help to prevent these problems and losses.

financial control systems the processes, methods and tools that allow a business to accurately monitor and manage its financial performance

budgeting estimating the business's financial performance for a given period in the future



4.7.1 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.

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.



4.7.2 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 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.

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.



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, 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.

cash flow the money being transferred into and going out of the business

credit terms the terms and conditions of sale between a customer and a business, including the amount of time provided for making final payment

DID YOU KNOW?

Insolvency occurs when a business can no longer meet its financial obligations with lenders as debts become due. The key test of solvency in Australia is the 'cash flow' test, rather than the 'balance sheet' test. This means that a company must have sufficient cash flow available to meet its debts as and when they fall due.

In the financial year (FY) ending in 2021, there were 4234 corporate insolvencies — a 42.5 per cent fall from FY 2020, which itself was down 7.18 per cent from the historical average. While these figures are generally positive, they are probably the result of government stimulus and the difficulty undergoing the insolvency process during lockdowns.

4.7.3 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 still 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.

accounts receivable the outstanding payments a business is owed by its customers

inventory control ensures that costs are minimised and that the business has access to the right amounts of materials when required

4.7.4 Inventory control

Many businesses have large quantities of materials on hand to complete production. This is called stock, or inventory. Some 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. This is especially so for perishable goods such as food, and high fashion items. 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.

Globe International uses the first in, first out (FIFO) method of inventory control. This ensures that products are sold in the right order. In the clothing industry this reduces the chances of apparel becoming outdated. It is also a fairly simple method for keeping track of inventory.



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. Of course, the supply of those materials must be reliable for this system to work.

auditing the process of testing and evaluating a business's accounting processes and internal control

4.7.5 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. According to ASIC, all publicly listed companies must have their financial reports audited externally prior to releasing the statements to the public. This helps to ensure that investors can make informed decisions based on accurate information.

PricewaterhouseCoopers LLP is the world's largest accounting firm. PwC, as it's often referred to, is the auditor of the annual reports of both Bupa and Globe International.



KEY IDEAS

- 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.

4.7 Exercises

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4.7 Quick quiz on | 4.7 Exercise | 4.7 Exam questions

4.7 Exercise

TEST your understanding

1. **Define** the term 'financial control systems'.
2. **Explain** what budgeting is and why it is an important financial control system.
3. **Explain** why it is important for a business to monitor its cash flow.
4. **Explain** how accounts receivable can ensure cash flow in the business.
5. **Define** the term 'inventory'.
6. **Explain** how inventory control can be used to improve a business's financial performance.
7. **Outline** why it is vital for a business to use auditing.

APPLY your understanding

8. **Outline** how the financial control systems of a takeaway chicken shop might be different to those of a builder.
9. 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 thrown away.
10. **Explain** why an external auditor might provide more useful feedback to a business than an internal auditor.

4.7 Exam questions

Question 1 (1 mark)

Define the term 'financial control system'.

Question 2 (3 marks)

Outline the importance of a business developing effective financial control systems.

Question 3 (2 marks)

Describe one financial control system that a business might use to improve its financial performance.

Question 4 (2 marks)

Outline two measures that a business can take to improve its cash flow.

Question 5 (4 marks)

Identify one inventory control method and explain how it can help a business manage its inventory.

More exam questions are available online.

4.8 Establishing record-keeping strategies

KEY KNOWLEDGE

- The importance of establishing record-keeping strategies

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4.8.1 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.

Being organised is the key to maintaining accurate records. Each business needs to develop a system of efficiently categorising and sorting its records.



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.

4.8.2 Source documents

When established, a business will engage in a variety of financial transactions, all of which can be recorded on paper and electronically. Cash register dockets, credit card or EFTPOS vouchers and purchase invoices are all examples of these records. As well as handing these to a customer (either physically or electronically), 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 written documents that provide evidence of a financial transaction

Tax invoices are legal documents that show all of the relevant details of a transaction.



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.

4.8.3 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.

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.

The Dava's Landscaping case study shows how a business's cash receipts and cash payments are recorded in a single-entry cash book.

CASE STUDY

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:



Dava can control her cash flow by recording transactions in her cash book.

- 04 September — paid fortnightly lease $440 (chq. no. 2356)
- 06 September — received fee from client $1750 (rec. no. 487)
- 09 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).

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.

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 2021

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		6442	218	6660		Totals		880	1718	745	3343
												3317
30/9	Closing balance				6660							6660
Oct.1/10	Opening balance				3317							

4.8.4 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 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 Globe International 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, whereas Globe International earns money from selling apparel. 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.

income statement used primarily to help a business calculate how much profit it has made over a period of time

Income statement for Globe International Limited

Globe International Limited
Income Statement
For the year ended 30 June 2021

	Notes	2021 $'000	2020 $'000
Revenue from contracts with customers	**3**	**266 629**	**151 722**
Profit from the sale of the Dwindle trademarks	5	515	3 632
Changes in inventories of finished goods and work in progress	4	27 008	(10 539)
Inventories purchased	4	(153 946)	(70 840)
Variable selling expenses	4	(25 263)	(13 615)
Employee benefits expense		(30 230)	(20 924)
Other expenses		(34 710)	(27 977)
Depreciation and amortisation expense	4	(3 292)	(4 129)
Finance costs	4	(320)	(897)
Profit before related income tax expense		**46 391**	**6 433**
Income tax benefit/(expense)	6(a)	(13 120)	(332)
Profit attributable to members of Globe International Limited	**29**	**33 271**	**6 101**

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.

balance sheet shows a business's assets and liabilities (the financial position of a business) at a point in time

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.
Assets = Liabilities + Owner's Equity

4.8.5 Balance sheet

A **balance sheet** provides 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 monitor the debt and equity levels of the business. The owner can also use the balance sheet to evaluate the business's overall financial position against that of previous periods and to assist them in decision-making. A simplified

balance sheet is shown in the figure on the following page. You should be clearly able to see that 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 Globe International that the current assets of this business are cash and cash equivalents, trade and other receivables, inventories, prepayments, derivative financial instruments and current tax assets. Liabilities are the debts owed by a business to others. Globe International's current liabilities include trade and other payables, current lease liabilities, derivative financial instruments, current tax liability and provisions. 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.

bookkeeping the keeping and processing of a business's financial records

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

Assets are on the left.

Current assets are shown first.

Non-current assets are shown second.

Liabilities are on the right.

Current liabilities are shown first.

Non-current liabilities are shown second.

Owner's equity is on the right.

Globe International Limited
Balance sheet as at 30 June 2021

Assets	Notes	2021 $'000	2020 $'000
Current assets			
Cash and cash equivalents	10	36 077	25 997
Trade and other receivables	12	32 534	17 152
Inventories	13	48 065	20 550
Prepayments	14	2 681	2 050
Derivative financial instruments	11	748	–
Current tax assets	7	–	157
Total current assets		120 105	65 906
Non-current assets			
Property, plant and equipment	15	1 119	1 302
Right-of-use assets	16	11 313	8 084
Intangible assets	18	–	217
Other assets	17	1 828	2 002
Deferred tax assets	7	3 599	3 932
Total non-current assets		17 859	15 537
Total assets		**137 964**	**81 443**

Liabilities	Notes	2021 $'000	2020 $'000
Current liabilities			
Trade and other payables	19	47 418	23 729
Current lease liabilities	16	1 778	2 452
Derivative financial instruments	11	–	118
Current tax liability	8	6 160	–
Provisions	20	2 536	2 114
Total current liabilities		57 892	28 413
Non-current liabilities			
Non-current lease liabilities	16	9 805	6 736
Provisions	20	99	57
Other liabilities	21	–	1 456
Total non-current liabilities		9 904	8 249
Total liabilities		**67 796**	**36 662**
Net assets		**70 168**	**44 781**
Owner's equity			
Contributed equity	25	144 223	144 223
Treasury shares	27	(487)	(487)
Reserves	28	(6 105)	(5 684)
Retained profits/(losses)	29	(67 463)	(93 271)
Total equity		**70 168**	**44 781**

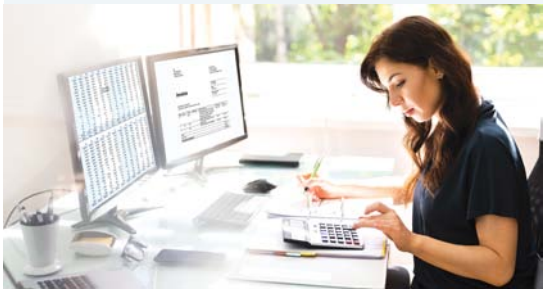
Both sides are equal:
Assets = Liabilities + Owner's equity.

4.8.6 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.

Hiring a bookkeeper can help ease the burden on business owners.



- 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.

KEY IDEAS

- 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).

4.8 Exercises

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4.8 Quick quiz on | **4.8 Exercise** | **4.8 Exam questions**

4.8 Exercise

TEST your understanding

1. **Explain** why it is important for a business to maintain accurate records.
2. **Define** the term 'source documents'.
3. **Identify** the benefits of a cash book.
4. **Examine** the cash book entries for Dava's Landscaping. Describe the financial transactions that occurred on the following dates:
   a. 6 September b. 10 September c. 18 September d. 28 September.
5. **Identify** the main use of an income statement by a business.
6. **Describe** the information presented in a balance sheet.

APPLY your understanding

7. **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.

8. 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.
9. 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.

4.8 Exam questions

Question 1 (2 marks)

Outline two reasons why developing effective record keeping is important for a business.

Question 2 (2 marks)

Explain one record-keeping strategy that a business might use to improve its financial performance.

Question 3 (3 marks)

Distinguish between financial control systems and record-keeping strategies.

Question 4 (3 marks)

Identify one source document and **explain** how it is used by a contemporary business that you are familiar with.

Question 5 (2 marks)

Outline two purposes of a balance sheet.

More exam questions are available online.

4.9 EXTEND YOUR KNOWLEDGE A basic record-keeping strategy — establishing a cash book

EXTEND YOUR UNDERSTANDING OF THIS 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.

CASE STUDY

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

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 2022

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
												(574)
30 Jun	Closing balance				12 575							12 575
1 Jul	Opening balance				(574)*							

*In accounting, negative figures are represented by brackets; these are more easily visible than the – sign, which is used to denote a negative number in mathematics.

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.

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.



DID YOU KNOW?

Accountants used to denote negative figures with red ink, while positive figures were written in black ink. Because of this, we still frequently refer to profitable companies as being 'in the black', while companies who are making a loss are said to be 'in the red'. The age of printers gave rise to a new way of denoting negative figures. With coloured printer ink being too expensive to use for lengthy accounting reports, accountants agreed to use brackets or parentheses to denote negative figures, avoiding the traditional minus sign because of its low visibility.

4.9 Exercises

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4.9 Exercise | **4.9 Exam questions**

4.9 Exercise

TEST your understanding

1. **Outline** two benefits to a business of establishing a cash book.
2. 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 payment is made for advertising for $267.00. **Calculate** the bank balance after these transactions.

3. 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.

4. 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

5. A business records the following transactions in the first week of February. **Record** the transactions in a cash book using the headings shown below.

February 1	• Cash fees charged to Kane Crellin $240 (receipt no. 221) • Paid for materials $300
February 2	• Cash fees charged to Carolyn Smith $350 (receipt no. 222) • Paid wages of $500 to Jerry Jalopies
February 3	• Cash fees charged to Mike Patter $280 (receipt no. 223)
February 4	• Received interest from the bank $150 • Cash fees charged to Anton Woods $560 (receipt no. 224)
February 5	• Cash fees charged to Regina Kuzmich $240 (receipt no. 225) • Paid for materials $300

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.

Cash transactions for Rick's electrical appliance repair business

Date	Detail	Rec. No.
1/8	Received cash fees $380	50331
1/8	Materials for appliance repairs $450	765234
3/8	Paid petrol for van $70	765235

4/8	Received cash fees $410	50332
7/8	Materials for appliance repairs $380	765236
8/8	Received cash fees $270	50333
10/8	Paid wages $580	765237
10/8	Paid petrol for van $60	765238
12/8	Received cash fees $400	50334
15/8	Vehicle repairs $260	765239
17/8	Received cash fees $330	50335
18/8	Received cash fees $430	50336
21/8	Materials for appliance repairs $400	765240
24/8	Paid wages $580	765241
28/8	Received cash fees $290	50337
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?

4.9 Exam questions

Question 1 (3 marks)

With reference to a contemporary business case study, **explain** the purpose of record-keeping strategies.

Question 2 (4 marks)

Explain what is meant by the term 'record-keeping strategies' and the importance of managing them for a business.

More exam questions are available online.

4.10 Choosing appropriate suppliers

KEY KNOWLEDGE

- The importance of choosing appropriate suppliers, including the benefits and limitations of suppliers that meet the corporate social responsibility objectives of the business

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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 its 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.

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

4.10.1 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.

4.10.2 Quality

The quality of the goods and materials provided by suppliers will generally determine the quality of the final 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 they purchase 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.



4.10.3 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.

4.10.4 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.

4.10.5 Corporate social responsibility

It is vital that the business's suppliers meet the corporate social responsibility objectives of the business. Today, many businesses practise 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.

CONTEMPORARY CASE STUDY

SERVICE BUSINESS: Bupa's responsible supply chain statement

Introduction

Bupa's purpose — helping people live longer, healthier, happier lives — is at the core of our approach to addressing Environmental, Social and Governance (ESG) issues. We recognise our responsibility to society, and we are committed to acting in the best interest of our customers, employees, communities and the environment. We operate in accordance with the law, our Bupa Code and Bupa Values, and have policies, processes and controls in place to ensure that our conduct reflects this.

We value the relationships we hold with our suppliers and seek to work with those that share our commitment to:

1. acting in accordance with the law
2. protecting and empowering people
3. reducing environmental impact and managing climate risk
4. conducting business activities in a responsible way
5. contributing to society.

This Responsible Supply Chain Statement sets the minimum standards of business conduct that Bupa expects from our direct suppliers and that need to be applied in turn, through the supply chain.

In return, Bupa commits to:

- treating suppliers fairly
- paying suppliers on time, as per contracted terms
- selecting suppliers without prejudice
- working with our suppliers to support improvements in their social, environmental and ethical practices
- maintaining a supply chain that reflects and aligns to our own standards of responsible business conduct.

Source: Extract from Bupa's Responsible Supply Chain Statement, January 2021.

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
• The costs involved in sourcing suppliers which meet the corporate social responsibility objectives of the business • The costs involved in maintaining the procurement of socially responsible materials • The savings gained from more efficient resource use	• The labour conditions involved in the manufacture, use and disposal of materials • The labour conditions involved in the delivery of materials	• How resources such as energy and water are used in the manufacture, use and disposal of materials, as well as the delivery of materials • Whether or not pollution and waste are produced from the manufacture, use and disposal of materials, as well as the delivery of materials • How the removal or alteration of natural resources will affect flora and fauna

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

Benefits

- May reduce business costs — savings are achieved through 'green' initiatives such as reducing the use of energy.
- Improves the reputation of the business — members of the community, including consumers, are likely to perceive that the business is meeting wider community expectations.
- Customers who are aware that the business is using socially responsible suppliers may be more likely to purchase from the business – this is likely to result in the business becoming more competitive and financially successful.
- Investors who are aware that a business is using socially responsible suppliers are more likely to invest in the business.



- Increased costs associated with sourcing socially responsible suppliers – socially responsible suppliers are likely to pass increased costs of production on to the business.
- Maintaining a supply chain that sources sustainable materials will be expensive and time-consuming – checking and maintaining checks on all suppliers claiming to be socially responsible is likely to take time, and result in financial costs.
- If changing to socially responsible suppliers, the business will need to work with suppliers to ensure that quality is on a par with competitors, if not superior.

Limitations

EXAM TIP

- The key skills for **Unit 2, Area of Study 1** state that you need to 'interpret, discuss, compare and evaluate business information and ideas'.
- The key knowledge for **Unit 2, Area of Study 1** states that you must understand the importance of choosing appropriate suppliers, including the benefits and limitations of suppliers that 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.

CASE STUDY

The Bangladeshi supply chain

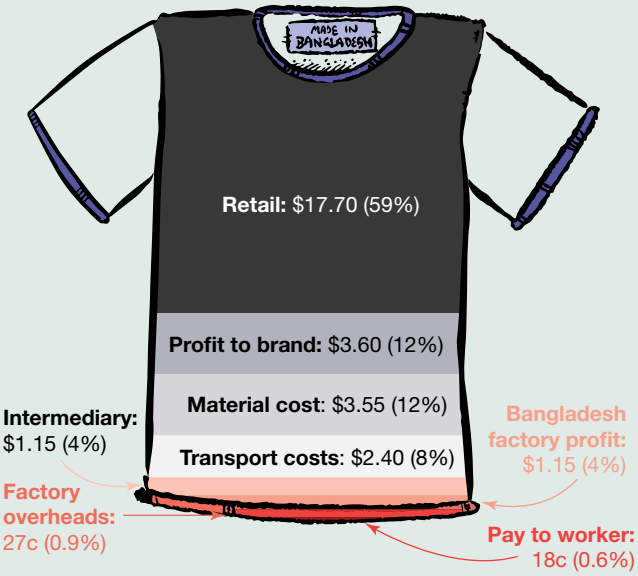
On 24 April 2013, the Rana Plaza building in Bangladesh collapsed, killing 1134 garment workers and injuring many more. This horrific event once again shed light on the questionable behaviour of over 150 international brands, which source the cheapest possible garment suppliers on the planet, ignoring 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 often physically abused, and were 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.

The tragedy threatened to ruin the reputation of large retailers such as Kmart and Target. Under pressure from ethical consumers, the retailers vowed to review their supply chain policies and implement a more ethical approach. Unfortunately, many years have passed and little has changed for Bangladeshi garment workers. They work in appalling conditions for less than $100 a month.

How much does a worker make on a $30 shirt?
Based on costs in European market, 2020.



Australian retailers hang Bangladeshi suppliers out to dry

It seems that the desire for ethics and social responsibility holds little weight when measuring up against the profit motive for some large corporations. In 2020, prominent Australian retailers were again under fire for being forceful with their desperate suppliers in developing countries.

According to the ABC, Mosaic Brands Ltd (owner of Crossroads, Noni B, Millers, Rivers, Katies and several other brands) informed suppliers that it would not be paying some of its debts for eight months. Kmart asked for discounts and pushed back on orders, only to subsequently demand that suppliers deliver such orders by new, extremely tight deadlines. All this at a time when Bangladesh, like Australia, was fighting a pandemic; for the sake of economic survival the country had been unable to implement adequate measures to ensure the safety of workers.



Renowned psychologist Dr Paul T.P. Wong once said that 'a person's true character is often revealed in time of crisis or temptation'. If the same can be said about businesses, the crisis brought about by COVID-19 possibly painted the character of such Australian fashion retailers in a negative light.

on Resources

Weblink Globe Ethical Sourcing Policy

KEY IDEAS

- 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.

4.10 Exercises

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4.10 Quick quiz on | **4.10 Exercise** | **4.10 Exam questions**

4.10 Exercise

TEST your understanding

1. **Define** the term 'procurement'.
2. **Explain** why the location of a supplier is an important factor for many businesses.
3. **Outline** the benefits and limitations for a business that chooses to source materials from socially responsible suppliers.
4. Read 'The Bangladeshi supply chain' and answer the following questions.
   a. **Describe** what happened on 24 April 2013 in Bangladesh.
   b. **Outline** the working conditions that the garment workers faced prior to the collapse.
   c. **Outline** one possible reason that businesses allowed the workers of their suppliers to be treated in a way that they would not treat their Australian workers.
   d. **Discuss** the degree to which Australian retailers are responsible for the poor working conditions in Bangladesh.
   e. **Describe** the kind of pressure that Australian retailers placed on Bangladeshi suppliers during the COVID-19 pandemic.

APPLY your understanding

5. **Explain** why it is important for a business to ensure it sources inputs that are in accordance with Australian standards for quality and safety.
6. 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.
7. **Discuss** whether or not the Australian government should hold Australian businesses more accountable for their use of unethical supply chains. **Justify** your response.

4.10 Exam questions

Question 1 (2 marks)

Outline two considerations that a business might make when choosing appropriate suppliers.

Question 2 (4 marks)

Explain the importance of a business choosing appropriate suppliers.

Question 3 (4 marks)

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.

Question 4 (6 marks)

Analyse a contemporary business that you are familiar with and its decision to use suppliers that are socially responsible. **Justify** the suitability of the business's decision.

Question 5 (6 marks)

'Businesses are not responsible for the way in which their suppliers go about their day-to-day operations.' **Discuss** this statement, with reference to a contemporary business.

More exam questions are available online.

4.11 Policies and procedures

KEY KNOWLEDGE

- The need for policies and procedures to achieve compliance with legal requirements and establish business routines

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4.11.1 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 practices 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 in section 4.11.2, 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.

4.11.2 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.

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

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 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 inclusionary
- 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
- 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 Chief Human Resources Officer will communicate this policy and any subsequent updates or amendments to it, to all Divisions within the company for implementation.

The Divisions and Business Units within Toll have the primary responsibility to:

- communicate this policy to all employees and contractors under Toll's operational control
- ensure their managers' support and promote this policy through their day to day management of people.
- Recruitment agencies working on our behalf will be made aware of this policy and are required to adhere to it.

Compliance and Review
The Board is responsible for establishing, overseeing, and assessing achievement against measurable objectives in relation to gender diversity.

The Group Human Resources Director is responsible for all other objectives and initiatives set out in this policy.

Breaches of this Policy
Employees who do not strictly comply with this Policy will face disciplinary action, including counselling, formal warnings and dismissal.

All Toll employees and contractors are responsible for reporting any breaches of this policy to their line manager or HR representative.

Further information
For further information contact your manager or your Human Resources representative.

4.11.3 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.

The advantages and disadvantages of policies and procedures



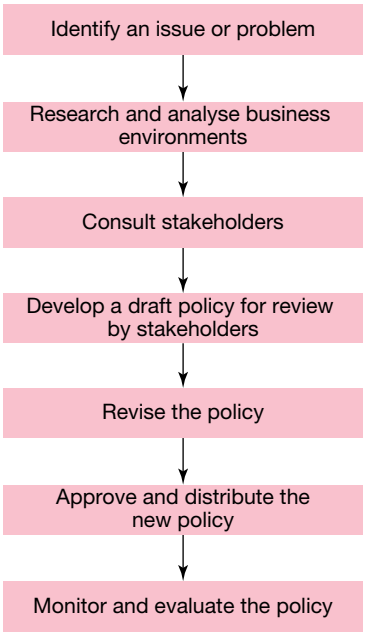
4.11.4 Ensuring policies and procedures comply with legal requirements and establish routines

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 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



on Resources

Weblink Coca-Cola Amatil

KEY IDEAS

- 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.

4.11 Exercises

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4.11 Quick quiz on | 4.11 Exercise | 4.11 Exam questions

4.11 Exercise

TEST your understanding

1. **Explain** the purpose of policies and procedures.
2. **Examine** the Toll diversity and equal opportunity policy and answer the following questions.
   a. **Identify** the Act to which all equal opportunity policies in Victoria are required to conform.
   b. **Whom** does the policy cover?
   c. **Describe** Toll's commitment to a diverse and discrimination-free workplace.
   d. **Comment** on how effective you think Toll's diversity and equal opportunity policy would be in achieving a diverse workplace.
3. **Identify** three other areas a business needs to have policies for.
4. **Outline** the main pressures for a change in policy.
5. **Explain** how a business can ensure that policies and procedures achieve compliance with legal requirements and establish business routines.

APPLY your understanding

6. Inspect a number of policies being used in a contemporary 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.
7. 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?

4.11 Exam questions

Question 1 (3 marks)

Distinguish between a policy and a procedure.

Question 2 (4 marks)

Using an example, **outline** what a policy is and **explain** why it is necessary for a business to have one.

Question 3 (4 marks)

Explain how policies and procedures achieve compliance with legal requirements and establish business routines.

Question 4 (4 marks)

Outline two advantages and two disadvantages of establishing policies and procedures.

Question 5 (4 marks)

Identify one type of policy and **explain** how a business you are familiar with uses this policy.

4.12 APPLY YOUR SKILLS The need for policies and procedures

PRACTISE YOUR SKILLS

- Identify, define, describe and apply business management concepts and terms
- Interpret, discuss, compare and evaluate business information and ideas
- Analyse case studies and contemporary examples of business management
- Apply business management knowledge to practical and/or simulated business situations

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CONTEMPORARY CASE STUDY

SERVICE BUSINESS: Bupa privacy and security policy

Privacy



Below is a summary of how Bupa handles personal information.

We collect personal information (including information about your health) in various ways to enable us to provide you with our products and services.

For example, we collect personal information when you complete an application form at a retail centre or online, or when you provide details over the phone. When you make a claim for benefits, we collect information from you and/or your provider about your treatment to enable us to administer and verify your claim. Where we collect information from you or your provider, we only collect the information we need to fulfil the relevant purpose. We may also collect information about you through our agents.

There are a number of laws which require us to collect information about you, including the *Private Health Insurance Act 2007* (Cwlth).

If you do not provide us with the information we require, we will not be able to pay to provide you with the products or services you have requested. You have the right at any time to request reasonable access to the information we hold about you. We reserve the right to charge for retrieval of your information.

In providing you with our products and services, we may disclose personal information to third parties, including:

- Disclosure to other persons or organisations engaged by us or acting on our behalf in relation to the provision of our products and services, or the operation of our business. When we engage a third party, we require that party to handle your personal information in accordance with all relevant privacy laws, and solely for the purposes of their engagement
- Where laws require or allow us to disclose personal information, for example disclosure to the Department of Health and Ageing, Medicare Australia, other government or regulatory bodies, tribunals and courts of law
- When a hospital or provider helps administer a claim that has been made for hospital or ancillary items or services (e.g. hospitals, doctors and other ancillary providers). If you transfer to or from another health insurer, we may be required to disclose your information to that insurer.

We may also disclose your personal information to other companies within the Bupa Australia Group. We do everything reasonable to ensure your personal information is kept secure from unauthorised access or disclosure.

From time to time, we may contact you (via mail, email, phone or SMS) to notify you about products, services or benefits offered by Bupa, its related entities and affiliate organisations which we consider of potential benefit to you and your family. If you do not wish to be contacted for marketing or promotional purposes, you may opt out by contacting us.

Security

This site uses the latest TLS protocols to keep your transactions secure and private. TLS is the industry standard for data encryption. It provides a secure link between your browser and our server and encrypts your personal information to ensure it's kept private over the internet.

Source: Extracts from Bupa website, 'Privacy and Security', https://www.bupa.com.au/privacy-and-security.

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.

4.12 Exercises

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4.12 Exercise | **4.12 Exam questions**

4.12 Exercise

TEST your skills

1. In your own words, **define** the term 'privacy'.
2. **Describe** how Bupa collects personal information and what it does with it.
3. According to Bupa's privacy policy, to whom does Bupa disclose personal information?
4. **Explain** whether it is possible to opt out of receiving marketing communications from Bupa. If so, how?
5. **Outline** why Bupa needs a privacy policy.

APPLY your skills

6. **Explain** the need for a business to have policies and procedures.
7. a. Use the table below to record the advantages and disadvantages for Bupa 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 Bupa in developing policies	Disadvantages for Bupa in developing policies
Policies help employees at Bupa 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.	Policies take time and money to research and write. Bupa'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.

b. Using the information you have recorded in the table, **evaluate** Bupa's decision to establish a privacy policy.
c. Using the information you have recorded in the table, **justify** Bupa's decision to establish a privacy policy.

8. In groups of 2–4 people, **propose** a set of guidelines that you would include in a policy concerning one of 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. **Outline** the feedback and **review** the policy that you have developed.
   d. **Describe** how effective you think your policy would be at improving the school.
   e. **Identify** 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.

4.12 Exam questions

Question 1 (3 marks)

Discuss how a business you are familiar with uses policies.

Question 2 (4 marks)

Discuss, with the use of an example, why a business might establish a policy.

More exam questions are available online.

4.13 Technological and global issues

KEY KNOWLEDGE

- Technological and global issues that may affect decision-making when establishing a business, such as generating customer databases and contacts with overseas suppliers and retailers

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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 leave the business behind competitors who do keep up with current trends. While it 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.

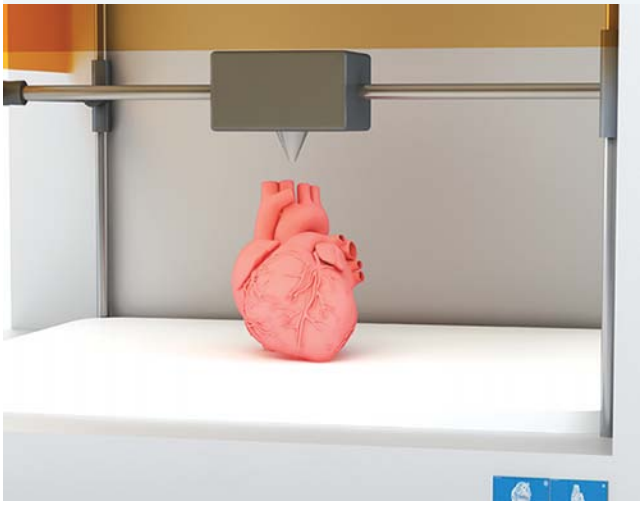
The world is more connected now in terms of trade and communication than ever before.



4.13.1 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.

3D printers can produce anything from replacement body parts to full-sized houses.



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 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

social media advertising a form of online advertising that uses social media channels to deliver targeted commercial messages to potential customers

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.

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. 3D-printer technology 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.

Robots can perform some tasks to a higher degree of accuracy and speed than humans can.



Despite a technology's potential, when a business owner is planning their business enterprise, 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.

three-dimensional (3D) printing the production of a physical object from a digital design or model

robotics the engineering behind the design, construction and application of robots

Technology in administration

Smartphone applications and web-based software for businesses have progressed substantially 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. Furthermore, 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.

Smartphone usage has rapidly become a significantly large part of our lives, with the average Australian now spending 5.5 hours per day, or 33 per cent of their waking hours, using their smartphone. Thus, smartphones have changed the way in which businesses communicate with stakeholders, particularly their customers.



Remote work

Rapid improvements in technology have paved the way for flexible work options and enabled many professionals to conduct their work from home or other remote locations. This reduces overhead expenses associated with providing additional office space for the business, and makes an international pool of workers available for a variety of roles. It also provides employees with the flexibility to work while travelling or staying at home due to other commitments or restrictions. With the right approach, worker productivity can increase when working from home. Travel time is eliminated, and the employee might find that the flexible working arrangements suit their lifestyle choices. Remote work became a necessity for many businesses and their employees during the COVID-19 pandemic, proving to be an effective measure as it allowed some businesses to continue their operations with minimal disruption. Popular software applications, such as Zoom, G Suite and Slack, are widely used for video-conferencing, sharing documents and chat communication, among other functions.

Since its creation in 2011 by Eric Yuan, Zoom has become the go-to platform for video-conferencing, with over 300 million people participating in Zoom meetings on a daily basis. Users are attracted to the platform's ease of use, despite concerns raised regarding a series of privacy breaches of meetings recorded on the platform.

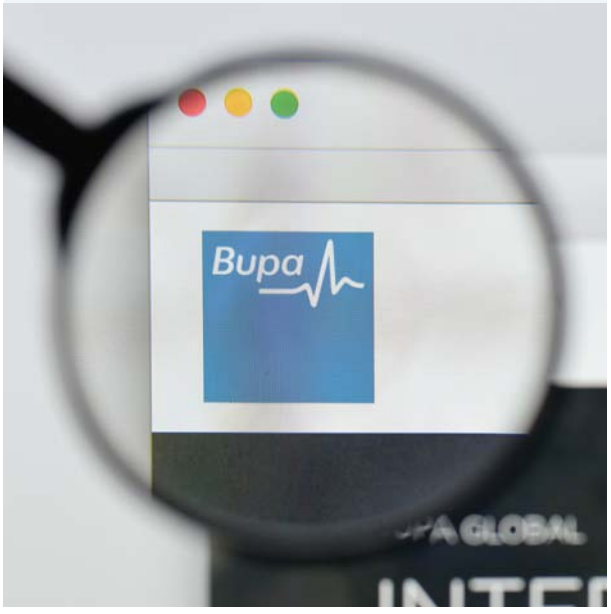


Establishing customer databases

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 from existing customers or retrieved from market research companies, who sell the information to businesses for a fee.

Bupa has run into significant problems managing the data of its customers over the years. In 2015, the personal health information of 317 people applying for Australian visas was accidentally emailed to a member of the general public. In 2017, the information of an estimated 20 000 Australians was compromised when a Bupa employee in the UK was found to have put client data from the insurance giant up for sale on the dark web.



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.

customer database a bank of information on existing and potential customers, including their contact information, personal details, previous interactions, buying habits and preferences

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?

One in four Australians have been a victim of identity crime at some point in their lives.

4.13.2 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, Google Meets and Zoom enabling regular face-to-face communication. However, it is essential that the business owner chooses 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.

exporter a local business that manufactures goods for overseas customers

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?

In 2021, Australia's exports to China increased by 21 per cent from the previous year, exceeding $200 billion. This represents over one-third of Australia's total exports.

CONTEMPORARY CASE STUDY

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.

Ferguson Australia sells its seafood on the global market. General Manager Kate Birch holds an Australian southern rock lobster that will be sold in Asia.



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.

Leading up to 2020, Ferguson exported roughly 450 tonnes of southern rock lobster a year, 90 per cent of which was sold to China. The huge reduction in the number of international flights due to COVID-19 lockdowns tripled the price of freight, reducing orders to 10 to 15 per cent of normal values. In April 2020, the federal government announced a $110 million International Freight Assistance, providing much needed relief to exporters such as Ferguson Australia.

In November that year, however, the Chinese government placed an unofficial trade ban on certain Australian exports, including rock lobster, in response to comments by Australian Prime Minister Scott Morrison about the origins of COVID-19. The trade ban and pandemic forced Ferguson to find new export markets, including Hong Kong, as well as new ways of value-adding by developing products for the local market in 2022.

KEY IDEAS

- 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 Exercises

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4.13 Quick quiz on | **4.13 Exercise** | **4.13 Exam questions**

4.13 Exercise

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. **Identify** 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. **Outline** the factors a business owner will need to consider when generating a customer database.
5. **Explain** why it may be beneficial for a business owner to develop contacts with overseas suppliers when establishing a business.
6. Read ‘Ferguson Australia — an export success’.
   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

7. Video and DVD rental stores were thriving businesses less than a decade ago, but have since experienced a drastic decline in customers. **Explain** how online movie and TV streaming subscription services such as Netflix affected video and DVD rental stores.
8. The National Broadband Network is making fast internet available to remote areas around the country.
   a. **Explain** how this might affect a small regional newspaper.
   b. **Explain** how a local plumbing business that receives many of its customers through newspaper advertisements could adjust to the situation.
   c. **Explain** how this might affect businesses that provide subscriptions to online streaming services such as Netflix.
9. Use internet sources to find the Austrade website. **Explain** what Austrade can do to assist a business wishing to begin exporting.

4.13 Exam questions

Question 1 (2 marks)

Outline two factors that a business owner will need to consider when developing contact with overseas retailers.

Question 2 (4 marks)

Explain the effects that developments in technology may have on decision-making when establishing a business.

Question 3 (4 marks)

Describe one technological issue and one global issue that may affect decision-making when establishing a business.

Question 4 (4 marks)

Discuss a business owner's decision to establish contact with overseas suppliers when starting a business.

Question 5 (4 marks)

Distinguish between overseas suppliers and overseas retailers, providing an example of each.

More exam questions are available online.

4.14 APPLY YOUR SKILLS Evaluate and justify decisions when establishing a business

PRACTISE YOUR SKILLS

- Identify, define, describe and apply business management concepts and terms
- Interpret, discuss, compare and evaluate business information and ideas
- Analyse case studies and contemporary examples of business management
- Apply business management knowledge to practical and/or simulated business situations

Source: VCE Business Management Study Design (2023–2027) extracts © VCAA; reproduced by permission.

CONTEMPORARY CASE STUDY

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 630 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.

Envato co-founders Cyan and Collis Ta'eed



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 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 more than 2 million customers annually. Nearly all of Envato's revenue now comes from outside Australia.

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 susceptible to denial-of-service attacks (cyber attacks which try to prevent users from accessing the site). Envato suffered such an attack 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.

Envato's success has generously rewarded the owners, sellers, employees and wider community. Collis and Cyan Ta'eed ranked ninth on the *Australian Financial Review* Young Rich List in 2021, with an estimated wealth of $566 million. In 2020, sellers made nearly US$1 billion through the platform, while 20 per cent of company profits went to staff and charity.

Envato remains a private company funded by previous years' profits. The business is in a growing market; however, in 2020 CEO Collis Ta'eed announced his departure from the business. This was so that 'someone else with fresh ideas and energy' could lead the day-to-day running of the business.

CONTEMPORARY CASE STUDY

One Stop Warehouse



When Jeff Yu and Anson Zhang left their IT jobs to commence a renewable energy business in 2013, no-one could predict that less than a decade later they would be Australia's largest solar distributors. Yu and Zhang started their company One Stop Warehouse in Brisbane, but have since opened an additional four offices, including a head office in Sydney. As the name suggests, One Stop Warehouse stocks all relevant products for the solar needs of consumers.

The company was listed as the sixteenth fastest growing Australian company by the *Australian Financial Review* in 2020. Yu and Zhang have addressed expected growing pains of the business with innovative troubleshooting. In 2016 they developed a free app system called Green Deal that makes it easier for installers to monitor the status of their jobs. The company then went on to launch the startup Discover Energy in 2018. By understanding their energy consumption patterns, consumers would be able to get the most out of their solar panels and batteries. This level of service, as well as the high quality products on offer, has developed a reputation for One Stop Warehouse as a business that consumers can trust. The company offers solar panels from the United States and Europe, with the majority of its products being manufactured in China.

The company's mission is to reduce carbon footprint, drive sustainability and create savings, following the motto 'Be Clean — Be Green'. The business made $391 million in revenue in 2020, with Yu and Zhang going on to win Sydney's Young Entrepreneur of the Year Award in 2021.

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Video eLesson Policies and procedures (eles-2979)

4.14 Exercises

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4.14 Exercise | **4.14 Exam questions**

4.14 Exercise

TEST your skills

1. 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. **Explain** why Envato needs a customer database.

APPLY your skills

2. 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 One Stop Warehouse 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 One Stop Warehouse 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.	

3. Working in a small group, copy the following table.
   - 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 One Stop Warehouse 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				Yu and Zhang import the majority of their products from China, where they have the advantage of understanding the culture and language. China is a leading manufacturer of quality solar panels at competitive prices.
Exporting		Envato 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.		

4. Using the information you have recorded in the tables in questions **2** and **3**, **evaluate** two decisions that the founders of Envato or One Stop Warehouse made in response to technological and global issues when they were establishing their businesses.
5. Using the information you have recorded in the tables in questions **2** and **3**, **justify** two decisions that the founders of Envato or One Stop Warehouse made in response to technological and global issues when they were establishing their business.

4.14 Exam questions

Question 1 (10 marks)

Dalvin is planning a new fashion business. He has decided to use social media advertising and has made contact with overseas suppliers.

a. **Evaluate** the two decisions that Dalvin has made in response to technological and global issues when establishing his new business.
b. **Justify** the two decisions that Dalvin has made in response to technological and global issues when establishing his business.

Question 2 (4 marks)

Using examples, **distinguish** between the technological and global issues that may affect decision-making when establishing a business.

More exam questions are available online.

4.15 Review

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4.15.1 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.

The role of external professionals when establishing a business

- When establishing a business, the owner can engage the services of a variety of professionals external to the business.
- There are many types of external professionals, including bookkeepers, recruiters, sales professionals, marketing consultants, IT technicians and various types of freelancers.

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.

4.15.2 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* (Cwlth) 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

freelancers independent workers who charge businesses or individuals for work on a per job basis
income statement used primarily to help a business 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 documents Key terms glossary (doc-37632)
Missing word glossary quiz (doc-29421)
Crossword (doc-29422)

4.15.3 Practice school-assessed coursework

OUTCOME 1

Outline the key legal requirements and financial record-keeping considerations when establishing a business, and explain the importance of establishing effective policies and procedures to achieve compliance with these requirements

ASSESSMENT task — case study analysis

Time allowed:	80 minutes
Marks allocated:	46 marks
Conditions:	Read the following case study and then complete the questions.

Globe International Limited

Establishing a business

In 1985, the Hill brothers created their first formal business entity, Universal Skateboard Importers, located on Napier Street, Fitzroy, with initial skateboard hardware imports from the United States and Asia. By the end of the year they had gained the Australian distribution for the American skate brand, Variflex.



The growing company was renamed Hardcore Enterprises the following year. During the 1980s, the business grew into an iconic skateboard, streetwear and snowboard distributor, establishing its first proprietary brand Mooks in 1991. Inspired by the desire for superior skating footwear, in 1994 Hardcore started another proprietary brand — Globe shoes.

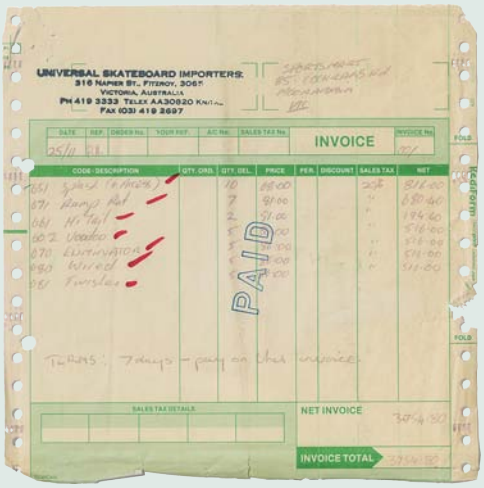
In 1996, the business established the distribution of Globe shoes in Europe and North America. Shortly after, Mooks was launched in the United States and Japan.

In 2000, the business divisions of Hardcore, Die Hard and Globe US were combined to create Globe International, as the company prepared to go public on the Australian Stock Exchange in 2001.

Globe today

Globe remains committed to skateboard manufacturing and has further expanded its skate-hardware manufacturing base in China, with environmental factory upgrades and additional capacity added. It is committed to sourcing and producing quality products, but not at the expense of people or the environment. This is reflected in its various policies, including its:

- ethical sourcing policy
- modern slavery statement
- minimum product safety regulations.


UNIVERSAL SKATEBOARD IMPORTERS
316 Napier St., Fitzroy, 3065
Victoria, Australia
Ph 419 3333 Telex AA30820 Kn/...
Fax (03) 419 2697

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Since its inception, the business has played an important role in growing and supporting the skateboarding community in Australia and around the world. Globe also has a track record of donating products to charities and local community organisations in its operating regions, such as Cancer Council Victoria, the Australian Red Cross, Brotherhood of St Laurence and Uniting Care Prahran Mission.

In its warehouses, Globe uses the first in, first out (FIFO) method of inventory control. The business ensures it employs sound financial practices, with its financial statements audited prior to being released to the public.

During the 2020–21 financial year, Globe encountered numerous difficulties in all of its regions of sales. Staff, suppliers and customers were all challenged by the COVID-19 pandemic with illness, lockdowns and restrictions on normal operating conditions. Despite this environment, Globe achieved record financial results.

Question 1 (1 mark)

Outline one factor that the Hill brothers would have needed to consider when registering Universal Skateboard Importers as their business name.

Question 2 (1 mark)

Identify the type of source document shown in the case study.

Question 3 (3 marks)

Identify three features of the source document provided in the case study.

Question 4 (2 marks)

Identify two taxes that Globe would have had to pay in the 2020–21 financial year.

Question 5 (2 marks)

Outline one work health and safety law that Globe must consider when managing its operations across various warehouses and offices around Australia.

Question 6 (2 marks)

Explain why Globe must consider legal regulations such as ‘consumer guarantees’.

Question 7 (3 marks)

Define the separate entity principle and explain how it would have been a relevant consideration for the Hill brothers when establishing their first business.

Question 8 (2 marks)

Outline two considerations that the Hill brothers would have considered when choosing a bank account for their first business.

Question 9 (3 marks)

Define ‘financial control systems’ and provide one reason why good financial control systems are important for Globe.

Question 10 (2 marks)
Explain the FIFO method of inventory control.

Question 11 (2 marks)
Identify two benefits of using the FIFO method of inventory control for Globe.

Question 12 (2 marks)
Outline one technology that Globe might use in manufacturing or in the administration of its business.

Question 13 (5 marks)
The firm Pricewaterhouse Coopers is the external auditor of Globe's financial statements. **Outline** the role of an external auditor and **discuss** the importance of hiring an external auditor to the business.

Question 14 (6 marks)
Outline three considerations that the business would have made when choosing suppliers for its skate hardware factory in China.

Question 15 (6 marks)
Discuss the way in which Globe uses policies to achieve its corporate social responsibility goals.

Question 16 (4 marks)
Explain whether Globe must pay close attention to its cash flow despite achieving record profits in 2020–21. **Justify** your response.

Resources

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4.15 Exercises

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4.15 Multiple choice quiz | 4.15 Exercise | 4.15 Exam questions

4.15 Exercise

TEST your understanding

1. **Describe** two legal requirements of starting an online business.
2. **Describe** three federal taxes a business can expect to pay at some stage.
3. **Explain** what WorkCover insurance covers.
4. **Describe** two anti-competitive practices.
5. **Outline** two local government legal regulations that businesses must comply with.
6. **Outline** three considerations for a business when deciding on which bank account to open.
7. **Explain** why it is important for a business to develop effective financial control systems.
8. **Explain** why it is important for a business to manage its cash flow.
9. **Describe** four record-keeping strategies a business might implement.
10. **Outline** the factors a business should consider when choosing an appropriate supplier.
11. **Outline** the differences between a policy and a procedure.
12. **Describe** how policies might help a business achieve its objectives.
13. **Identify** the costs and benefits of using a customer database.

14. **Outline** one cost and one benefit of using overseas suppliers.
15. **Identify** three types of external professionals available to a business.

APPLY your understanding

16. 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. **Propose** a name for your business (Remember to explain the factors that you have considered.)
    b. **Propose** a domain name for 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.

4.15 Exam questions

Question 1 (20 marks)

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. **5 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** one benefit and one limitation 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**

Question 2 (4 marks)

Explain the legal requirements for establishing a business in relation to business tax compliance and WorkCover insurance.

Question 3 (2 marks)

Explain the importance of financial control systems.

Question 4 (3 marks)

Distinguish between bank accounts and record-keeping strategies as financial considerations.

Question 5 (4 marks)

Discuss the importance of policies for achieving compliance with legal requirements and establishing business routines.

Question 6 (6 marks)

Evaluate a business owner's decision to establish contact with overseas retailers when starting a business.

Question 7 (6 marks)

Analyse the suitability of financial control systems and record-keeping strategies for a new business.

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TOPIC

5 Marketing a business

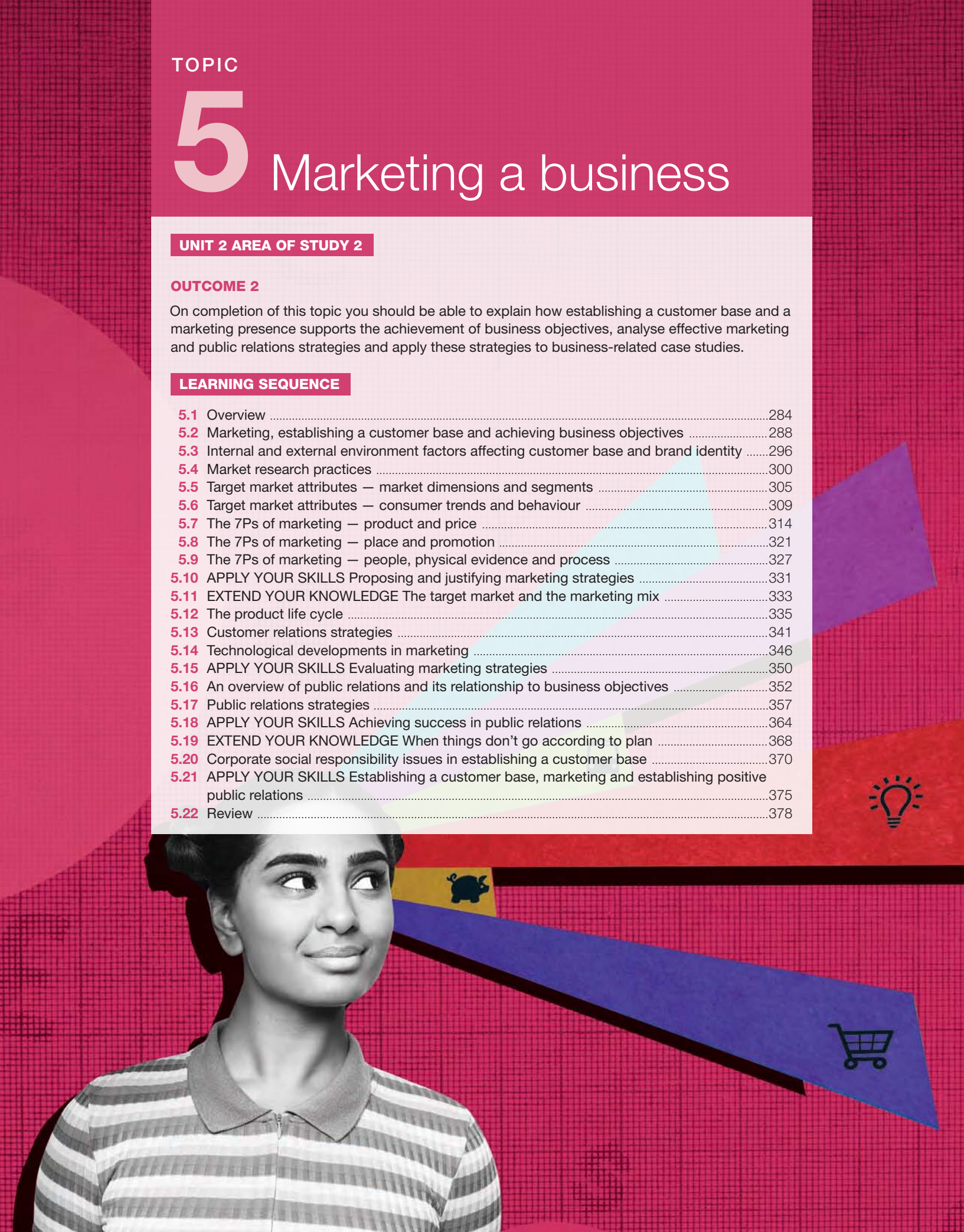
UNIT 2 AREA OF STUDY 2

OUTCOME 2

On completion of this topic you should be able to explain how establishing a customer base and a marketing presence supports the achievement of business objectives, analyse effective marketing and public relations strategies and apply these strategies to business-related case studies.

LEARNING SEQUENCE

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5.1 Overview

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5.1.1 Why it is important



As one of the most valuable and recognisable brands in the world, Coca-Cola remains an industry leader both in sales of its product and in marketing. A key to the company's success is its ability to advertise an emotion or feeling, as opposed to just a product. Coca-Cola focuses on building its brand, instead of its product. Across the decades, Coca-Cola's marketing strategy has consistently communicated the message that Coke brings family and friends together, encourages sharing and brings happiness, rather than just selling a soft drink.

Various types of media are used to advertise the Coca-Cola brand and drink, including television, newspapers, magazines and billboards. However, the company now takes advantage of online communication channels, particularly social media.

This topic examines the vital undertaking of establishing a customer base. To do this, a business such as Coca-Cola must identify its target market, conduct market research, promote its product and ensure that it extends the 'life cycle' of its product. Marketing is essential to the success of a business.

CONTEMPORARY CASE STUDY

MANUFACTURING BUSINESS: Volkswagen

Volkswagen is a German motor car company founded in 1937. The company is famous for its iconic vehicle, the 'Beetle'. The term 'volk' means 'people' in English and 'wagen' means car, so the Beetle was known as the 'people's car'.

CEO	Herbert Diess (2018–)
Headquarters	Wolfsburg, Lower Saxony, Germany
Sales	€250.2 billion (2021)
Net profit	€20 billion (2021)
Employees	662 575 (2021)
Flagship products	Motor vehicles — passenger cars, commercial vehicles, parts and service centres



While the car company was established before World War II, it wasn't until after the war that sales grew internationally. In 1949 the Beetle was introduced to the United States and sold only two units that first year. Production of the Type 1 Volkswagen Beetle increased dramatically over the following years, reaching 1 million in 1955. At that point, Volkswagen of America was formed to standardise sales and service in the United States. Elsewhere in the Americas, Volkswagen plant was built in Canada in 1955 and plant in São Paulo, Brazil, in 1959.

Volkswagen has continued to grow and operates in many parts of the world, manufacturing or assembling vehicles for local markets. In addition to plants in Germany, Volkswagen has manufacturing or assembly facilities in Mexico, the United States, Slovakia, China, India, Russia, Malaysia, Brazil, Argentina, Portugal, Spain, Poland, the Czech Republic, Bosnia and Herzegovina, Kenya and South Africa. In 2011, Volkswagen was named one of the top 25 largest companies in the world by the Forbes Global 2000.

In January 2016, Volkswagen announced the launch of a new factory in Algeria during a summit between Angela Merkel and Algerian prime minister Abdelmalek Sellal. The factory was launched in Relizane and produces Volkswagen Golf VII, Volkswagen Polo, Volkswagen Caddy, SEAT Ibiza and Škoda Octavia cars.

CONTEMPORARY CASE STUDY

SERVICE BUSINESS: The Pets Hotel

The Pets Hotel is a family-owned business. The Cleghorn and Hill families have been involved in the pet care industry for a combination of 35 years.

Managing director	Yvonne Hill
Headquarters	Port Melbourne, Victoria
Employees	30
Flagship products	Pet care services, dog and cat boarding facilities



The Pets Hotel understands that leaving pets for the first time can cause owners some anxiety. They aim to provide pets with a great holiday experience while their owners are away. The business wants to ensure that owners can also relax by providing them with peace of mind that their pet is in great hands.

The Pets Hotel is renowned for the expert care and service it provides to its clients. After years of research in Australia and the United States, The Pets Hotel is custom designed for the health, safety and comfort of pets, all in a fun-filled environment.

The owners have developed a facility that offers maximum comfort and maximum safety — in all seasons. The facility has been custom designed to ensure the very best for pets and peace of mind for pet owners. At The Pets Hotel VIP stands for Very Important Pets and Very Important People.

Every facet of the facility has been designed for a purpose. Some of the key features include:

- the spectacular indoor dog park 'Central Bark'
- separation materials, techniques and technology to help minimise stress and noise factors in guest suites
- a state-of-the-art air-conditioning system that circulates air continuously and evenly. It provides draft-free fresh air that is replaced multiple times per hour. The climate control system ensures temperatures are comfortable no matter how hot or cold it is outside.
- a one-of-a-kind ventilation system, which is designed to prevent the spread of odours, airborne germs and contaminates. It circulates air continuously with even distribution and draft-free fresh air that is replaced multiple times per hour.
- epoxy flooring to enable efficient cleaning processes
- glass doors and separation materials on all suites to help minimise stress and noise. All suites are large enough to house two large dogs.
- unique spa bath for small and medium dogs
- premium quality food
- twenty-four hour video and personnel surveillance and security swipe cards to ensure uncompromised safety for pets and staff.

The Pets Hotel is the leader of the pet care pack. The unique concept of providing the best possible services, and luxury appointments, all under one roof has created a fabulous lifestyle for Melbourne's cats and dogs. The Pets Hotel provides all pet owners with a boarding and pet minding alternative at a reasonable price.

Source: Adapted from Pets Hotel website, https://www.thepetshotel.com.au.

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 knowledge		Subtopic
◯	The relationship between marketing, establishing a customer base and business objectives	**5.2**
◯	Internal and external (macro and operating) environment factors affecting the establishment of a customer base and creation of a brand identity	**5.3**
◯	Market research practices such as data collection techniques, analysis and interpretation	**5.4**
◯	Target market attributes such as market dimensions, segments, consumer trends and behaviour	**5.5, 5.6**
◯	The 7Ps model of marketing: product, price, place, promotion, people, physical evidence and process	**5.7, 5.8, 5.9**
◯	The product life cycle: introduction, growth, maturity, decline, extension, and the relationship between each of these stages and the choice of marketing strategy	**5.12**
◯	The features and value of customer relations strategies such as providing quality customer service and establishing customer loyalty programs	**5.13**
◯	Technological developments in marketing such as social media, email marketing, search engine optimisation, artificial intelligence, data analytics and management of data	**5.14**
◯	An overview of public relations and its relationship to business objectives	**5.16**
◯	Public relations strategies such as planned and crisis public relations, the importance of maintaining a positive relationship with the customer base and the implications if this relationship is not maintained	**5.17**
◯	Corporate social responsibility management considerations regarding establishment of a customer base, such as green marketing and the protection of customer privacy	**5.20**

Key skills

These are the skills you need to demonstrate:

Key skills
◯ Identify, define, describe and apply business management concepts and terms
◯ Interpret, discuss, compare and evaluate business information and ideas
◯ Analyse case studies and contemporary examples of business management
◯ Apply business management knowledge to practical and/or simulated business situations.

Source: VCE Business Management Study Design (2023–2027) extracts © VCAA; reproduced by permission.

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Digital document Key terms glossary (doc-37633)

Weblinks Volkswagen
Pets Hotel

5.2 Marketing, establishing a customer base and achieving business objectives

KEY KNOWLEDGE

- The relationship between marketing, establishing a customer base and business objectives

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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**.

For a business to achieve its main objective of maximising sales and profit, it must develop and implement an effective marketing plan. Global businesses, such as Coca-Cola and Volkswagen, have been able to do this and achieve lasting success.

market the number of all actual and potential buyers of a product

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.

CONTEMPORARY CASE STUDY

Coke — a successfully marketed 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.

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.



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.

on Resources

Video eLesson The relationship between marketing, establishing a customer base and business objectives (eles-2980)

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.

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.



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 ten servings of Coke were sold each day. Today, Coca-Cola is sold in every country in the world except Cuba and North Korea. Similarly, Volkswagen went from modest sales to over 10 million sales globally today. In Australia, Volkswagen currently sells over 41 000 vehicles per year.

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.

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)

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.

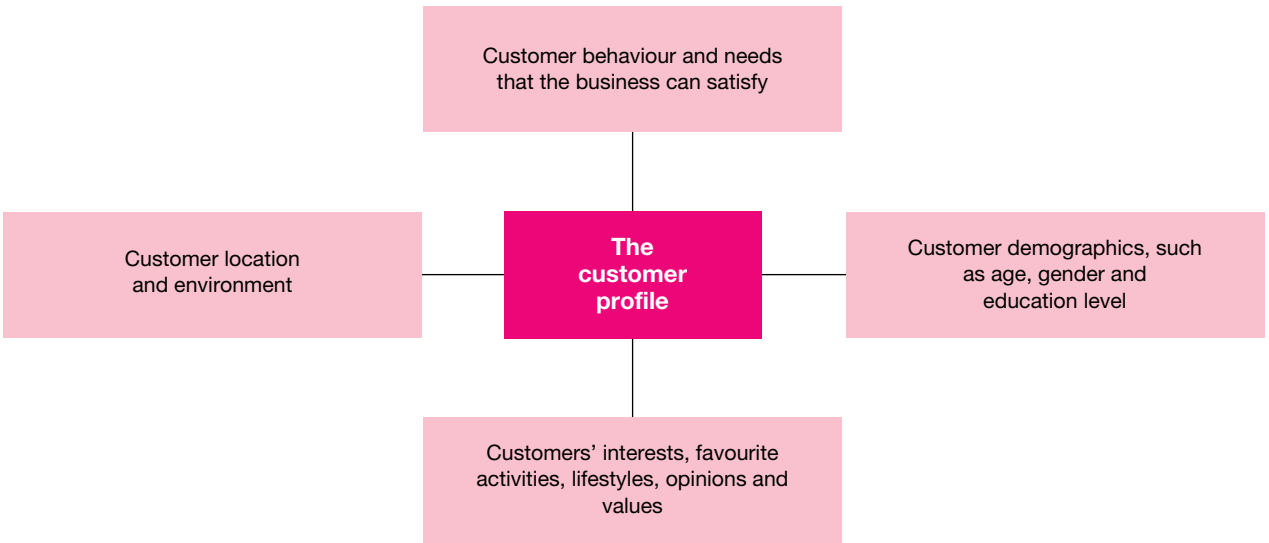
EXAM TIP

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**. A customer base is the group of customers who repeatedly purchase the products of a business and are its main source of revenue. By identifying who it is that would be interested in buying the products offered by the business, the business owner can ensure that the product offered is likely to be of value to customers, that there is a connection between the product and the target customer, and that targeted customers return for repeat purchases. Identifying the customer base 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 goods 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 offered is one that is likely to be of particular value to that customer
- the marketing plan can maximise the likely connection between the good or service, and the target customer
- the product, and marketing approach, will be such that targeted customers will return for repeat purchases.

customer base the group of customers who might be expected to purchase a business's goods and services

The benefits and costs of establishing a customer base

Benefits

- By identifying who it is that would be interested in buying the goods or services offered by the business, the business can ensure that the product offered is likely to be of value to customers, that there is a connection between the product and the target customer, and that targeted customers return for repeat purchases.
- Successful establishment of a customer base means that a significant number of those customers should develop a loyalty to the business, and continue to use the business.
- The improved marketability of the business's products should result in higher levels of sales and improved market share.



- Establishing a customer base has financial costs — these costs might include expenses related to market research necessary to determine who the customer base might be, as well as the expenses related to the marketing mix.
- The logistics required to establish a customer base can also be time-consuming — for example, to establish a customer base, a business will need to consider external and internal environment factors, carry out market research, determine who the customer base is, and select and implement marketing strategies that will get these customers through the door initially, but also convert the customers into repeat purchasers.

Costs

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. Most businesses have multiple buyer personas, with each one describing in detail what drives them to buy their product or service — for example, the person's age, location, job title, goals, and challenges they face. Buyer personas are key to ongoing marketing success. They also describe customers' buying behaviours. This includes what drives them to purchase a product or service and what their decision-making and purchasing processes actually look like.

5.2.3 Marketing and business objectives

A major aim of many businesses is to make a profit, and the business owner seeks to achieve this through:

- increasing the value or volume of 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.

The Volkswagen brand currently has around 5 per cent of the total market share for new car sales in Australia.



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.

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. Research has shown that one dissatisfied customer has the potential to tell ten others, who in turn will each tell another five. Such 'word-of-mouth' marketing has the potential to make or break a business.

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.

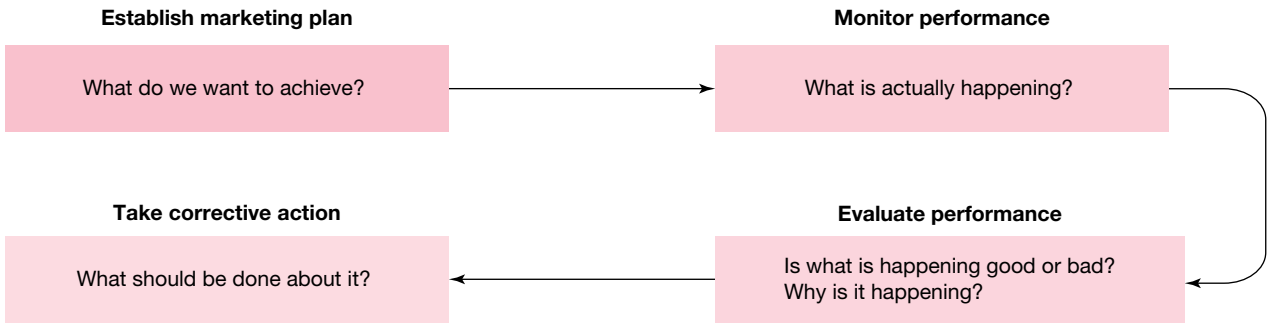
market share the business's share of the total industry sales for a particular market or product

product mix the total range of products offered by a business

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.

The following diagram shows the steps the person responsible for marketing might take to evaluate whether marketing objectives are being met.

Once marketing objectives have been established they must be monitored to ensure they are being met; otherwise corrective action must be taken.



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:

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.

sales analysis uses sales data to evaluate the business's current performance and the effectiveness of the marketing mix

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 how its marketing strategies are working 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.

Media Monitors is a large company that observes our media channels 24 hours a day, providing daily reports that help businesses compare and evaluate their marketing strategies and media success against those of their competitors.



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.

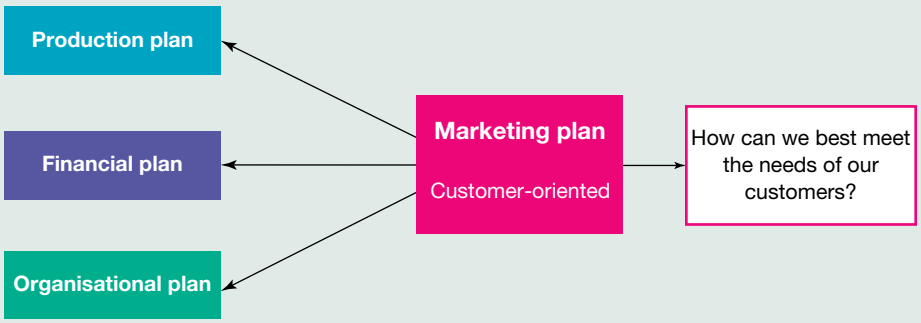
By comparing the costs of specific marketing activities with the results achieved, a business can assess the effectiveness of each activity. This evaluation also helps a business decide how best to allocate marketing resources in the future. A marketing strategy that involves advertising on commercial television can become very costly. Commercial production can be expensive, particularly if it involves well-known celebrities. The price paid to advertise on television depends upon time of airing, the number of expected viewers and how many times the advertisement is repeated. It is common for commercial television advertisements to run into hundreds of thousands or millions of dollars. Many marketing strategies may be prohibitive to businesses because of their cost, and so cheaper alternatives that also help increase sales may be used.

marketing profitability analysis
a method used by the business to break down its total marketing costs into specific marketing activities

Customer satisfaction and the marketing concept approach

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.

The integration of the marketing plan



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 good 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 main objectives.

KEY IDEAS

- 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 the overall 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.

5.2 Exercises

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5.2 Quick quiz on | 5.2 Exercise | 5.2 Exam questions

5.2 Exercise

TEST your understanding

1. **Outline** what marketing is and explain how your understanding differs from the more popularly held view of marketing.
2. **Explain** how a business can use its customer profile to meet the objective of increasing sales.
3. **Explain** why a business may decide to increase its product mix.
4. **Define** the term 'market share' and explain why a business should monitor its market share.
5. **Outline** what a marketing profitability analysis monitors.

APPLY your understanding

6. 'Businesses that neglect the importance of marketing will experience diminished sales and reduced profits.' **Discuss** this statement in approximately 200 words.
7. '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.
8. '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? **Justify** your answer.
9. 'Any business that fails to conduct a sales analysis will be unable to assess the success of its marketing strategies.' **Discuss**.
10. 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?

5.2 Exam questions

Question 1 (5 marks)

Examine the following market share results for Electronic Appliances Limited.

Year	Sales revenue ($'000)	Market share (%)
2019	280	18
2021	250	18
2022	330	14

a. **Explain** how it is possible for sales revenue to decrease but market share to remain the same. **2 marks**
b. If you were the marketing manager, with which year's result would you be most pleased? **Justify** your answer. **3 marks**

Question 2 (2 marks)

Define the term 'marketing'.

Question 3 (2 marks)

Explain how establishing a marketing presence will support the achievement of the objectives of a business.

Question 4 (5 marks)

Define the term 'customer base' and explain two strategies that might be useful in establishing a customer base.

Question 5 (6 marks)

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**

More exam questions are available online.

5.3 Internal and external environment factors affecting customer base and brand identity

KEY KNOWLEDGE

- Internal and external (macro and operating) environment factors affecting the establishment of a customer base and creation of a brand identity

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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 'brand', is the message that customers receive about the business and its product. These messages may include a name, slogan, symbol, design, colour, or any combination of these that identifies a specific product and distinguishes it from the products of competitors. There are many high-profile brands that you are very likely to be aware of, such as Apple, Nike, BMW, Coca-Cola, McDonald's, Google, Microsoft, Amazon and Facebook. 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.

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

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.

The business owner or manager needs to be able to develop a marketing plan that is consistent with the objectives of the business.



- *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 service 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.

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. Because customers are the buyers or users of the products of a business, the business must always strive to satisfy its customers. As well as making sure that the right product is delivered at the right time, a business may need to offer customers products that are tailored to their needs or that help to develop their loyalty to the product. High levels of customer service should be part of the business's marketing strategy — this will improve customer satisfaction. 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.
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.

Winning the fight for market share requires a marketing strategy that is more effective than competitors' strategies.



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 topic 4, businesses are subject to a number of legal requirements. The *Competition and Consumer Act 2010* has made certain types of marketing practices illegal, such as misuse of market power, misleading or deceptive conduct, false or misleading representations regarding goods and services, bait advertising and referral selling. 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 is essential in a global marketplace. Also essential is the ability of a business to process payments electronically (and remotely) via credit card, EFTPOS, PayWave, and Afterpay services.

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.

KEY IDEAS

- In promoting a positive brand identity, a business will have to consider both external and internal factors.
- Internal factors, such 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 have an impact on the establishment of a customer base.

5.3 Exercises

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5.3 Quick quiz on | 5.3 Exercise | 5.3 Exam questions

5.3 Exercise

TEST your understanding

1. **Explain** the role of business owners or managers in the establishment of a customer base for the business.
2. **Outline** why the role of employees is vital in the marketing of a business.
3. **Explain** two factors from the external environment affecting marketing and the establishment of brand identity.

APPLY your understanding

4. Vanessa owns a café and has been working on a new menu to be introduced next month.
   a. **Outline** the knowledge of marketing that Vanessa will need to apply when creating the new menu for 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.
5. 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+.

5.3 Exam questions

Question 1 (2 marks)

Define the term 'brand identity'.

Question 2 (2 marks)

Explain how a business's competitors might influence its marketing strategies.

Question 3 (4 marks)

Sandra has opened a business selling high-quality chocolates, and she would like to charge relatively high prices to match the quality. **Outline** 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**

Question 4 (2 marks)

Outline how one operating factor may affect the establishment of a business's customer base.

Question 5 (4 marks)

Describe how one external environment factor and one internal environment factor may affect the establishment of a business's customer base.

More exam questions are available online.

5.4 Market research practices

KEY KNOWLEDGE

- Market research practices such as data collection techniques, analysis and interpretation

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The collection and study of statistics and other relevant data helps 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 onto the market is expensive and 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. Effective market research can establish whether it is worth launching or promoting a product at all.

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
1 Determining information needs	The business will identify exactly what it wants to measure or find out about its target market or customer base.
2 Collecting data from primary and secondary sources	At this stage the researchers know the facts that are needed and those that are already available. Plans must be made to collect missing data. This information may be collected first-hand; for example, through online and telephone surveys or through observation of customers' buying patterns. It can also be collected from existing data sources gathered by specialist companies.
3 Analysing and interpreting data	Facts by themselves do not always provide a solution to the marketing problem. They need to be analysed and interpreted to determine what the results mean for the business.

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 market research activities. However, sometimes even the most sophisticated statistical and logical methods do not produce the correct answer.

5.4.2 Collecting data tools and techniques

Marketing data consists of 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.

Volkswagen Australia completes customer surveys through a program called Potentiate. This involves Volkswagen checking in with customers who have made a purchase at one and three months and at one, three and five years afterwards.



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 — online surveys or data collected over the phone
- questionnaires — a set of specific questions structured to obtain a response from the customer.

marketing data the information — usually expressed as facts and figures — relevant to the defined marketing problem

primary data the facts and figures collected from original sources

survey gathering data by asking questions or interviewing people

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 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 cameras, video or voice recorders, 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 and controversial facial recognition systems. 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 owner conducts market research.

CONTEMPORARY CASE STUDY

Miracle Massage — market research techniques

Miracle Massage is a small business operating in Goulburn, New South Wales. Established in 2001 by Andrew Curry, the business employs seven staff offering a range of massage, therapy and wellbeing services.

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 they book 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 a three-month period to determine if there is a problem
- requiring employees to be good listeners and record negative and positive customer feedback.

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.



With this information I am able to gain a better understanding of my customers' needs, understand their buying behaviour and, consequently, predict trends.

DID YOU KNOW?

The use of 'sugging' — **s**elling **u**nder the **g**uise of market research — has contributed to increased consumer reluctance to respond to surveys. It is considered to be an underhanded way to sell products. Sugging occurs when a marketer of a product pretends to be completing market research (for example, conducting a survey) but in reality is simply trying to sell a product.

Secondary data

Secondary data is 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. Computer databases and information published online means that 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, businesses carrying out market research will make use of both internal and external sources of data.

5.4.3 Analysis and interpretation

Once the data has been gathered, conclusions need to be drawn. Raw data is 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 electronic spreadsheets 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.

secondary data information that some other person or business has already collected

internal data information that has already been collected from inside the business

external data published data from outside the business

statistical interpretation analysis the process of focusing on the data that represent average, typical or deviations from typical patterns

KEY IDEAS

- 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.

5.4 Exercises

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5.4 Exercise

TEST your understanding

1. **Explain** why it would be important to undertake market research if you were thinking of starting a new business.
2. 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

3. 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?
4. 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.

5.4 Exam questions

Question 1 (3 marks)

Referring to a contemporary business with which you are familiar, **explain** one data collection technique that the business could use when conducting market research.

Question 2 (6 marks)

Mona is considering setting up a new hairdressing business. **Analyse** two market research practices that she could use and justify which would be most suitable.

Question 3 (6 marks)

Justin plans to set up a shop selling school uniforms and has a choice of renting premises in three different shopping centres. **Explain** two data collection techniques that Justin could use to help him decide which is the most appropriate location for his shop.

Question 4 (4 marks)

Distinguish between 'data collection techniques' and 'analysis and interpretation' as market research practices.

Question 5 (4 marks)

Propose and **justify** one market research practice that would be suitable for a chocolate manufacturer to help identify whether a new range of chocolate products would sell.

More exam questions are available online.

5.5 Target market attributes — market dimensions and segments

KEY KNOWLEDGE

- Target market attributes such as market dimensions, segments, consumer trends and behaviour

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on Resources

Video 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' (or segments) 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, geographic, psychographic and behavioural — as shown in the following diagram.

Dimension	Description
Demographic	This refers to the division of the market according to the general characteristics of a specific population; for example, age, gender, occupation, income, education, religion, family size, ethnicity.
Geographic	This refers to the division of the market according to different geographic areas or units; for example, urban, suburban, rural, regional, global, climate, landform.
Psychographic	This refers to the division of the market according to the psychological characteristics and traits of consumers, such as lifestyle, socioeconomic group, values, motives, personality, consumer opinions and interests.
Behavioural	This refers to the grouping of consumers according to their knowledge of the product, their attitude and their responses towards it, and the way they use it or benefit from it; for example, 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 Spring Natural Mineral Water or Fuze 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'.

market segmentation when the total market is subdivided into groups who share one or more common characteristic

market dimensions those broad elements that allow a potential market segment to be identified

target market a group of customers with similar characteristics who currently purchase the product or may do so in the future

Target market selection

Once the market has been segmented, the business selects one of these segments to become the target market. For example, a gardening business would normally aim its promotion strategies at males and females, aged 30 to 70 years, who have middle to high incomes and family homes.

The Pets Hotel understands its target market as owners of pets who have the available incomes to be able to spend money on providing their pets with specific accommodation and care while they are away.



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:

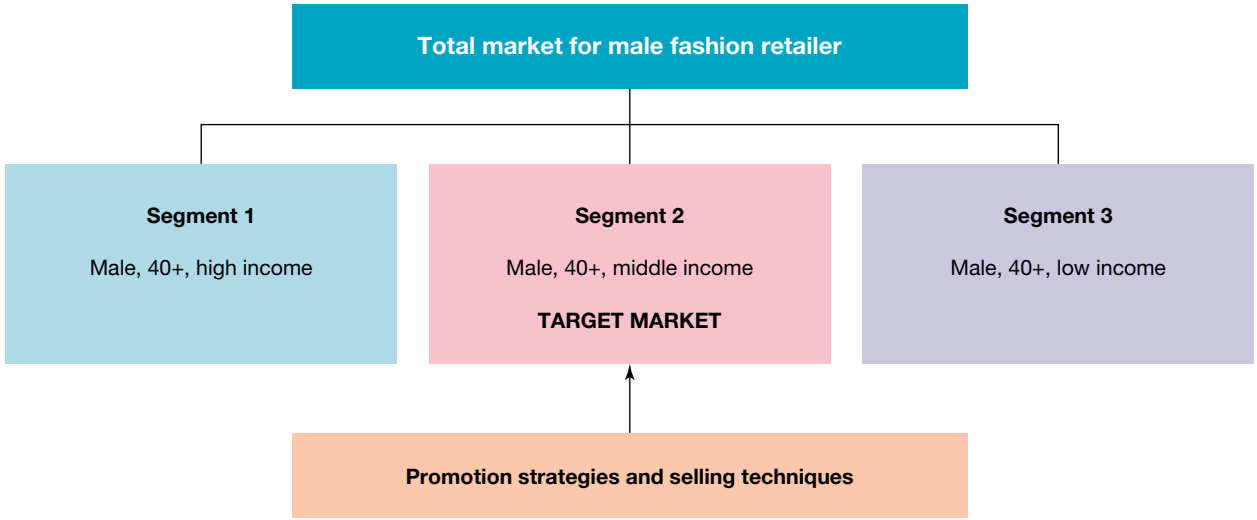
- use its marketing resources more efficiently, which results in the marketing campaigns being more cost-effective and time-efficient
- use promotional material that is more relevant to the customers' needs, and is more likely to be noticed
- better understand the buying behaviour of the target market
- 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. 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.

primary target market the market segment at which most of the marketing resources are directed

secondary target market usually a smaller and less important market segment

Selecting a market segment to be the target market is important. In this example, the fashion retailer makes clothes for men over 40 years of age. The clothes are of a reasonable quality but would not be classed as 'designer' clothes. In this business, male middle-income earners are the main target market.



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.

niche market a narrowly selected target market segment

CONTEMPORARY CASE STUDY

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 daycare basis, or for longer periods while the owners go on holidays.

The Pets Hotel offers upmarket pet accommodation in Port Melbourne for both daycare and longer stays.



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, making it difficult to leave pets at home all day while their owners are working. 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 and 'well off' 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.

KEY IDEAS

- 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.

5.5 Exercises

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5.5 Quick quiz on | **5.5 Exercise** | **5.5 Exam questions**

5.5 Exercise

TEST your understanding

1. **Outline** three potential benefits that may be achieved when a business targets a specific market.
2. a. **Identify** the primary and secondary target markets for The Pets Hotel.
   b. **Explain** how each of these target markets are important to The Pets Hotel business.
3. **Explain** how each of the market dimensions helps to identify the target market for The Pets Hotel.
4. **Define** the term 'market dimension'.
5. **Explain** the importance of target market selection.

APPLY your understanding

6. Choose a business that is in your local shopping centre or operated by someone you know. **Research** the business and answer the following questions:
   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?

5.5 Exam questions

Question 1 (3 marks)

Distinguish between market dimensions and market segments as target market attributes.

Question 2 (6 marks)

Meredith has set up a health-food store in a suburban shopping centre.

a. Outline a possible target market for Meredith's products. **2 marks**

b. Explain two possible advantages for Meredith in identifying a target market before establishing a marketing strategy. **4 marks**

Question 3 (3 marks)

Distinguish between demographic and geographic market dimensions.

Question 4 (2 marks)

Define what is meant by the behavioural market dimension.

Question 5 (3 marks)

Analyse the importance of identifying a target market for a business.

Question 6 (6 marks)

Fit 4 Life is a vitamins and dietary supplements producer that is planning to expand globally, starting with establishing three retail outlets in New Zealand in 2023. The focus of the business's expansion will be women's health. It will target a growing generation of consumers who have different health needs due to their preference for non–animal-based products. To assist in this move, the owners are considering employing a marketing manager.

With reference to the market dimensions of demographic, geographic, psychographic and behavioural, **describe** Fit 4 Life's target market.

More exam questions are available online.

5.6 Target market attributes — consumer trends and behaviour

KEY KNOWLEDGE

- Target market attributes such as market dimensions, segments, consumer trends and behaviour

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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. The health of the nation continues to be a concern. We are regularly made aware of research highlighting the consequences of consuming too much salt, too many chemical additives, or too much fat and sugar. Consumers continue 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.

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, electric vehicles and motor scooters increase.



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. For example, many cafés offer the latest 'superfoods', such as avocados, tumeric lattes and acai bowls. The health conscious and allergy prone find that dairy milk alternatives, such as soy, oat and almond milks (once reserved for niche markets), are now available in most cafés and all supermarkets. Pharmacies continue to boost their sales with new ranges of vitamins and wellbeing supplements. Lifestyle services, such as acupuncture, yoga, personal trainers and nutritionists, are becoming increasingly popular.

Most people are aware that environmental changes, such as global warming, and economic changes, such as the world oil price hikes in 2011 and 2022, 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, including electrically powered 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 and products.

In addition to changes in consumer demand for products, there have been changes in the way we purchase those products. Online shopping has grown dramatically in recent years, so having an online marketing presence has become essential for most businesses. In May 2022 the *Australian Financial Review* reported that online sales accounted for around 8 per cent of retail sales pre-pandemic. It now hovers around 10 per cent. Of the $20 billion in monthly retail trade, $2 billion is occurring online rather than in-store. Advertising on search engines such as Google allows a business to place its products before consumers using these search engines. Customers increasingly want accessibility to businesses at all times and all hours of the day. Most businesses today allow customers the ability to browse and shop for goods and services online.

consumer buying behaviour the decisions and actions of consumers when they purchase goods and services for personal or household use

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 carry out a larger amount of research, often comparing products and prices. This is a more comprehensive level of 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:

Consumer choice = **Capacity to pay** + **Attitude towards the brand**

5.6.3 Factors influencing consumer behaviour

Four main factors influence consumer purchasing decisions: psychological influences, sociocultural influences, economic influences and government influences.

Perception of quality, enhanced through clever marketing, exists around well-known branded products. This can be seen in the car market with VW, BMW and Mercedes all being perceived as being of superior quality.



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** (or opinion) 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.

psychological factors influences within an individual that affect their buying behaviour

motives the reasons that individuals do something

customer attitude a person's overall feeling about an object or activity

personality the collection of all the behaviours and characteristics that make up that person

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. Of course, we have moved away from the traditional role of women in the home, however, 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.

Peers are people of your age, or close to it, who have experiences and interests similar to yours. Peers will influence and affect a consumer's choices.



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).

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.

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.

sociocultural influences forces exerted by other people that affect customer behaviour

peer group a group of people with whom a person closely identifies, adopting their attitudes, values and beliefs

culture all the learned values, beliefs, behaviours and traditions shared by a society

KEY IDEAS

- 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.

5.6 Exercises

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5.6 Quick quiz on | 5.6 Exercise | 5.6 Exam questions

5.6 Exercise

TEST your understanding

1. **Identify** and **explain** two examples of consumer trends that have changed how products have been marketed.
2. a. **Explain** how perception and motive influence consumer buying behaviour.
   b. **Explain** why market researchers would study customer perceptions and motives.
3. **Describe** how and **explain** why marketers attempt to alter consumers' perceptions.
4. **Explain** how family roles, such as 'carer' or 'provider', might affect buying behaviour.

APPLY your understanding

5. **Explain** how peer groups influence buying behaviour. Name some of your own peer groups and suggest how they influence your buying decisions.
6. In what ways might social class affect a person's buying behaviour?
7. Collect a number of print advertisements from a magazine. **Suggest** the psychological and/or sociocultural influence to which each advertisement is appealing.
8. **Describe** a subculture to which you may belong. **Identify** purchases that are unique to your subculture.
9. **Describe** how marketers might manipulate consumers' buying behaviour. Give an example of such manipulation.
10. **Explain** how the government may influence consumer behaviour.

5.6 Exam questions

Question 1 (3 marks)

Distinguish between consumer trends and consumer behaviour as target market attributes.

Question 2 (4 marks)

With reference to a contemporary business case study, **describe** how a consumer trend may influence the marketing strategy of that business.

Question 3 (2 marks)

Explain one factor influencing consumer behaviour that needs to be considered before conducting a marketing campaign.

Question 4 (4 marks)

Max and his family sell fruit and vegetables at a market. They promote 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.

Question 5 (4 marks)

A football club markets a range of clothing in team colours. **Analyse** how consumer behaviour may affect its marketing campaign.

More exam questions are available online.

5.7 The 7Ps of marketing — product and price

KEY KNOWLEDGE

- The 7Ps model of marketing: product, price, place, promotion, people, physical evidence and process

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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.

on Resources

Video eLesson The 7Ps model 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.

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.



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.

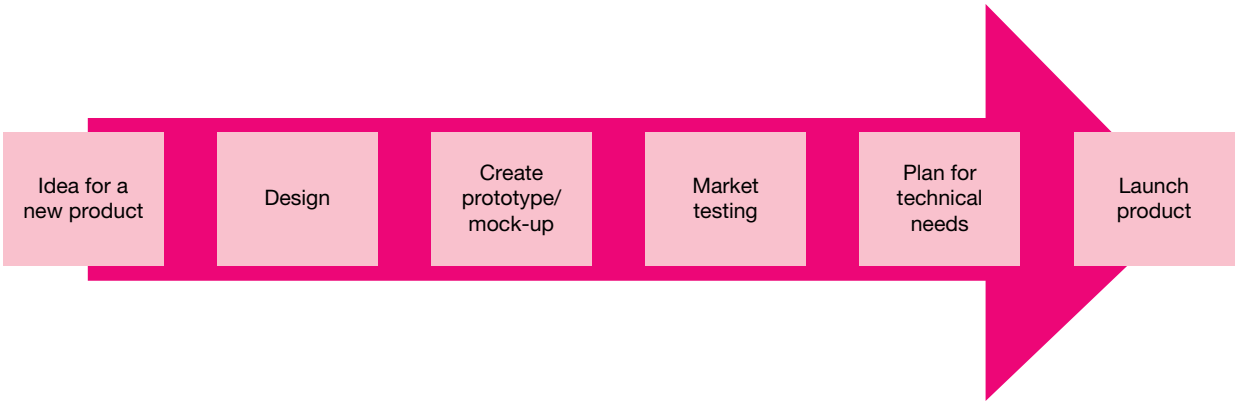
marketing mix the combination of seven elements — product, price, place, promotion, people, physical evidence and process (the 7Ps) — that make up the marketing strategy

product a good, service, experience, idea or information that can be offered in an exchange for the purpose of satisfying a need or want

Product development

Product development can involve modifying an existing product or the way in which it is presented, or creating an entirely new product that meets the demands of a newly defined customer or market. The development of a new product is risky, and will involve large amounts of effort, time and money. However, it is important for businesses to develop new products in order to remain competitive and to ensure that their products continue to appeal to customers.

The process for new product development



The launch of the Samsung Galaxy S22 5G smartphone in March 2022



Starting with an idea for a new product, or an idea to modify a product, a business will go through a series of steps to bring the product to market. The product will need to undergo a design process and then a prototype or mock-up will need to be created. The product will then go through market testing. The testing will confirm if the product is on the right track or if improvements need to be made. After the technical needs of the product are planned for, including materials, suppliers and final production requirements, the product will be launched onto the market.

product development the creation of a product with new or different characteristics that offer new or additional benefits to customers

product positioning the development of a product image compared with the image of competing products

Product positioning

Some brand names, such as Rolex, Ferrari and North Face 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.

In highly competitive markets, sales may be difficult to secure. For this reason, a business will attempt to create an image that differentiates its product from the others. Many businesses invest considerable resources in the positioning of their product. The business will decide on the image it wishes to create for a product and will use other elements of the marketing mix to shape and maintain this image.

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 vehicles), numbers and letters (PS5) or just numbers that represent models (e.g. iPhone 13).

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.

Volkswagen introduced a new logo in 2019 as a new beginning following an earlier emissions scandal. The logo is clean, simple and two dimensional.



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.

brand name that part of the brand that can be spoken

brand symbol or **logo** a graphic representation that identifies a business or product

brand symbol or **logo** a graphic representation that identifies a business or product

packaging the development of a container and the graphic design for a product

Innovative packaging techniques are being tested, such as making soft plastic wrap from abundant and sustainable plant proteins in a technique similar to spinning a spider web.



DID YOU KNOW?

It takes 2.6 seconds for a consumer to choose one product instead of another, so the packaging must be considered carefully in terms of its aesthetics, functionality and impact on the environment. Each year the Australian Institute of Packaging (AIP) conducts the Australasian Packaging Innovation and Design Awards (PIDA). These awards are designed to recognise companies and individuals that are making a significant difference in their field in Australia and New Zealand.

In 2021 the food packaging winner was Brookfarm Muesli. Use the link in the resources tab to see the design and watch an explanation of why this design won the 2021 award.

on Resources

Weblink PIDA Awards

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'.

Why can a brand such as North Face set higher prices for its products?



In any market, businesses will attempt to gain some control over the price by differentiating their products. Once a product has a feature that is unique, valuable or different from a competitor's offering, the business is usually able to increase the price of that product. 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.

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.

Wholesalers or manufacturers provide retailers with an RRP, which provides guidance to the retail business owner.



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.

price the amount of money the customer pays to be able to enjoy a product

percentage mark-up increase to the cost price by a fixed percentage to give the selling price

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.

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.

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 devoted customers and enthusiasts (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 sales 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 moving 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 or perceived value of the product. It is designed to suggest to potential customers that the product is of a higher quality than its competitors.

quote an estimate of the costs involved with an individual job, plus a certain amount so the business makes a profit

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.

KEY IDEAS

- 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, both to maximise sales and to ensure the business makes a profit.

5.7 Exercises

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5.7 Quick quiz on | 5.7 Exercise | 5.7 Exam questions

5.7 Exercise

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.

APPLY your understanding

4. When deciding on a brand name and brand symbol, **identify** some of the considerations that a marketer must take into account.
5. 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.
6. 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.

7. **Analyse** each of the following brand names. Indicate the strong points of each name:
   a. Samsung mobile phones
   b. LG electronic products
   c. Revlon cosmetics.

5.7 Exam questions

Question 1 (1 mark)

Outline what is meant by 'product' as an element of the 7Ps model of marketing.

Question 2 (3 marks)

Distinguish between product and price as elements of the 7Ps model of marketing.

Question 3 (3 marks)

Don has set up a carwash business in a wealthy suburb and hopes to attract the owners of expensive prestige vehicles to his business. **Propose** and **justify** a pricing strategy that Don should use for his business.

Question 4 (4 marks)

Yummy Chocolates has introduced a new luxury 'Indulge yourself' marketing campaign. In relation to the 7Ps model of marketing, **explain** how product and price might be applied to ensure that this campaign is successful.

More exam questions are available online.

5.8 The 7Ps of marketing — place and promotion

KEY KNOWLEDGE

- The 7Ps model of marketing: product, price, place, promotion, people, physical evidence and process

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The third 'P' of the marketing mix (product, price, place, promotion, people, physical evidence and process) is 'place'. **Place** 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. Most 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.

place making the product available to the customer, wherever the customer chooses to purchase it

distribution channels the routes taken to get the product from the factory to the customer

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 have been modified. Some retailers and wholesalers are 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.

non-store retailing retailing activity conducted away from the traditional store

e-marketing the practice of using the internet to perform marketing activities

market coverage the number of outlets a business chooses for its product

promotion the methods used by a business to inform, persuade and remind a target market about its 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.

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.

Promotion reminds target markets about products and events. This vehicle was used to promote a French bank in the publicity caravan during the Tour de France.



Many people confuse promotion with advertising because of its visibility and frequency. However, advertising is just one element in 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 a number of methods, including personal selling, opinion leaders, publicity and public relations, as well as advertising.

Personal selling

Personal selling involves the activities of a sales representative directed to a customer in an attempt to make a sale. For some businesses, such as those offering expensive, complex or highly individual products, personal selling is the main promotional strategy. These products in particular require the personal contact of a sales representative to familiarise the customer with the product. 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.

promotion mix the promotion methods a business uses in its promotional campaign. Methods include personal selling, advertising, and publicity and public relations.

personal selling the activities of a sales representative directed to a customer in an attempt to make a sale

opinion leader a person who influences others

Opinion leaders

An **opinion leader** is a person who influences others. Their opinions are respected, and they are often sought out for advice. Marketing managers will use opinion leaders as information outlets for new products or to endorse existing ones. Actors, athletes, musicians and models are regarded by some groups as opinion leaders and many businesses use celebrity endorsement as part of their marketing strategies. Celebrity endorsement involves using a well-known person with wide appeal as a brand ambassador to help market a product. Having that endorsement can open up a huge following. This is because ambassadors usually have a large social media following — a referral from them can be powerful and the company can gain instant followers and engagement.

Roger Federer has had a long-running partnership with Rolex. He also partners with Japanese apparel clothing company Uniqlo.



If businesses choose to use this strategy, they need to remember that their brand and image will be aligned to the ambassador; therefore, if that person's reputation becomes tarnished for whatever reason, this will affect the business's reputation.

Publicity and public relations

Publicity is any free news story about a business's products. It 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 (PR) 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. Public relations exposes a business or idea to an audience by using often unpaid third parties as outlets. This can be done by working with the media, by making speeches on special occasions or by some attention-seeking gesture such as a donation or a give-away sale that is reported by others. This means that public relations is often more effective than paid advertising. Sometimes public relations can even work out to be cheaper. We will cover public relations in more detail later in this topic.

CASE STUDY

Is all publicity good publicity?

While publicity is all about trying to create a favourable image, the downside is that you cannot control what is said about your business or your product. Therefore, businesses need to ensure that what they publicise can withstand public scrutiny.

The advent of social media has delivered a new army of critics and commentators, all of whom have the ability to disseminate their opinion about businesses. Is the saying 'there's no such thing as bad publicity' a myth? The following are two examples of companies that have attracted ongoing media coverage and publicity. Ask yourself if the publicity was worthwhile or not.

SpaceX successfully launched its rocket in 2018, carrying a Tesla Roadster belonging to Elon Musk. A more recent publicity stunt involved collaboration with a Canadian start-up firm to offer advertising in space via a satellite's selfie stick and live streaming on YouTube.



In 2017, MAC Cosmetics promoted a giveaway on Instagram offering customers a free full-sized lipstick to celebrate National Lipstick Day at selected David Jones and Myer stores. All fans had to do was show up; and thousands of them did, only to be left empty-handed when the giveaway ran out of stock within minutes of the stores opening. Hundreds of outraged social media users took to Instagram to vent their frustration about how the promotion was handled.

One of the most successful publicity stunts occurred in 2018 when Elon Musk launched a Tesla Roadster motor vehicle into space on a SpaceX rocket. Musk, the founder and CEO of SpaceX and CEO of Tesla, was able to generate enormous worldwide publicity for both of these companies and their products.

Advertising

Given the myriads of products available, **advertising** is an essential tool for successful marketing. Media agency Zenith reports that in 2021 Australian businesses spent around $15.6 billion on advertising, showing 9 per cent growth. Of this, digital marketing makes up 58 per cent of the spending.

publicity any free news story about a business's products

advertising a paid, non-personal message communicated through a mass medium

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. They reported a 35.8 per cent increase in online advertising in 2021, up from the previous year. This suggests that businesses decided to take advantage of the increased amount of time that people were spending online during the pandemic. 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.



advertising media the many forms of electronic and print communication used to reach an audience

CONTEMPORARY CASE STUDY

Social influencers

Many businesses now team up with social media influencers across multiple platforms to promote their products. A social media influencer is a user of social media who has established credibility in a specific field and can thus influence their audience. Lots of brands, particularly in the fashion and lifestyle fields, have ditched sponsorship deals with big-name celebrities in favour of regular people with powerfully engaged social media followers.

Research from Twitter has shown that 49 per cent of consumers seek advice regarding purchases from social media influencers and 20 per cent of the people surveyed stated that a tweet from an influencer encouraged them to share their own recommendation. What is even more significant is that almost 40 per cent of Twitter users said they had made a purchase based on an influencer's endorsement.

Many businesses spend millions of dollars each year on influencer marketing. As well as sending free products to influencers, some businesses pay influencers per post so that they can try their products and then post about them. For many brands, this does not cost as much as celebrity endorsement.

Kmart is one business that has taken advantage of social media influencers to help promote its products. To assist with overcoming the stigma of being

Many businesses today work with social media influencers, such as Wengie, to promote their products.



a discount retailer, Kmart has focused on social media as a promotion strategy. The company interacts with customers via blogs as well as Facebook groups and Instagram pages offering Kmart hacks, product reviews and design inspiration. For example, Kmart has recruited an army of Instagram women to promote its homewares and, more recently, clothes range. The company values the opinions of these influencers so highly that they have actually become unofficial, unpaid consultants. Although these women are not paid, they are often invited to exclusive events and sometimes receive free items. This strategy has resulted in increased publicity and demand for many of Kmart's products — the Kmart followers love their products and share this love with others on social media. Many customers now boast about how they have been discount shopping at Kmart.

KEY IDEAS

- 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.

5.8 Exercises

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5.8 Quick quiz on | 5.8 Exercise | 5.8 Exam questions

5.8 Exercise

TEST your understanding

1. **Suggest** reasons why a business would select an exclusive rather than an intensive distribution strategy.
2. **Why** do some marketers prefer to use personal selling as a promotional strategy?
3. 'Advertising is what you pay for and publicity is what you pray for.' **Outline** what this means.

APPLY your understanding

4. 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.

5.8 Exam questions

Question 1 (2 marks)

Define the term 'place' as an element of the 7Ps marketing model.

Question 2 (2 marks)

Outline 'promotion' as an element of the 7Ps model of marketing. Provide an example to support your answer.

Question 3 (3 marks)

Distinguish between place and promotion as elements of the 7Ps model of marketing.

Question 4 (4 marks)

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 **2 marks**

b. promotion. **2 marks**

More exam questions are available online.

5.9 The 7Ps of marketing — people, physical evidence and process

KEY KNOWLEDGE

- The 7Ps model of marketing: product, price, place, promotion, people, physical evidence and process

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The final three elements of the marketing mix are people, physical evidence and process.

5.9.1 People

People refers to everyone who is involved in the product of a business, whether they are in direct contact with customers or have an indirect connection. 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 it offers. All businesses have a culture, whether it has been deliberately planned and implemented, or whether it has simply evolved over time.

The people who work in a business, who have direct contact with the customers, have a big impact on providing a quality service.



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 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 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.

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 provided them with high-quality products or great customer service. 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.

people everyone who is involved in the product of a business, whether they are in direct contact with customers or have an indirect connection

CONTEMPORARY CASE STUDY

The Pets Hotel's personalised service

The Pets Hotel is able to offer a highly personalised service to its customers through the skills and dedication of its employees.

For a fee, employees are able to offer additional and stimulating play time, extra walks, cuddle time, adventure play time and emailed reports on pets' day-to-day activities and wellbeing.



5.9.2 Physical evidence

Physical evidence refers to everything that the customer sees when interacting with a business. This could mean the features of the product that the business is selling, the physical environment experienced by the customer (such as the design and layout of a store or website) or the use of customer feedback. Essentially, physical evidence can assist a business with positioning its brand and attracting its target market. A customer will often not be completely familiar with the detailed features of a good 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.

The physical environment of Industry Beans, a café in Melbourne, tells customers that high standards are being observed.



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, 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 goods and services the business has provided.

physical evidence everything that the customer sees when interacting with a business

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 $US6.4 billion being spent on upgrades to American hotels in response to these reviews.

5.9.3 Process

Process refers to the flow of activities or mechanisms that take place when there is any interaction between the customer and a business. This may relate to the delivery of the product, or how the customer finds out about the product, selects it and then makes their purchase. 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 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 and 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.

Review websites can provide evidence that may influence potential customers.



Convenient methods of payment, such as PayPass or PayWave, provide an efficient process to assist in the marketing strategy.



process the flow of activities or mechanisms that take place when there is any interaction between the customer and a business

KEY IDEAS

- 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.

5.9 Exercises

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5.9 Quick quiz on | 5.9 Exercise | 5.9 Exam questions

5.9 Exercise

TEST your understanding

1. **Explain** why a positive culture in a business is an important element in marketing.
2. **Outline** how staff in a business can contribute to the positive marketing of the business.

APPLY your understanding

3. **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.

5.9 Exam questions

Question 1 (3 marks)

With reference to a contemporary business case study, **define** the term 'people' as an element of the 7Ps model of marketing.

Question 2 (4 marks)

'People' and 'process' are closely related elements of the 7Ps model of marketing. **Compare** people and process.

Question 3 (2 marks)

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.

Question 4 (3 marks)

Distinguish between physical evidence and process as elements of the 7Ps model of marketing.

More exam questions are available online.

5.10 APPLY YOUR SKILLS Proposing and justifying marketing strategies

PRACTISE YOUR SKILLS

- Identify, define, describe and apply business management concepts and terms
- Interpret, discuss, compare and evaluate business information and ideas
- Analyse case studies and contemporary examples of business management
- Apply business management knowledge to practical and/or simulated business situations

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CONTEMPORARY CASE STUDY

You've got the product but no-one knows about it yet!

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.

'Without customers, a product … is useless.'



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.

Resources

Weblink Business Victoria — Develop a new product or service

5.10 Exercises

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5.10 Exercise | **5.10 Exam questions**

5.10 Exercise

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. **Explain** why 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. **Identify** the features that Quick-fire Clay has which differentiate the product from those of competitors.

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 probably need to do some market research to find out where her customers are so she can let them know about her product. Advise Michelle on the types of market research practices that she might need to adopt.
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). **Propose** advice for Michelle regarding the best strategy to raise awareness of her exciting new product.

5.10 Exam questions

Question 1 (10 marks)

Sam is planning to open a coffee and cheesecake business within the next month.

a. Sam will open her business in a local shopping centre. **Analyse** the appropriateness of this location, with reference to the 'place' element of the 7Ps model of marketing. **4 marks**

b. Other than 'place', **propose** and **justify** a marketing strategy that Sam could use. Refer to two elements from the 7Ps model of marketing. **6 marks**

Question 2 (8 marks)

Whoohoo is a fashion retail business with a large online presence and a small number of physical stores. The company has recently introduced a new 'Inspiration with everyday prices' marketing campaign. With reference to the 7Ps model of marketing, **explain** how product, price, place and promotion might be applied to this business's marketing strategy.

More exam questions are available online.

5.11 EXTEND YOUR KNOWLEDGE The target market and the marketing mix

EXTEND YOUR UNDERSTANDING OF THIS CONCEPT

- It is important to identify the target market and then decide the right marketing mix.

CONTEMPORARY CASE STUDY

The Pets Hotel — the marketing mix

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 a mobile phone app that allows customers to make bookings and check on their pets at any time of the day. The 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 Exercises

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5.11 Exercise | **5.11 Exam questions**

5.11 Exercise

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. **Explain** why the 'people' element of the marketing mix is 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. **Describe** what might be the purpose of including these extras in the product mix.
7. **Identify** the type of brand identity the owners of this business are 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. **Outline** what the benefits of its inner suburban location might be 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.

5.11 Exam questions

Question 1 (6 marks)

With reference to a contemporary business case study, **analyse** the effectiveness of its marketing strategy.

Question 2 (4 marks)

With reference to The Pets Hotel, **explain** one cost and one benefit of marketing a business.

More exam questions are available online.

5.12 The product life cycle

KEY KNOWLEDGE

- The product life cycle: introduction, growth, maturity, decline, extension, and the relationship between each of these stages and the choice of marketing strategy

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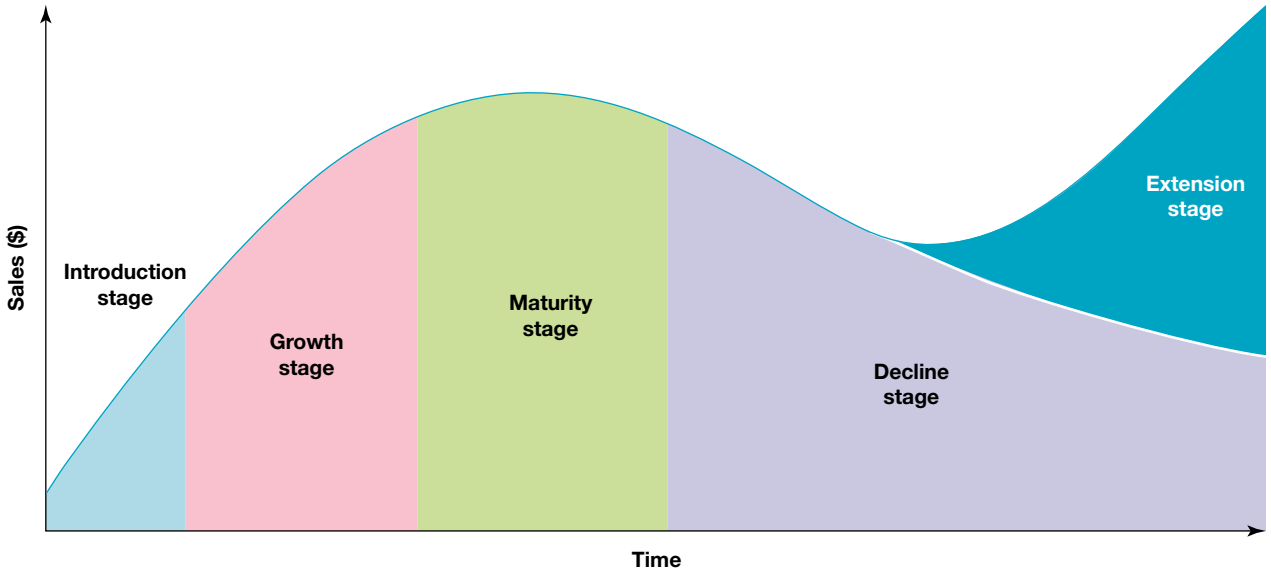
Every product has a life cycle, from the time it is introduced to the market, until it is eventually overtaken by an updated version or a complete replacement.

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 marketplace, which ultimately affect a product's 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.

product life cycle the stages a product passes through: introduction, growth, maturity, decline and extension

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 sales in the market.

- *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 artificial intelligence (AI), are currently at the introduction stage, with the full market potential 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 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.

The market for smartphones and tablets is in the growth stage, with frequent updates to the size, weight and features of the products.



- *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.

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 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.

Volkswagen is one of many car manufacturers that are phasing out production of petrol and diesel engine cars by 2026.



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.

Leaded petrol cars declined in the 1980s and were eventually banned in in the 1990s.



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 27 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.

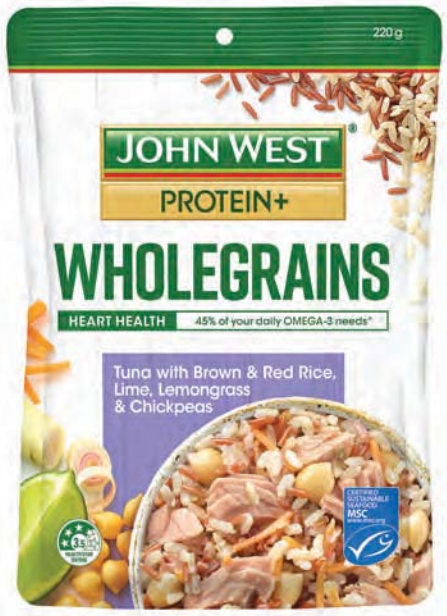
exports goods or services sold by one country to individuals, businesses or governments in another country with the aim of extending sales and market penetration

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 its 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 in light of unexpected events such as the COVID-19 pandemic and the ongoing need to reduce carbon emissions in order to prevent 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.

diversification when businesses vary their range of products or their field of operations

CASE STUDY

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 model Beetle was launched in 1998. While it was rounder, it did retain some of the old body shape. Despite promising sales at the start, the new Beetle was discontinued in 2019 due to competition in the market.

KEY IDEAS

- 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.

5.12 Exercises

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5.12 Quick quiz on | **5.12 Exercise** | **5.12 Exam questions**

5.12 Exercise

TEST your understanding

1. **Outline** why Australian businesses have become more export-oriented over the past decade.
2. **Explain** the purpose of diversification.
3. **Explain** the difference between product diversification and geographic diversification.

APPLY your understanding

4. Choose a well-known product that you can research on the internet. Write a 250-word report on the stages in this product's life cycle.
5. Interview someone that you know who was born in the 1950s or 1960s. 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.
6. 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.

5.12 Exam questions

Question 1 (4 marks)

All successful products go through a product life cycle. **Outline** the four stages of the product life cycle.

Question 2 (5 marks)

Eugene has run a business installing TV antennas on the roofs of people's houses for 20 years. However, he 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. **2 marks**

Question 3 (3 marks)

Distinguish between introduction and growth as stages of the product life cycle.

Question 4 (4 marks)

As a result of declining sales in Australia, Ultimum is exporting its electrical products to overseas countries. **Explain** the relationship between extension as a stage of the product life cycle and Ultimum's choice of marketing strategy.

Question 5 (4 marks)

Fresh2u is a prepared meals service, delivering fresh, home-cooked meals to customers' doors. It operates on a local scale. The business is at the introduction stage of the product life cycle. **Describe** the most appropriate marketing strategy for Fresh2u at this stage.

Question 6 (5 marks)

Party Plus More is an online business established in 2020 that provides a range of products and services for parties and special events. Two friends run the business from home. It offers picnic hire packages and a range of floral arrangements to suit every occasion. The business promotes itself through social media, especially Facebook and Instagram, and is attracting more customers through word-of-mouth recommendations.

Define the term 'product life cycle' and **identify** the stage Party Plus More is at. **Justify** your choice.

More exam questions are available online.

5.13 Customer relations strategies

KEY KNOWLEDGE

- The features and value of customer relations strategies such as providing quality customer service and establishing customer loyalty programs

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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 you sell.

5.13.1 Providing quality customer service

Customer service refers to how well a business responds to the needs and problems of the customer. Quality customer service will result in improved customer satisfaction and a positive reaction from customers towards the products they purchase. This establishes a sound customer base with the possibility of repeat purchases. 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. For example, a business should have policies established for dealing with customer complaints or returns and exchange of goods. 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.

CONTEMPORARY CASE STUDY

Mecca and its Customer Experience Excellence

KPMG is a multinational business that provides auditing, tax and advisory services. The business is responsible for publishing the Customer Experience Excellence (CEE) report that tracks Australian consumers' experiences with Australian and international brands across the six pillars of customer experience excellence.

Results from the report suggest that before, during and after the pandemic, companies have recognised the importance of the customer experience and the need to make it simpler and easier for their customers to engage with them.

The aim of delivering simplicity for customers, however, is increasingly challenged by changes in customer needs and expectations, technology that is rapidly evolving and organisational fragmentation.

Mecca is renowned for its quality customer service.



Trends identified in the latest report include:

- the link between CEE and customer satisfaction and commercial success
- the need to identify the investment priorities to ensure improved customer experience
- customers' desire to deal with companies that show they care about their customers and have sensitive solutions to their problems.

The top CCE brand in Australia was Mecca — a cosmetics retail company. The company's ongoing commitment to customer and employee experience has forged a successful path through the pandemic. Mecca emphasises customer and employee experience. They have recently grown their digital and personalisation capability and expanded their physical retail stores. Mecca's loyalty program Beauty Loop avoids discounts and instead relies on a community of 4.3 million highly engaged customers. This has helped to create its leading customer loyalty and advocacy program.

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 social media 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 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.

Customer complaints should be welcomed and seen as a basis for improvement.



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

A highly successful customer relations strategy is loyalty programs. A **customer loyalty program** is a rewards-based program offered by a business to customers who frequently make purchases. Many businesses offer customer loyalty programs. Coles and Woolworths may ask for a loyalty card at the checkout; however, many loyalty programs are now run through online apps. These apps can provide the customer with instant discount coupons.

Customer loyalty programs offer rewards to those loyal customers who spend specified amounts or make repeat purchases. This can provide a business with a competitive advantage.



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.

customer loyalty program a rewards-based program offered by a business to customers who frequently make purchases

5.13.6 Catering to a multicultural market

Australia is a multicultural nation. Approximately 29.1 per cent of Australia's estimated resident population was born overseas (this is around 7.5 million migrants). 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.

The advantages and disadvantages of using customer relations strategies, such as providing quality customer service and establishing customer loyalty programs

Advantages

- Repeat sales are very likely to result in loyal customers — and loyal customers are very likely to recommend the business to friends and family, resulting in more sales.
- Increased revenue, as loyal customers who trust in the business's brand are likely to spend more.
- Reduced expenses, as it is more cost-effective to retain existing customers than it is to attract new customers — customer relations strategies such as providing quality customer service and establishing customer loyalty programs should allow the business to hold on to current customers.
- A customer loyalty program allows a business to gather valuable data — when a customer signs up for the program, the business will begin recording information about them: their behaviour, buying habits and preferences. The business can then use this information to personalise the customer experience, and to target marketing campaigns at specific groups of customers.



Disadvantages

- Customer relations strategies can take time and can cost money — for example, customer loyalty programs can be expensive to implement and maintain, and even very small discounts will reduce profit. It can take time to create standards and to train staff in quality customer service or dealing with complaints.
- Data collected through a customer loyalty program may not be an accurate indicator of customer loyalty — customers may be purchasing products because it is convenient for them to do so, or the price may be right. Some customers may purchase from the business simply to benefit from the loyalty program's rewards.

KEY IDEAS

- 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.

5.13 Exercises

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5.13 Quick quiz on | 5.13 Exercise | 5.13 Exam questions

5.13 Exercise

TEST your understanding

1. **Explain** what it means to take a proactive approach to quality customer relations.
2. **Describe** how a business should approach the issue of customers returning goods for a refund or a replacement.
3. **Identify** the steps a business owner can take to connect with a local multicultural community.

APPLY your understanding

4. 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.
5. **Develop** a customer-friendly returns and refunds policy that a business could provide as information for its employees and customers.
6. **Design** a simple complaints form that a business could use. It should provide space for customer information and details of the products involved as well as space for feedback to the owner or manager suggesting possible changes or improvements.
7. **Create** a suitable customer loyalty program for a hairdressing business.

5.13 Exam questions

Question 1 (3 marks)

Explain how establishing a customer loyalty program can complement a business's marketing strategy.

Question 2 (2 marks)

Define the term 'quality customer service'.

Question 3 (3 marks)

Distinguish between quality customer service and a customer loyalty program as customer relations strategies.

Question 4 (5 marks)

With reference to a contemporary business case study, **analyse** the value of a customer relations strategy as part of a business's overall marketing strategy.

Question 5 (5 marks)

A customer has returned a toaster to Helen's electrical store, complaining that it has stopped working after only two weeks. **Propose** and **justify** a customer relations strategy that will provide the most positive outcome for Helen's business and the customer.

More exam questions are available online.

5.14 Technological developments in marketing

KEY KNOWLEDGE

- Technological developments in marketing such as social media, email marketing, search engine optimisation, artificial intelligence, data analytics and management of data

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5.14.1 Technology and 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.

5.14.2 Social media



Social media has made it possible for people to connect with each other almost instantaneously and across long distances. The same circumstances then apply to businesses and their connections with customers, suppliers and the world at large. Facebook, Twitter, LinkedIn, YouTube, blogs, podcasts and online communities are all examples of social channels and have been behind the recent revolution in social media advertising.

Businesses are becoming increasingly aware that social media advertising can have positive results, especially when used in combination with traditional advertising methods. Social media advertising is relatively inexpensive when compared to traditional marketing methods and is easy to use and monitor. For example, the number of 'likes' on a business's social media pages can be easily ascertained. Social media platforms also link to a business's website so the number of hits on a site, and the purchases resulting from this, can also be tracked. When a business owner is planning a business, they may decide to implement social media advertising. However, the business owner should be aware that social media advertising has a number of disadvantages. A business does not always have control over what consumers write about the business's product online. Bloggers have the freedom to discuss, review, criticise and even ridicule a product of business.

While social media advertising is more 'visible', businesses also take advantage of social media marketing. Social media marketing is the use of social media platforms and websites to promote a product or service. This is often undertaken through the use of 'influencers' who align themselves with businesses or products and use social media to promote themselves as well as the business or product. As noted in section 5.8.2, influencers can command up to $50 000 from businesses for posts and Instagram stories about their products.

5.14.3 Email marketing



In the same manner as social media, businesses can use email as a means of marketing their products, services and the business itself. Data can be collected from customers through seeking email addresses from customers who visit a physical store or through customers who shop online.

Businesses are then able to send emails to customers promoting special deals, member benefits (if customers have joined a 'club') and future events. This keeps the business at

the forefront of the minds of consumers. It requires a conscious effort by consumers to cancel these emails — they need to 'unsubscribe'. The effectiveness of these emails is harder to track. Many end up in spam accounts and customers are becoming increasingly cautious of emails that are attempting to sell things.

5.14.4 Search engine optimisation

Search engine optimisation refers to the process of improving a business's website to increase its visibility when people search for products or services via various search engines. The more visible the page of a business is, the more likely the business is to gain attention and attract prospective and existing customers.

How does it work? Search engines use 'bots' to crawl through web pages collecting information about those web pages and creating an index, like you might find in a library. A computer program will then rank these web pages according to how they might best answer the queries of the customer seeking a business.

Why is search engine optimisation important for marketing? Over the course of a year consumers will conduct millions and millions of searches — usually to find information about products and services. Searches are often the primary source of digital traffic for businesses and will complement other marketing channels. Greater visibility and ranking higher in search results than the competition can have a material impact on a business's bottom line.

SEO is the foundation of a holistic marketing ecosystem. When a business understands what website users want, it can then implement that knowledge across its marketing campaigns, website and social media accounts.



5.14.5 Artificial intelligence

Artificial intelligence (AI) is intelligence demonstrated by machines, as opposed to the natural intelligence displayed by humans. When it comes to marketing, AI is a method of using intelligence technologies to collect data, customer insights, anticipate customers' next moves and make automated decisions that affect marketing efforts.

AI allows businesses to understand their customers so they can target the right strategy to the right customer in a timely manner. A simple example is how smartphones and email use predictive text to save time when composing emails and text messages. A further example is how Facebook will suggest other Facebook users as potential friends or groups you may wish to join.

CONTEMPORARY CASE STUDY

Alibaba — FashionAI store

Alibaba has brought AI to fashion to improve the fashion retail experience by opening a physical FashionAI store in Hong Kong. This use of Artificial Intelligence simplifies the apparel shopping experience and gains more customers' interest.

Alibaba's FashionAI store uses three key features to streamline the fashion retail experience for customers:

- *Smart lock to capture customers' preference.* Products in this store have special tracking tags containing radio-frequency identification, gyro-sensors and low-energy Bluetooth chips. Each garment carries specialised information about the item it's attached to. The amazing gyro-sensor will empower the tag to decide which items can be touched and which ones cannot.

- *Smart mirrors.* The store's mirrors are located on the sales floor and in changing rooms, and have intelligent touch screens. The mirrors display the information about the items customers are interacting with thanks to the intelligent locks equipped with each product. Smart mirrors can also recommend other apparel to complement the items customers are currently browsing.
- *New fitting experience.* This concept enables customers to quickly get the best look by adding suggested garments and accessories brought to them by the store's staff after they try out an item. FashionAI also carries increased omnichannel capability with a 'Virtual Wardrobe' on its mobile Taobao app. This feature allows customers to view the clothes they are trying on along with other recommended items that would complement their outfits.



5.14.6 Data analytics

Data analytics is the science of analysing raw data to draw conclusions about that information. Many of the techniques and processes of data analytics have been automated into mechanical processes and algorithms that work over raw data for human consumption.

The process involved in data analysis involves several different steps:

1. The first step is to determine the data requirements or how the data is grouped. Data may be separated by age, demographic, income or gender. Data values may be numerical or be divided by category.
2. The second step in data analytics is the process of collecting it. This can be done through a variety of sources such as computers, online sources, sales data or through personnel.
3. Once the data is collected, it must be organised so it can be analysed. This may take place on a spreadsheet or other form of software that can take statistical data.
4. The data is then cleaned up before analysis. This means it is scrubbed and checked to ensure there are no duplications or errors, and that it is not incomplete. This step helps correct any errors before it goes on to a data analyst to be analysed.

In marketing, the data collected will focus on sales, what the customers want, where and when they want it, and in what quantities.

5.14.7 Management of data

Data is an important tool for businesses. Given what has already been discussed, data assists a business to identify its target market and the needs of the target customer.

data analytics the science of analysing raw data to draw conclusions about that information

Data management therefore comprises all disciplines related to managing data as a valuable resource. Data management involves the following aspects:

- Data custodian — there should be a person responsible for the management of the data that the business collects.
- Data maintenance — this is the process of keeping the data so it is current, complete and relevant to the business.
- Data access — this involves determining who is allowed to access the data and for what purpose.
- Data security — this involves ensuring the data is safe. Are there protections in place to stop unauthorised access and use of the data? Can customers trust the business with their data?
- Data privacy — businesses need to be able to ensure that their customers' data is kept private and not shared with other businesses, organisations or people without their consent.

Businesses must ensure that the data collection systems and storage solutions comply with the relevant legislation. The *Privacy Act 1988* (Cwlth) is the main piece of Australian legislation that protects the handling of personal information. This includes the collection, use, storage and disclosure of personal information in the federal public sector and in the private sector.

KEY IDEA

- Technological developments in marketing such as social media, email marketing, search engine optimisation, artificial intelligence, data analytics and management of data

5.14 Exercises

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5.14 Exercise

TEST your understanding

1. **Describe** how technology has assisted businesses in marketing their products.
2. **Identify** one benefit of email marketing for a business.
3. **Explain** why customers may not appreciate email marketing.
4. **Outline** the role of a data custodian.
5. **Explain** how a business should collect data.

APPLY your understanding

6. **Describe** how social media may have benefited businesses in terms of marketing their products.
7. 'Email marketing is a waste of time because people avoid emails that often arrive in their 'junk' folder.' **Discuss** this statement, stating whether you agree or disagree with it.

5.14 Exam questions

Question 1 (3 marks)

Distinguish between data analytics and the management of data.

Question 2 (4 marks)

Explain why it is important to control data access and data privacy.

Question 3 (3 marks)

Explain the importance of search engine optimisation.

More exam questions are available online.

5.15 APPLY YOUR SKILLS Evaluating marketing strategies

PRACTISE YOUR SKILLS

- Identify, define, describe and apply business management concepts and terms
- Interpret, discuss, compare and evaluate business information and ideas
- Analyse case studies and contemporary examples of business management
- Apply business management knowledge to practical and/or simulated business situations

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CONTEMPORARY CASE STUDY

The Pets Hotel in a digital world

The Pets Hotel is a family-owned business. The Cleghorn and Hill families have been involved in the pet-care industry for a combination of 35 years.

They are renowned for the expert care and service that they provide to their clients. This expertise has been combined with years of research and planning to deliver Melbourne pet owners with a facility that offers maximum comfort and maximum safety — in all seasons. The facility has been custom designed to ensure the very best for pets and peace of mind for pet owners. At the Pets Hotel, VIP stands for Very Important Pets and Very Important People.

The Pets Hotel has embraced technology as a means of reaching its existing customers and marketing the business to new customers. Its website provides the opportunity for customers to view their pets at play while staying at The Pets Hotel, as well as allowing for 'guided tours' of the facility for prospective customers. Customers can log on to the website and view real-time videos of their pet.

The Pets Hotel also provide testimonials from satisfied customers for prospective customers to read. Some examples include:

> The team at The Pets Hotel are great. They are always welcoming and really care for my dog when he is with them. I use their services regularly for daycare and boarding of my dog. Very clean and modern facilities with a solid selection of additional services — walks, playtime, etc. I would recommend to others for daycare or boarding services.
>
> Peter30
>
> Great service, quality and our dog Lexi loved it there. Great customer service led by Danah Schulz. Highly recommend.
>
> Rodneyo
>
> This has been my third experience of boarding my four chihuahuas at The Pets Hotel. I'm always nervous to leave my fur babies and the staff are always responsive to this and provide a high level of reassurance and comfort not only to me but also to my dogs. I've had some really horrid experiences at other boarding kennels, so I know how important it is to find a good fit for your dogs. The level of service provided here is amazing.
>
> Tjc

My three dogs had a fantastic time! This was the first boarding kennels that we have used where they have come home happy and not ignoring us for a week as punishment!! I would recommend this place to everyone. The staff were friendly and clearly were animal lovers.

Susanm37

The team at The Pets Hotel have been super and it has been amazing for my dog's energy and reborn personality! He gets excited waking up in the morning knowing he's going to playtime with other doggies and he's a happy chappy when Daddy comes to get him in the afternoon. I was very hesitant putting my old dog (Charlie) into doggy daycare at his age (17) and I shouldn't have been. They manage his play/rest times with the same care as I would. Their feedback on how Charlie is doing is what I would expect. They even have CCTV so you can keep an eye on your pet during playtime — live from Central Bark. They're super friendly and caring staff and I couldn't think of leaving Charlie with anyone else. The location is great too, as the parking is easy. Definitely recommend to any caring pet owners.

Ashs7

Source: Adapted from The Pets Hotel website, www.thepetshotel.com.au.

5.15 Exercises

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5.15 Exercise | **5.15 Exam questions**

5.15 Exercise

TEST your skills

1. **Define** the term 'digital marketing'.
2. Read 'The Pets Hotel in a digital world'.
   a. **Describe** the nature of The Pets Hotel's business.
   b. **Explain** why the owners may have implemented the online features of their business.
   c. **Outline** how The Pets Hotel promotes itself to prospective customers.
   d. **Explain** how The Pets Hotel may have conducted marketing prior to the development of its website.
3. Referring to The Pets Hotel, answer the following questions.
   a. **Explain** the benefits to The Pets Hotel of its website.
   b. **Explain** the importance of allowing custsomers to provide feedback on the service they experience at The Pets Hotel.
   c. In your opinion, do you think the business should publish any negative commments it receives? **Explain** your answer.

APPLY your skills

4. Working in a small group, copy the table below.
   - Use the first column to identify technological issues that may have affected decision making when establishing the website for the business.
   - Use the second column to identify the decisions the The Pets Hotel made in response to these issues.
   - In the third and fourth columns, outline the costs and benefits of the decisions the owners made when establishing the website for the business.
   - In the last column, write a justification for the strategy chosen. You may also be able to identify other technological issues.

Technological issue	Decision	Costs	Benefits	Justification
Maintaining and updating a website				
Generating a customer database				
Using social media advertising				

- 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 2 you are expected to be able to evaluate marketing strategies when establishing a business.

Using the information you have recorded in the tables in question 4, **evaluate** two decisions that the founders of The Pets Hotel made in response to marketing issues when they were establishing their businesses.

- 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 2 you are expected to be able to justify technology chosen when marketing a business.

Using the information you have recorded in the tables in question 4, **justify** the decisions made by The Pets Hotel in relation to technology to promote their business.

5.15 Exam questions

Question 1 (8 marks)

With reference to a contemporary business case study, **evaluate** the effectiveness of a business's marketing strategy.

Question 2 (4 marks)

Using examples, **distinguish** between the technological and global issues that may affect decision-making when establishing a business.

More exam questions are available online.

5.16 An overview of public relations and its relationship to business objectives

KEY KNOWLEDGE

- An overview of public relations and its relationship to business objectives

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5.16.1 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 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:

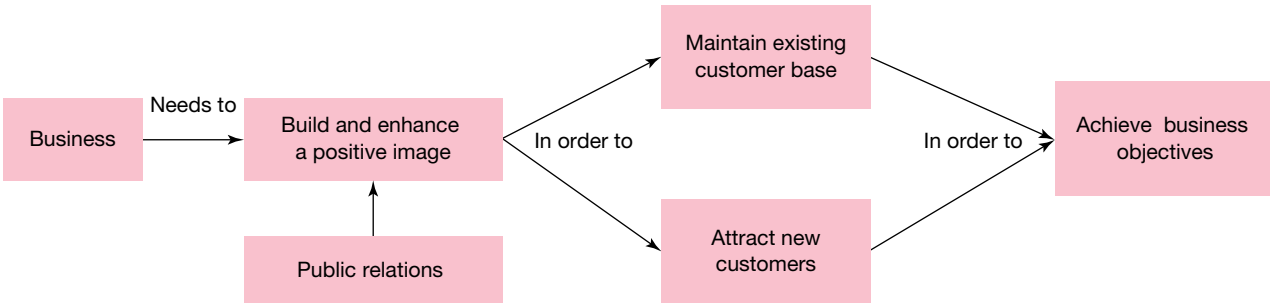
- developing good relations with various groups — **publics**
- handling, or heading off, unfavourable stories or rumours that could damage the business's image
- generating favourable publicity
- maintaining a certain level of positive public perception
- enhancing a particular image, such as innovation, reliability or honesty.

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.

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

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.

Public relations and its relationship to business objectives



5.16.2 The function of public relations

Public relations combines a number of marketing and sales techniques and presents one consistent public image. This has long-term benefits for the business. 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.

5.16.3 The importance of image

Business owners and managers should be aware of the craft involved in shaping a business's image. Many global companies, such as Apple, Google and Samsung, have a specific image that they project to the customer. The key to a successful image is that the publics 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.

A successful business image is not produced by accident. It needs to be developed and managed carefully. A successful business image helps create the benefits shown in the following diagram.

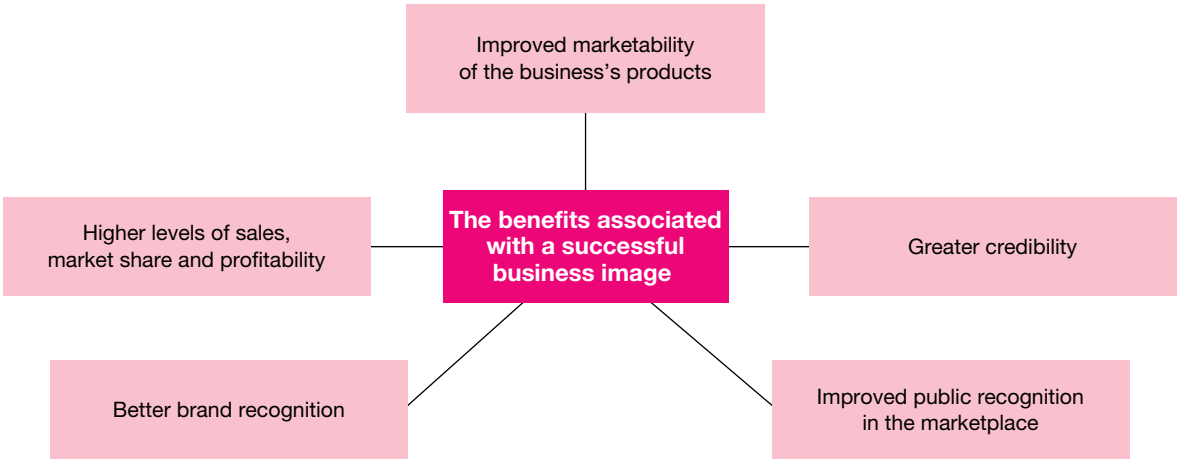
DID YOU KNOW?

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

The benefits of a successful business image



5.16.4 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 ineffective 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

All elements need to work together to build an image.

Elements that make up a business's image

- Business name
- Business logo
- Customer service
- Behaviour and appearance of employees
- Signage
- Business layout
- Range of products
- Quality of products
- Business appearance
- Stationery
- Publications
- Advertising
- Communications techniques
- Use of technology
- Delivery or appearance
- Publicity
- Colour scheme
- Location
- Customer service

5.16.5 Characteristics of the publics

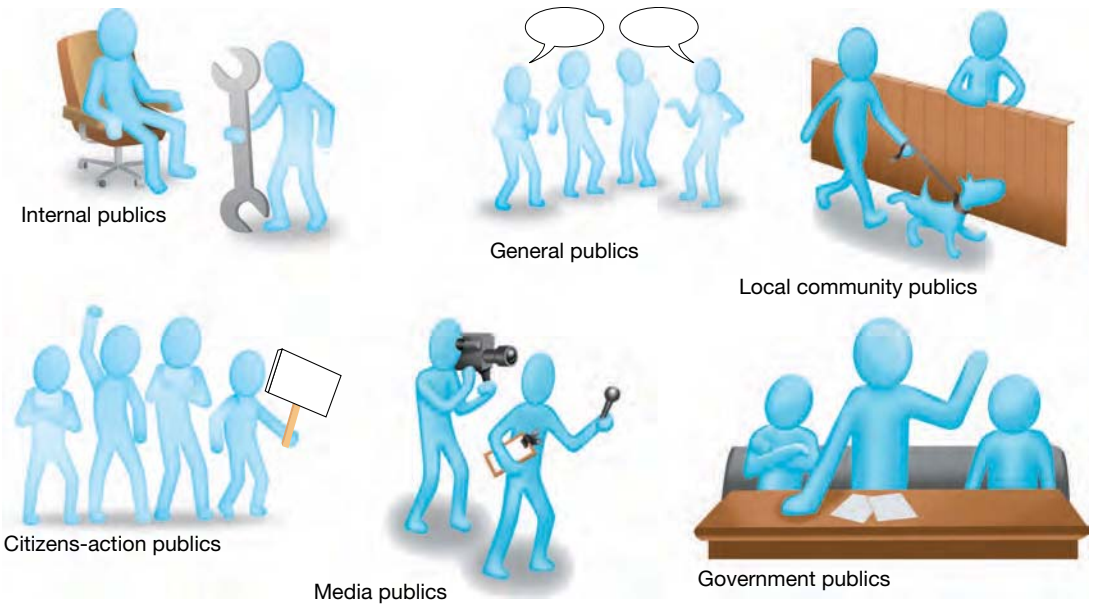
A business will communicate with and project its image to its publics. 'Publics' are stakeholders. They are groups that the business interacts with and that have a vested interest in what the business does.

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 gym 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.

KEY IDEAS

- 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.

5.16 Exercises

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5.16 Quick quiz on | **5.16 Exercise** | **5.16 Exam questions**

5.16 Exercise

TEST your understanding

1. **Outline** the purpose of public relations.
2. **Outline** the activities involved in public relations.
3. **Explain** in your own words the relationship between public relations and business objectives.
4. **Explain** why all businesses should be concerned with their image.
5. **Identify** the benefits of a business projecting a positive image.
6. In pairs, list the elements that combine to create:
   a. a positive image of your school
   b. a negative image of your school.

APPLY your understanding

7. 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.
8. 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 ten business logos. Next to each write the name of the business and then **describe** the image the symbol projects.

5.16 Exam questions

Question 1 (2 marks)

Define the term 'public relations'.

Question 2 (2 marks)

Explain how establishing positive public relations will support the achievement of the objectives of a business.

Question 3 (3 marks)

Distinguish between marketing and public relations.

Question 4 (4 marks)

Danny runs a plumbing business. He believes that it is important to maintain a positive image and requires his employees to wear uniforms with his business logo. He also expects employees to arrive at each job clean and well groomed. **Explain** two benefits for Danny's business resulting from its focus on public relations.

More exam questions are available online.

5.17 Public relations strategies

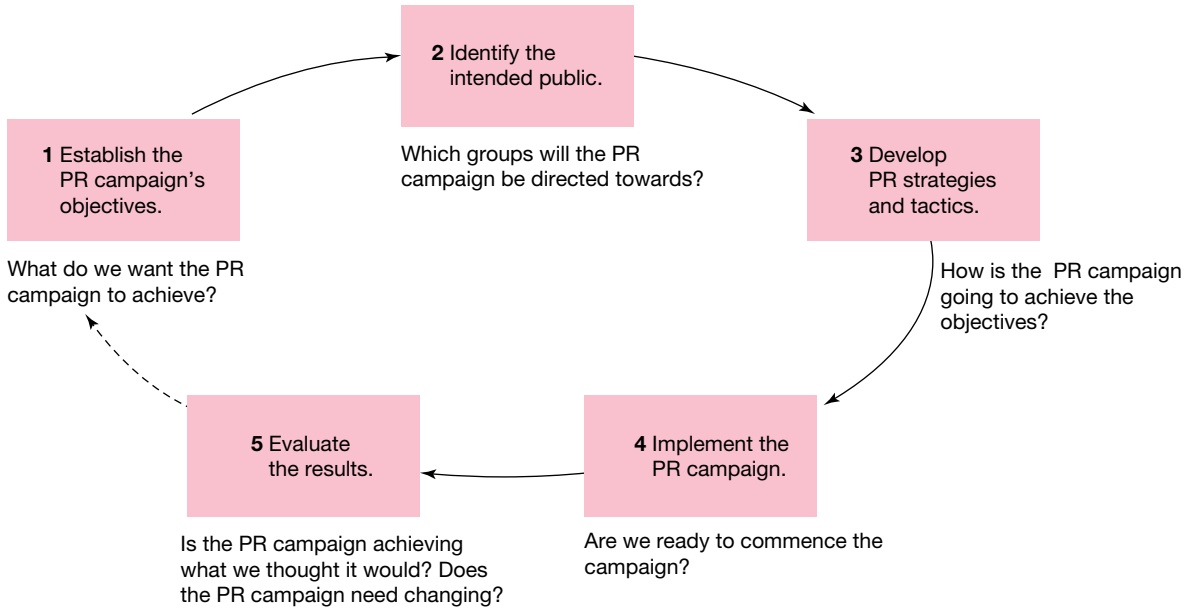
KEY CONCEPT

- Public relations strategies such as planned and crisis public relations, the importance of maintaining a positive relationship with the customer base and the implications if this relationship is not maintained

Source: VCE Business Management Study Design (2023–2027) extracts © VCAA; reproduced by permission.

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.

The main stages in developing a public relations campaign



DID YOU KNOW?

Public relations communication should be integrated with the business's other promotional strategies.

5.17.1 Planned public relations

The five main development stages in a planned public relations campaign are outlined below.

Stage 1 — Establish public relations objectives

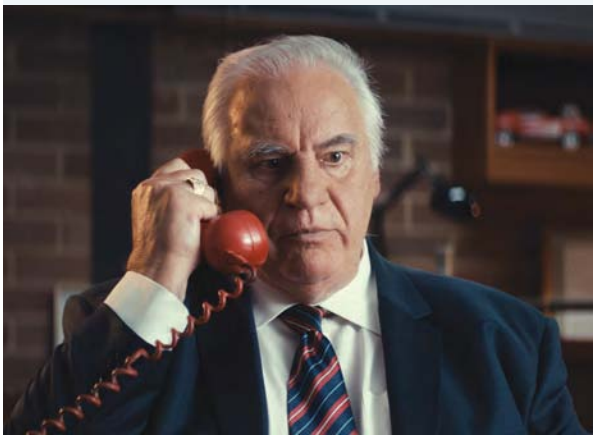
Objectives outline what the campaign is trying to achieve. They should be developed using the S.M.A.R.T. principle. That is, objectives should be:

- **S**pecific
- **M**easurable
- **A**ttainable
- **R**elevant
- **T**ime-bound.

public relations campaign a series of public relations activities undertaken to achieve a specific objective

Meat and Livestock Australia (MLA) is an industry association that has marketed meat to Australians for a number of years. Its most famous campaign involved ex-footballer Sam Kekovich encouraging us to eat lamb on Australia Day. However, concern and debate over the role of Australia Day has seen the focus change. Launching in May 2022, the new Australian Beef campaign titled 'You're Thinking Beef' aimed to make beef the number 1 protein choice in a range of popular mid-week meals.

Former footballer Sam Kekovich appeared in a 2006 Meat and Livestock Australia (MLA) Australia Day lamb promotion suggesting that it was un-Australian to not eat lamb on Australia Day.



The MLA has identified the following:

- Eighty-five per cent of shopping trips for protein are for mid-week meals. This makes it the most competitive and important opportunity to drive scale, frequency and volume of sales.
- There is a common weekly battle about what's for dinner in many families and households. Busy lifestyles combined with a multitude of options mean consumers are looking for an easy, tasty and budget-friendly solution for weeknight family meals.
- Forty per cent of fresh meat purchases are made on the day it will be eaten. This means the decision-making process for midweek meals can be influenced until the last minute.

The aim of 'You're Thinking Beef' is to increase the volume of sales and get more households eating beef. Key campaign points include ease, versatility and family appeal. These were delivered through recipes, tips and tricks over an extended campaign period that started in May 2022 but continued in August–December 2022 and into 2023 for back-to-school time.

The campaign involved in-store and point-of-sale promotions, online videos and social media. These highlighted the top ten most popular midweek meals across a range of cuts such as steak, spaghetti bolognaise and stir fry. Additionally, the campaign used influencers to promote beef across the year, showcasing a range of cuts and meals for everyday quick and easy family eating.

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 new campaign are working parents who need quick and easy solutions for dinner for the family and these solutions require a protein such as beef.

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.

media the assorted public relations communication strategies available to convey the image to the selected publics

Creativity is essential. A business must examine the costs and benefits of each of these media to select the most suitable media mix.

CONTEMPORARY CASE STUDY

MLA's 'Share the Secret Recipe' campaign

In MLA's 2020 winter lamb campaign, the cooking and preparation of lamb was shown to be bridging the COVID-19 isolation gap and bringing people together. The 'Share the Secret Recipe' campaign featured senior Australians from various cultural backgrounds showing younger Australians how to prepare lamb recipes in the style of a video call, as well as sharing the story of the recipe's history. Appearing across social media and in the on-demand section of online free-to-air TV, the four-week campaign set out to provide information in a unique way to people searching online for ways to cook and prepare lamb. The campaign also included a TV spot on *Today*, with Chef Dan Hong appearing on the program, sharing his secret recipe, and additional advertising and billboards featured during the timeslot. Australians could also record a video or take a photo of a lamb dish and upload these to social media with the hashtag #sharethelamb.



Source: Meat and Livestock Australia website, https://www.mla.com.au/marketing-beef-and-lamb/domestic-marketing/lamb-campaigns.

on Resources

Weblink Share the secret recipe

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. MLA can measure the effectiveness of its campaign by examining changes in the quantity of lamb sold during the period of its campaign. For example, in 2016, MLA's most successful Australia Day lamb advertisement on record resulted in sales of lamb products rising 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. The 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 Australia Day campaign were controversial over the years, this possibly added to its ongoing success. MLA's domestic market manager, Graeme Yardy, noted in 2020 that MLA traditionally sees an increase in sales of lamb products over the period of its marketing campaigns. In 2019, MLA saw a 12 per cent rise in sales over the five weeks of its summer lamb campaign.

5.17.2 Crisis situations

Crisis public relations involves the strategies that a business implements when an unforeseen event generates unfavourable publicity that may threaten the image and reputation of the business. 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 have the potential to generate media scrutiny and publicity, which may or may not be favourable, and the effect of which can be sudden and dramatic.

Businesses can implement quality control procedures, safety programs and regular inspections 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.

5.17.3 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 establishes a **crisis communication plan** that outlines how the appropriate staff members will handle unfavourable publicity and deal with news personnel before 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.

crisis public relations the strategies that a business implements when an unforeseen event generates unfavourable publicity that may threaten the image and reputation of the business

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

crisis communication plan outlines the policies and procedures to follow when handling unfavourable publicity and news personnel when a crisis occurs

CASE STUDY

Boeing 737 MAX crashes

Boeing is an American global company that manufactures aeroplanes and defence, space and security systems. The business experienced two fatal accidents involving its 737 MAX aircraft in late 2018 and early 2019, resulting in 346 deaths. Following the crashes, the aircraft series was grounded by regulatory authorities across the world. Investigators determined that Boeing had not alerted operators about a number of new features on the aircraft.

While then-chief executive officer Dennis Muilenburg stated that the business needed to own the disasters and eliminate risk, Boeing and Muilenburg were criticised for muddled communications that tended to downplay Boeing's responsibility and insisted that the planes were safe. Many business commentators believe that Boeing should have taken a more open and honest approach.

Former CEO of Boeing Dennis Muilenburg, who resigned following the two crashes of 737 MAX aircraft



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*

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.

Cristiano Ronaldo's decision to remove two Coca-Cola bottles from view at a press conference in 2021, and dent the value of the soft-drink maker's sponsorship of the European Championship, has highlighted the risks brands face associating with sports stars made powerful by the social media era. Coca-Cola could only respond by saying that 'everyone was entitled to their own soft-drink preferences'.



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.

5.17.4 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 dependable 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.

The benefits and costs of establishing positive public relations

Benefits

- The development of a positive brand identity should result in the expansion and maintenance of a customer base, and growth in customer loyalty.
- The improved marketability of the business's products should result in higher levels of sales and improved market share as customers are more likely to trust communication coming from the business, resulting in the business building its credibility.
- The large reach of public relations should improve public recognition of both the business as a whole and its products.



- Establishing positive public relations can cost money — including the employment costs of specialist staff to manage the business's public relations, the cost of any special events required to reinforce the positive brand identity sought, or the cost of hiring a specialist public relations firm to manage the image of the business.
- A business may have little control over a public relations campaign — it can be very difficult to control how the business is perceived by the media, when the business's message will appear and where publics will see the message.

Costs

DID YOU KNOW?

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.

on Resources

Weblink Hughes PR

KEY IDEAS

- 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.

5.17 Exercises

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5.17 Quick quiz on | **5.17 Exercise** | **5.17 Exam questions**

5.17 Exercise

TEST your understanding

1. Using the S.M.A.R.T. method, **devise** the public relations objectives to achieve the outcomes described for the following businesses:
   a. A local veterinary surgery 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.
2. **Explain** why it is necessary to develop an action plan during the implementation stage.
3. **Outline** the effects of negative publicity.
4. **Describe** why it is essential that a business has a crisis communication plan.

APPLY your understanding

5. 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
6. If you were the public relations manager for Meat and Livestock Australia, **identify** which communications medium you would select as your:
   a. first preference
   b. second preference.

7. 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. **Identify** the objectives.
   c. **List** the tactics and strategies used.
   d. **Identify** the targeted publics.
   e. **Explain** how the campaign was evaluated.
8. 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. **Identify** the objectives.
   c. **List** the tactics and strategies used.
   d. **Identify** the targeted publics.
   e. **Explain** how the campaign was evaluated.

5.17 Exam questions

Question 1 (2 marks)

Define the term 'planned public relations'.

Question 2 (3 marks)

Distinguish between planned public relations and crisis public relations.

Question 3 (2 marks)

Explain the importance of maintaining a positive relationship with the customer base.

Question 4 (8 marks)

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 does not have a crisis communication plan.

a. **Describe** a crisis public relations strategy that Tim should use in this situation. **4 marks**
b. **Explain** two possible outcomes if Tim cannot maintain a positive relationship with his business's customer base. **4 marks**

More exam questions are available online.

5.18 APPLY YOUR SKILLS Achieving success in public relations

PRACTISE YOUR SKILLS

- Apply business management knowledge to practical and/or simulated business situations

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5.18.1 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.

Use the tips on crisis management above and in this topic to test how well you react in a crisis. Work through the following steps.

1. In groups of four, devise a crisis situation. It might be a gold coin 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. Roleplay the crisis.

5.18.2 Critical safety messaging

CONTEMPORARY CASE STUDY

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. The train operator claimed that the campaign contributed to a reduction in 'near-miss' accidents by more than 30 per cent.

The 'Dumb Ways to Die' campaign now has a number of spin-off games. For example, 'Dumb Ways to Die: Superheroes' — a 3D runner style — was released in 2020. Social media channels such as Instagram and TikTok are now used to spread the safety messages and grow player numbers, as well as raise overall awareness about 'Dumb Ways to Die'. The campaign was so successful it was acquired in October 2021 by PlaySide Studios for $2.25 million. A NFT called Beans was released by PlaySide in 2022. What started as a public safety campaign to help people be safe around trains has now become an entertainment brand in its own right.

on Resources

Weblink Dumb ways to die

5.18.3 Socially and environmentally responsible messaging

CONTEMPORARY CASE STUDY

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 youth and first-time entrepreneurs through their MJF Youth foundation.

Dilmah allocates a minimum of 15 per cent of profit to the MJF Charitable Foundation, a charity founded by Merril J. Fernando (the company's founder and former CEO). The foundation funds schools, child development centres and entrepreneur programs in Sri Lanka, while promoting conservation and sustainable agriculture.

Dilmah's public relations strategies have clearly worked because the tea is now sold in over 100 countries and the company earns millions of dollars in revenue. It is one of the largest tea brands in the world. In 2020, Dilmah won the Australian Consumer Award for product of the year for its Natural Infusions range.

Many other businesses also see the importance of promoting their products as environmentally sound or 'eco-friendly'. For example, Gloria Jean's offers a large variety of Rainforest Alliance coffee blends and Nando's uses recyclable materials in its packaging.

on Resources

Weblink Dilmah Tea

5.18 Exercises

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5.18 Exercise | **5.18 Exam questions**

5.18 Exercise

TEST your skills

1. **Outline** 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?
3. **Describe** the problem that Metro Trains tried to solve.
4. **Explain** how the 'Dumb Ways to Die' campaign sought to educate people about train safety.
5. **Identify** three factors that distinguish Dilmah Tea from other brands of tea on the market.
6. Meeting the people who own and run a business, whether it be through television commercials or magazine advertisements, can be a successful PR strategy. **Explain** why this is the case.
7. Besides Dilmah Tea, name one product that claims to be 'eco-friendly'. **Explain** why that business must be careful to ensure that the claims it makes about its products are true.

APPLY your skills

8. It is likely that there were some 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.
9. **Outline** whether the 'Dumb Ways to Die' campaign is an example of planned or unplanned public relations.
10. 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.
11. 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.
12. 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.

5.18 Exam questions

Question 1 (4 marks)

Explain one cost and one benefit of establishing positive public relations.

Question 2 (6 marks)

Analyse a planned public relations strategy. In your response, refer to a contemporary business case study.

Question 3 (4 marks)

Propose a public relations strategy that a business could use to establish a strong customer base.

More exam questions are available online.

5.19 EXTEND YOUR KNOWLEDGE When things don't go according to plan

EXTEND YOUR UNDERSTANDING OF THIS CONCEPT

- It's a public relations nightmare, but with some good sense and management a business can still recover from unplanned, negative events.

5.19.1 Recovering from negative public relations

CONTEMPORARY CASE STUDY

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. 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 paid immediately. Despite this offer the Brazilian government commenced legal proceedings against Samarco, Vale and BHP, including the charge of environmental damage and criminal charges against employees. As a result of the tragedy, BHP shares tumbled to their lowest price in 20 years. Although BHP was proactive in attempting to limit the 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 is still under negotiation in 2022, with negotiations for compensation continuing in Brazil and new legal battles in the UK.

5.19.2 Managing public relations

CONTEMPORARY CASE STUDY

Crisis at Facebook

Whistleblowers have accused Facebook of knowingly hosting hate speech and illegal activity, as well as ignoring rules about election misinformation and allowing election manipulation to thrive. Leaked documents detail many examples of how the firm prioritised profits over public safety, and were confirmed by former employee Frances

Haugen in testimony to the US Congress and UK Parliament. Another whistleblower complained to the Securities and Exchange Commission about how rules about election information were regularly ignored so that it didn't affect growing profits or upset powerful politicians such as Donald Trump.



Despite many employees raising concerns during and after the US presidential election, they claim no action was taken by Facebook. Whistleblowers state that the platform allowed false political content to thrive, particularly when Donald Trump attempted to overturn Joe Biden's election win. Data scientists working for Facebook reported up to 10 per cent of election posts were fraudulent, but the company did not act on the problems.

Facebook's algorithms recommend users to certain posts or sites based on existing interests. Leaked internal documents reveal how easily and quickly users were directed to extremist groups. Whistleblower Haugen reported that the algorithms were briefly tweaked to prioritise safety over growth due to negative coverage around the election time, but were quickly changed back to encourage more growth on the platform.

These revelations have led to lawsuits and legislation aiming to curtail Facebook's power, as well as highlighting the need for regulation. It has created a public relations crisis for Facebook and may have led to the company's decision to rebrand itself as Meta.

5.19 Exercises

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5.19 Exercise | **5.19 Exam questions**

5.19 Exercise

TEST your understanding

1. **Outline** why the Australian mining company BHP was 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. **Explain** why the Brazilian government commence legal proceedings against the mining companies involved in the disaster.
4. **Explain** what the Renova Foundation is. In what ways is BHP supporting the activities of this organisation?
5. **Outline** the events that created such a huge crisis for Facebook.
6. **Explain** why it is important for a business to manage such a public relations crisis such as that faced by Facebook.

EXTEND your understanding

7. **Outline** the actions BHP took that were designed to have a positive PR impact.
8. 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.
9. The mining companies have contributed large sums of money and are likely to have to continue to do so. **Discuss** the importance of financial compensation as part of a crisis management plan. **Justify** your answer.
10. **Explain** why the release of the news that Facebook had ignored complaints by employees about online safety was so significant in the crisis management efforts of the company.
11. 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. **Explain** why it is important for the CEO to take charge in these situations.

5.19 Exam questions

Question 1 (6 marks)

Referring to a contemporary business case study, **analyse** a crisis public relations strategy implemented to maintain a business's image.

Question 2 (6 marks)

With reference to a contemporary business case study, **propose** and **justify** a crisis public relations strategy that a business could implement to maintain a positive relationship with its customer base.

More exam questions are available online.

5.20 Corporate social responsibility issues in establishing a customer base

KEY KNOWLEDGE

- Corporate social responsibility management considerations regarding establishment of a customer base, such as green marketing and the protection of customer privacy

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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.

5.20.1 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.
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.

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.



materialism an individual's desire to acquire more possessions

product placement the inclusion of product advertising in entertainment

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?



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.

CONTEMPORARY CASE STUDY

'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.

5.20.2 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, 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 from the arrangement.

Green marketing

Green marketing refers to the practice of promoting and selling products based on their real or perceived environmental benefits. A product being promoted or sold in this way would be environmentally friendly by nature or would be produced using environmentally friendly production processes. As society becomes more aware of environmental issues, marketing products 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.

TOMS is a well-known brand that is known for making comfortable shoes. The company uses the profits from its business to help people and the environment. If you go to the company's website, you will see that, over the past five years, TOMS has been making efforts to expand sustainable practices in key areas of its business.

These green marketing examples have included the use of earth-friendly materials such as sustainable cotton, as well as the reduction of waste and energy use. In addition, the team behind the business offers its customers packaging that is created from materials that have been recycled.

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.

Protection of consumer privacy

Businesses need to effectively manage the data they gather from customers (see section 5.14.7). This relates to businesses' responsibility to collect, use and store customers' personal data in such a way that customers feel their data is secure and their privacy is protected.

The Australian government's Office of the Australian Information Commissioner (OAIC) provides the following tips for businesses in managing customer information:

1. Become familiar with internal privacy policies, processes and procedures.
2. Know who is responsible for privacy.
3. Think about privacy during project planning.
4. Collect only the personal information you need.
5. Think about use and disclosure.
6. Prepare for overseas disclosure.
7. Take care when handling sensitive information.
8. Access personal information on a need-to-know basis.
9. Keep personal information secure.
10. Get to know your data breach response plan.

green marketing the practice of promoting and selling products based on their environmental benefits

on Resources

Weblink Australian Marketing Institute

KEY IDEAS

- 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.
- Businesses have a responsibility to collect, use and store customers' personal data in a way that secures their data and protects their privacy.

5.20 Exercises

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5.20 Quick quiz on | **5.20 Exercise** | **5.20 Exam questions**

5.20 Exercise

TEST your understanding

1. 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.
2. 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.
3. 'Marketing creates needs, it does not satisfy existing ones.' **Discuss**.
4. Select which two criticisms of marketing you think are the most important. Give reasons for your answer.
5. 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.
6. **Explain** the benefits to a business of engaging in community sponsorship.
7. **Outline** the types of activities that a business should engage in as part of a green marketing strategy.
8. 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.
9. **Explain** why it is important to protect customer privacy.
10. **Outline** two tips the OAIC recommends businesses adopt to protect customer privacy.

APPLY your understanding

11. 'Advertising can get people into a store, but it can't make them buy.' **Discuss**.
12. 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.

5.20 Exam questions

Question 1 (2 marks)

Define the term 'green marketing'.

Question 2 (3 marks)

Justify one corporate social responsibility issue that a business needs to address when establishing a customer base.

Question 3 (6 marks)

Analyse two corporate social responsibility management issues that a business will need to consider when establishing a customer base.

Question 4 (4 marks)

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** two corporate responsibility issues that arise from such an arrangement.

More exam questions are available online.

5.21 APPLY YOUR SKILLS Establishing a customer base, marketing and establishing positive public relations

PRACTISE YOUR SKILLS

- Identify, define, describe and apply business management concepts and terms
- Interpret, discuss, compare and evaluate business information and ideas
- Analyse case studies and contemporary examples of business management
- Apply business management knowledge to practical and/or simulated business situations

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CONTEMPORARY CASE STUDY

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.

ISA is the umbrella organisation that represents and markets the products offered by industry superannuation funds.



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.

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 trying to persuade businesses to switch to the bank's retail fund as their default fund. This persuasion included reduced premiums, cheaper interest rates on loans and even tickets to major sporting events. Such behaviour 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. 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. This spending on media promotion does not appear to have abated. In 2020, analysis of parliamentary disclosures by *The Australian* newspaper found that Australia's largest superannuation funds had spent close to $400 million on advertising, stadium naming rights and sport sponsorships over the previous five years.

In the Industry Super advertisements, contributors to industry super funds hold their hands in a manner that replicates the industry super logo.



5.21 Exercises

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5.21 Exercise | **5.21 Exam questions**

5.21 Exercise

TEST your skills

1. **Identify** the alleged marketing activities by retail super funds that ASIC investigated.
2. **Outline** the likely objective of these alleged activities.
3. **Explain** the key message behind the ISA marketing and public relations campaign.
4. **Describe** how the 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, **identify** 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, **predict** what impact they might 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. **Identify** 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.

5.21 Exam questions

Question 1 (4 marks)

With reference to a contemporary business case study, **analyse** one marketing strategy that communicates a commitment to corporate social responsibility.

Question 2 (5 marks)

Explain the costs and benefits of marketing a business that you have studied this year.

Question 3 (6 marks)

With reference to a contemporary business case study, **evaluate** the costs and benefits of establishing positive public relations.

More exam questions are available online.

5.22 Review

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5.22.1 Summary

The relationship between marketing, establishing a customer base and business objectives

- Marketing involves:
  - creating a product that a consumer wants, at a price that they can afford
  - raising awareness of the product (promotion)
  - distributing the product 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.

Internal and external 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 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.

Technological developments in marketing

- Social media has allowed greater connection between people and therefore between businesses and their customers.
- Email marketing gives businesses direct access to existing and new customers.
- It is important to ensure data is secure and kept private.

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 its lacks a strong code of conduct. Therefore, it is important not to act in a way that confirms these criticisms.
- Socially responsibility marketing can include the sponsorship of community organisations and highlighting the positive environmental elements of the product being marketed.
- Protecting customer privacy is paramount when seeking data from customers.

5.22.2 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
artificial intelligence intelligence demonstrated by machines, as opposed to the natural intelligence displayed by humans
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
crisis public relations the strategies that a business implements when an unforeseen event generates unfavourable publicity that may threaten the image and reputation of the business
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 loyalty program a rewards-based program offered by a business to customers who frequently make purchases
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.
data analytics the science of analysing raw data to draw conclusions about that information
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
email marketing the act of sending a commercial message, typically to a group of people, using email
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
green marketing the practice of promoting and selling products based on their environmental benefits
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
opinion leader a person who influences others
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
people everyone who is involved in the product of a business, whether they are in direct contact with customers or have an indirect connection
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
physical evidence everything that the customer sees when interacting with a business
place making the product available to the customer, wherever the customer chooses to purchase it
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
process the flow of activities or mechanisms that take place when there is any interaction between the customer and a business
product a good, service, experience, idea or information that can be offered in an exchange for the purpose of satisfying a need or want
product development the creation of a product with new or different characteristics that offer new or additional benefits to customers
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 their buying behaviour

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.
public relations campaign a series of public relations activities undertaken to achieve a specific objective
publicity any free news story about a business's products
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
search engine optimisation the process of improving a business's website to increase its visibility when people search for products or services via various search engines
secondary data information that some other person or business has already collected
secondary target market usually a smaller and less important market segment
social media a computer-based technology that facilitates the sharing of ideas, thoughts and information through virtual networks and communities
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

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Digital documents Key terms glossary (doc-37633)
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5.22.3 Practice school-assessed coursework

OUTCOME 2

Explain how establishing a customer base and a marketing presence supports the achievement of business objectives, analyse effective marketing and public relations strategies and apply these strategies to business-related case studies.

ASSESSMENT task — case study analysis

Time allowed:	50 minutes
Marks allocated:	26 marks
Conditions:	Read the following case study and then complete the questions.



Volkswagen

Recognising the changing market, Volkswagen has become involved in developing cars for the future, such as ethanol-powered cars, electric cars, autonomous vehicles (driverless cars) and hybrid cars. In 2017,

Volkswagen announced plans to place a considerable focus on electric vehicles (EV), with a goal of launching at least 30 EV models by 2025 and to have 20 to 25 percent of the company's total yearly sales volume (2–3 million) consist of EVs.

Volkswagen CEO Matthias Müller stated that the company aimed to have electric versions of all of its vehicle models by 2030, at a cost of 20 billion Euro, and that it would spend 50 billion Euro on the acquisition of batteries. On 6 March 2017, at the Geneva Motor Show, Volkswagen presented its prototype for a fully autonomous car, Sedric.



The business has also made a number of other changes to its operations and marketing. In response to declining sales and a focus on a 'one model' philosophy, Volkswagen was in trouble in terms of sales. A significant decline saw the company expand its range and introduce sleeker models, such as the Passat and Golf. In September 2019, at the Frankfurt Motor Show, Volkswagen officially unveiled a refreshed logo (a thinner, two-dimensional version of the previous logo) and new sonic branding, which will accompany the newly launched electric vehicles. Volkswagen stated that the new logo and vehicles signified the start of a 'new era' for the company.

Since 2015, the company was forced to undergo some dramatic changes after a major blow to its image caused by unethical practices. In 2015 Volkswagen was found to have installed a device in its testing vehicles that allowed for significantly lower recorded carbon emissions. This device was not operational under normal driving conditions to improve fuel efficiency.

Question 1 (2 marks)

Explain the relationship between marketing and achieving business objectives.

Question 2 (3 marks)

Describe the importance of brand identity in relation to Volkswagen.

Question 3 (3 marks)

Describe the initial target market attributes of Volkswagen.

Question 4 (4 marks)

Outline the stages of the product life cycle in relation to the Volkswagen Beetle.

Question 5 (2 marks)

Explain what is meant by the term 'public relations'.

Question 6 (6 marks)

Analyse how Volkswagen may have dealt with its various public relations crises.

Question 7 (6 marks)

Discuss how Volkswagen is adapting its business and marketing to the current views of society.

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5.22 Exercises

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5.22 Exercise

TEST your understanding

1. **Outline** the importance of marketing to a business.
2. **Define** the term 'customer base'.
3. 'Marketing is a waste of money!' **Discuss** 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. **Identify** 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. **Identify** 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. **Explain** why the marketing strategies should change as a product advances through the stages of its life cycle.
9. **Explain** the importance of businesses undertaking market research.
10. **Identify** the intangible benefits that products may contain. Include examples to support your answer.
11. Briefly **outline** the four marketing elements that make up the marketing mix.
12. **Explain** how having a clear understanding of the target market improves 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. **Identify** which advertising media you consider to be the most effective if a business wants to communicate with a niche market. **Justify** your answer.
15. **Explain** how 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. **Explain** why many businesses engage the services of professional media monitors.
19. **Explain** how social media plays a role in marketing.
20. **Describe** how does search engine optimisation benefits a business.
21. **Explain** the importance of a data custodian.
22. In pairs, **identify** the elements that combine to create:
    a. a positive image of a business
    b. a negative image of a business.
23. **Identify** the publics for the following businesses:
    a. your local convenience store
    b. an employment agency
    c. your local dentist.
24. **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.
25. 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

26. **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.
27. In the 1960s, after Volkswagen management introduced a marketing plan to build and sell Beetles in Australia, **describe** the performance indicators the VW managers could have implemented to monitor the degree of success of their plan.
28. **Research** the spending patterns of your household by listing, with a responsible adult member, the most expensive ten items paid for in the past two months. State whether these items were goods or services. **Determine** whether your research supports the fact that the bulk of household expenditure is on the services provided to families rather than on goods.
29. **Identify** which products your household has purchased online in recent times. Online shopping has its benefits and its limitations. Make a list of the pros and cons of shopping on the internet.
30. Do you believe internet shopping will continue to expand in the future? **Outline** the implications your predictions would have for current shopping practices.
31. 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. **Describe** how you would change the current public relations activities undertaken by your school.
32. The local paper has accused a local sporting club of allowing rough play that has resulted in an opposition player being hospitalised. **Create** a crisis communication plan to minimise the damage to the sporting club.

5.22 Exam questions

Question 1 (20 marks)

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. **Identify** 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. **Explain** how each of the following might influence the marketing mix used by the legal firm in marketing the services offered by its new branches.

i. Price **2 marks**

ii. Place **2 marks**

iii. People **2 marks**

iv. Physical evidence **2 marks**

Question 2 (3 marks)

Explain how a business might use market segmentation to help it identify its target market.

Question 3 (8 marks)

All products go through different stages of a life cycle.

a. **Outline** 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**

Question 4 (11 marks)

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**

Question 5 (8 marks)

One of Chloe's customers has discovered a dead cockroach in a birthday cake that she has purchased. Chloe must implement her crisis communication plan.

a. **Explain** the term 'crisis communication plan'. **2 marks**

b. **Propose** and **justify** two public relations strategies which would be best for responding to the crisis at Chloe's business. **6 marks**

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TOPIC

6 Staffing a business

UNIT 2 AREA OF STUDY 3

OUTCOME 3

On completion of this topic you should be able to discuss the importance of staff to a business, discuss the staffing needs for a business, and evaluate staff-management strategies from both an employer and staff perspective.

LEARNING SEQUENCE

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6.1 Overview

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6.1.1 Why it is important

In this topic you will be studying the staffing needs of a 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.

CONTEMPORARY CASE STUDY

SERVICE BUSINESS: ALDI

Background

In over twenty years of operation in Australia, ALDI has established itself as an employer that is known for maximising the full potential of its workforce through established policies and practices. Despite having a large workforce, ALDI has been able to demonstrate effective employee recruitment, engagement and retention.

Founder	Karl and Theo Albrecht (1946)
CEO Australia	Tom Daunt
Number of employees	13 500 plus
Head office	Mülheim, Germany (ALDI Süd)
Flagship products	Staple items, such as food, beverages, cleaning products and other inexpensive household items

The first ALDI Australia store opened its doors on 25 January 2001. There are now over 580 stores around Australia, employing over 13 500 people.



Staff are one of the greatest assets of a business and are an important consideration during the establishment phase of a business and beyond. The quantity and quality of staff have a direct link to business productivity and the achievement of business objectives. ALDI believes that providing its employees with ongoing professional development and support is vital. The business provides support through the ALDI Academy for all learning and development activities.

ALDI provides a number of instore training programs for shift managers and assistant managers. It also offers graduate schemes to develop employees to be able to run their own ALDI stores in the future. Developing staff is an integral part of maintaining a competitive retail edge and ALDI believes that by investing in, and training, its people it will ultimately provide a better-quality outcome for customers.

More recently, ALDI has embraced working from home, and has rolled out electronic devices to all office staff to ensure corporate operations and support could continue to be provided to its store and warehouse network, all from home. Since the easing of COVID restrictions, ALDI has continued with its working from home scheme as a policy, whereby eligible employees are given ten days a month to work from home.

CONTEMPORARY CASE STUDY

MANUFACTURING BUSINESS: Sutton Tools

Background

Sutton Tools is, and has always been, a family enterprise. It was founded back in 1917 by William Henry Sutton, who established the Sutton Tool & Gauge Manufacturing Co. in Westgarth, Victoria. Sutton Tools started small, as most family enterprises do. Yet over time it has expanded its expertise into a broader portfolio of expert cutting tools.

Founder	William Henry Sutton (1917)
Director	Jim Sutton
Managing Director	Peter Sutton
Head office	Thomastown, Melbourne
Flagship products	Sutton Tools manufactures and supplies high quality tools to a broad spectrum of industries, including general manufacturing, electronic manufacturing, automotive, medical, mining and power generation.



Today, Sutton Tools is based across two sites in Victoria. One is in Thomastown in Melbourne's northern suburbs. This is the head office, where the bulk of production takes place. There is another specialised operation in Maryborough.

Sutton Tools supports and promotes Australian-made products, with the aim of creating more opportunities for all Australians. About 40 per cent of Sutton Tools products are now sold overseas, across 40 countries. Sutton Tools are proud advocates of the Australian Made Campaign. Its biggest customers are in Aerospace Valley, near Toulouse in south-west France, where Airbus and many of its subcontractors are based. It also supplies tools to Apple subcontractors.

Sutton Tools remains an Australian family business in the hands of the third and fourth generations of the Sutton family. In fact, Sutton Tools has been 100 per cent family-owned since 1917. 'I'm a very strong advocate for family business,' says Robert Sutton, who joined the company in the mid 1990s. 'But you have to earn your place. We were discouraged from entering the business before gaining outside experience; we had to fight our way in!' Sutton believes continuing to operate in Australia's relatively high-cost environment is the best long-term decision and states that they are 'always eager to meet and greet new talent and welcome them to the Sutton Tools family!'

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 knowledge	Subtopic
The relationship between the performance of staff and achieving business objectives	6.3
Identification of the staffing needs of the business such as the knowledge, skills and ideas staff can contribute to the business	6.4
The effects that developments in technology may have on staffing needs	6.5
Job analysis and its relationship to job design, job descriptions and job specifications	6.6
Recruitment methods and the advantages and disadvantages of each method: • internal such as intranet and word of mouth • external such as websites, online recruitment agencies and social media	6.7
Selection methods such as interview, psychological testing, work testing, online selection, and the advantages and disadvantages of each	6.8
Overview of the National Employment Standards	6.10
Employer expectations such as contracts of employment, loyalty and terms of notice	6.11
Employee expectations such as conditions of employment, remuneration, job security and work–life balance	6.12
Overview of legal obligations for staffing such as occupational health and safety (OH&S) regulations and equal employment opportunity (EEO) legislation	6.13
The purpose and common methods of employee induction	6.15
Corporate social responsibility management considerations regarding establishment of staffing for a business and overseas recruitment	6.16

Key skills

These are the skills you need to demonstrate:

Key skills
Identify, define, describe and apply business management concepts and terms
Interpret, discuss, compare and evaluate business information and ideas
Analyse case studies and contemporary examples of business management
Apply business management knowledge to practical and/or simulated business situations.

Source: VCE Business Management Study Design (2023–2027) extracts © VCAA; reproduced by permission.

on Resources

Digital document Key terms glossary (doc-37634)

Weblinks ALDI
Sutton Tools

6.2 BACKGROUND KNOWLEDGE Overview of the employment cycle

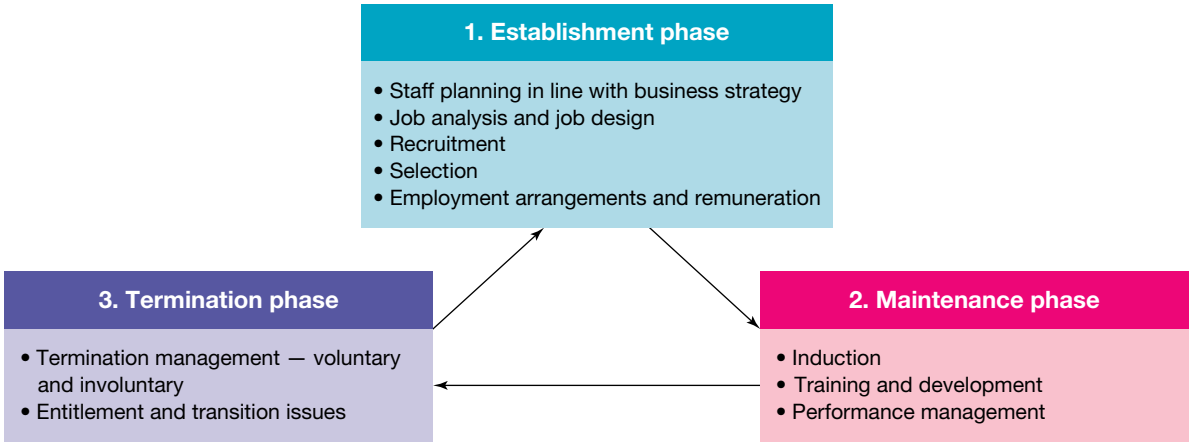
BACKGROUND INFORMATION

The employment of staff involves a three-stage cycle, consisting of the establishment phase, the maintenance phase and the termination phase.

6.2.1 The employment cycle

As you study the staffing of a business it is worth noting that you will be working through part of the **employment cycle**. This refers to the relationship between a business and its employee, from the initial planning and decision to hire a new employee until the time that employee leaves the business. The three phases of the employment cycle are summarised in the diagram below.

The three phases of the employment cycle



The establishment phase

The establishment phase involves the planning of staffing needs, the recruitment and selection of staff, and the determination of employment arrangements and remuneration.

Planning

The staff planning process begins with the identification of staffing needs. This may involve increasing the number of employees who carry out existing functions within the business, or identifying new tasks that need to be performed and the particular skills that will be needed to perform those tasks. In either case job analysis is carried out, which consists of two parts:

1. Job description: the duties, tasks and responsibilities associated with the job
2. Job specification: the qualifications, skills and experience that an employee would need to have to carry out the job.

Recruitment

Recruitment is the process of attracting suitable applicants to the position using advertisements, employment agencies and word of mouth. A business may choose to recruit externally, which involves bringing in a new employee from outside the business. Alternatively, it may choose to recruit internally, which usually involves transferring an existing employee into a new position, or promoting an existing employee into a position of greater responsibility.

employment cycle all stages in the process of employing staff, from initial planning through recruitment, selection, induction, performance management and eventual termination of employment

Selection

This is the process by which the most suitable applicant is chosen to fill the position. It may involve:

- requiring applicants to provide detailed information on an application form
- carrying out interviews
- various forms of testing, including aptitude testing and psychological testing
- examining references and other background checks.

The applicants will then be ranked, with the highest ranked applicant offered the position. If that person does not accept the offer, the next highest ranked applicant can be approached.

Employment arrangements and remuneration

Employment arrangements can include ongoing permanent employment, casual employment or fixed-term employment for a designated period of time. **Remuneration** refers to the payment made to the employee. Most industries are governed by Awards, which establish a minimum set of wages and conditions for employees. Employers may choose to pay above this minimum and may also build in a variety of additional financial incentives for employees.

The maintenance phase

This phase covers the period of time during which the employee works for the business. It involves induction, training and development, and performance management.

The induction period begins on the first day in a new job and will be completed within the first few days.



Induction

This is a process of acquainting the new employee with the business — its history, structures, objectives, culture, policies and practices. It also involves ensuring that the new employee has the opportunity to gain full knowledge of the tasks and responsibilities associated with their new job. If the employee is to become a new member of an established team, it is important that they be given opportunities to get to know other members of that team. One or more existing team members may take on the responsibility of mentoring the new employee.

Training

Training is important at all stages of the employment cycle. This may include training at the start of a new job to provide the employee with the necessary skills. It is also important as the business introduces new processes or if an employee's duties change. ALDI, our contemporary business case study, prides itself on its comprehensive training provision.

Performance management

All businesses seek to achieve their objectives by improving productivity and getting the best value from employees. It is important to monitor the performance of all employees and find ways of improving that performance over time. We have already seen how employee motivation can be a powerful driver of improved performance.

The termination phase

All employees will eventually leave a business. This phase involves managing the termination of the employment relationships and dealing with entitlement and transition issues.

remuneration monetary payment in return for the work an employee performs

Managing termination

The employment relationship may end voluntarily, when an employee retires at the end of their working life, or if they resign to take up a position at an alternative business. Departures of this nature will be managed differently from involuntary departure. Involuntary departure of an employee from a business means that the employee has not chosen to leave. This includes when a position becomes redundant (the situation where a job no longer exists, usually due to technological changes, restructuring, or a merger or acquisition) and the person in that job can no longer be retained. It also includes dismissal, which may occur following warnings over unsatisfactory job performance or inappropriate behaviour.

Entitlement and transition issues

An employee leaving a business may be entitled to the payment of outstanding benefits, such as accumulated annual leave or long service leave. It is important that accurate records are kept to allow these benefits to be calculated and paid. In some cases of involuntary termination of employment, counselling and support for affected employees may be appropriate. This may include the provision of assistance to the departing employee to help them transition to a new job elsewhere.

6.2 Exercises

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6.2 Quick quiz on | 6.2 Exercise

6.2 Exercise

TEST your understanding

1. **Identify** the three phases of the employment cycle.
2. **Outline** the management strategies that will need to be applied in each phase of the employment cycle.

APPLY your understanding

3. Peter has completed a degree in marketing and has gained employment with a real estate agency to manage its online and print advertising.
   a. Peter was recruited and selected for a new role in a business. **Identify** the name of this stage of the employment cycle.
   b. **Identify** the phase of the employment cycle that Peter will experience if he participates in induction.
   c. Following his induction, what additional training might be useful for Peter, and for his employer?
4. **Explain** why an employer might need to manage a voluntary termination of employment differently from an involuntary termination. Make a list of the issues that might arise with each type of termination.

6.3 Staff performance and achieving business objectives

KEY KNOWLEDGE

- The relationship between the performance of staff and achieving business objectives

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Successful business owners rely on their employees to achieve their aims of improved profit, growth and increased market share. Employees are a business's most valuable asset, so it is important to take care to recruit the best people for the needs of the organisation. 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 should be a high priority for the business owner.

on Resources

Video eLesson The relationship between the performance of staff and achieving business objectives (eles-2985)

6.3.1 The responsibility for staffing

Employees in a business are often referred to as human resources. This human resource is responsible for directing and combining other resources to produce goods and services. Larger businesses often have a specialist human resource manager who is responsible for **staffing**. Staffing is not only the process of finding and acquiring an employee who will meet the needs of the business, but also preparing and retaining that employee. In a smaller business, the business owner is likely to take responsibility for staffing, often with the assistance of existing employees.

Highly skilled employees can provide expertise and better service, potentially increasing business revenue.



Regardless of the size of the business, the responsibility for effectively managing the relationship between the employer and employees is known as **human resource management**. It involves the coordination of all aspects of the employment cycle, including the planning, recruitment, selection, legal obligations, training and induction.

The dynamic nature of business means that staffing needs will change. 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 and plan for their staffing needs.

6.3.2 Achieving business objectives

A business objective is a desired outcome or specific result that a business intends to achieve. Typically, business objectives include:

- making a profit
- expanding the business
- increasing market share.

staffing the process of finding, acquiring, preparing and retaining the right employee for a position in the business

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 management should focus on recruiting suitable employees, motivating them and increasing their productivity in order to achieve a business's objectives. The activities of employees generate most of a business's **revenue**, and ultimately its profit. Despite being a major expense to the business, having highly skilled and qualified employees can 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. Improvements in productivity can bring increases in revenue without increasing expenses and can thus lead to improved profits. Motivated employees will work hard to improve the performance of the business, and these extra efforts can contribute to business growth and market share.

The human resource manager in a larger business will work closely with other managers in the business. The human resource manager may, for example, work closely with the marketing manager to recruit and select new staff. Thus, staffing strategies can be used to achieve business objectives by supporting strategies in other areas of the business. The table that follows provides more examples of how staffing strategies can be used to help the business achieve its objectives.

How staffing strategies can support business objectives

Business objective	Human resources objective	Staffing strategy
• Quickest supplier of parts and components	• Improve worker productivity	• Thorough selection and training process
• Increase in customer satisfaction	• Develop understanding of business's processes for dealing with customers	• Provide an effective induction program
• Increase in sales	• Motivated workplace	• Introduction of flexible work practices
• Provide a safe workplace	• Reduce the number of accidents	• Establish work teams

CONTEMPORARY CASE STUDY

ALDI's business objectives

ALDI's vision is to enable Australian shoppers to live richer lives for less. They believe that people, wherever they live, should have the opportunity to buy everyday groceries of the highest quality at the lowest possible price. To make this happen, ALDI invests heavily in its employees. The business openly and publicly considers its employees as 'hardworking' and offers variety in employee roles to ensure that staff are stimulated and productive. ALDI store managers share their goals with their staff so that the team understands the importance of working together to achieve the set goals.



6.3.3 Performance of staff and business objectives

The **performance of staff**, relative to the businesses objectives, helps to determine how successful a business will be. One common way of measuring the performance of staff is in terms of an employee's efficiency. This considers how well an employee uses resources. Staff performance can also be measured by their ability to work as part of a team, their ability to change or by their willingness to adjust to change. Where staff performance is below expectations, the objectives of the business are likely to be jeopardised. If staff are inefficient in their work processes, higher business costs will result, which in turn will negatively impact

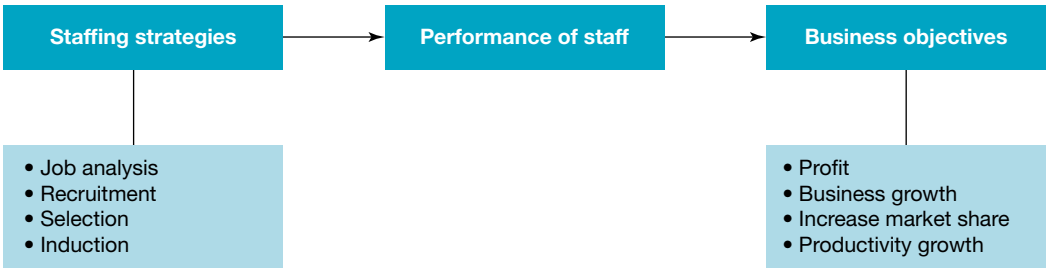
revenue the income that a business earns from the sale of goods and services to customers

productivity a measure of business efficiency comparing output produced with the quantity of inputs. It is calculated using the formula: *Productivity = outputs/inputs*.

performance of staff how well the job activities of employees are carried out

on a business's objective to maximise profit. In such a situation, a business may need to develop strategies to improve staff performance so that its objectives will be met. As we have already noted, these strategies for staffing a business will include recruitment, selection and induction. When staff are working productively, they will be lowering costs, increasing sales and assisting the business in achieving its objectives.

The relationship between the human resources area, performance of staff and business objectives



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*

KEY IDEAS

- Employees are one of the most important resources for success in business.
- The quality of employees can influence the ability of the business to achieve its objectives.
- Performance of staff refers to how well the job activities of employees are carried out.

6.3 Exercises

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6.3 Quick quiz on | 6.3 Exercise | 6.3 Exam questions

6.3 Exercise

TEST your understanding

1. **Define** the term 'staffing'.
2. **Explain** how the performance of staff may influence business objectives.
3. **Explain** why human resource managers and business owners need to consider their staffing needs on an ongoing basis.

APPLY your understanding

4. **Explain** whether or not each of the following staffing strategies will contribute to the business achieving its objectives. Give reasons for your answers.
   a. A café owner hires additional staff to work at weekends when the 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 terminates their employment 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.
5. 'In the current business environment it is crucial that business owners recruit and maintain the right people for the job.' **Analyse** this statement and **discuss** the relationship between staff and business success.

6.3 Exam questions

Question 1 (2 marks)

Define the term 'performance of staff'.

Question 2 (3 marks)

Describe the relationship between the performance of staff and business objectives.

Question 3 (6 marks)

Chris has set up a building supplies business in a new and expanding suburb where large numbers of new homes are being built.

a. Explain one business objective that Chris may be attempting to achieve. **2 marks**
b. Outline two staffing decisions Chris might need to make to meet his business objectives. **2 marks**
c. Explain why Chris would need to constantly review his staffing needs. **2 marks**

Question 4 (4 marks)

Referring to a contemporary business case study, explain the importance of the performance of staff in achieving business objectives.

More exam questions are available online.

6.4 Identifying staffing needs of the business

KEY KNOWLEDGE

- Identification of the staffing needs of the business, such as the knowledge, skills and ideas staff can contribute to the business

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6.4.1 Human resource planning

Businesses will inevitably find that positions become vacant as employees retire, resign or get promoted. Also, new positions will often develop as the business expands. However, before a business advertises for a new employee, a number of planning activities must be undertaken. The business should identify its **staffing needs**, such as the knowledge, skills and ideas that staff can contribute to the business, before commencing the process of recruitment and selection. For example, if a business does not accurately identify its staffing needs and rushes to advertise a position with the hope that someone can be quickly hired, then the business is setting itself up for problems later. The person selected may be someone who does not possess the knowledge, skills and ideas required for the position or needed by the business.

staffing needs the human resource requirements of a business

Human resource planning involves forecasting the number of employees available and the number of qualified employees demanded in the future. Human resource planning must be related to business strategies (the actions taken to achieve a business's objectives). For example, a common strategy used in order to achieve the objective of increased profitability may be to reduce business costs. Human resource planning 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, the business will have to plan for a reduction of the workforce.

Approximately 75 per cent of shoppers regularly use self-scanning checkouts. This means that the businesses that this affects must plan for the decrease in demand of checkout operators. Some of these staff may retire; however, many will need retraining.



Recruiting and selecting the right employees is a critical process in the management of staff. It requires an analysis of the internal and external environment to identify the staffing needs of the business.

Analysing the internal environment (organisational analysis)
- Goals and objectives
- Current business performance
- Technology
- Structure
- Size
- Rates of staff turnover and promotion
- Productivity levels
- Budget (financial capacity)

Analysing the external environment
- Competition
- Labour market trends (seasonal and unemployment rates)
- Economic trends — impact on sales
- Labour costs, features
- Changes in legislation that affect human resources
- Changes in industrial relations practices

Business objectives and strategic plan

What are the objectives of the business and what are the strategies to achieve these objectives?

Forecast demand

What is our staffing need?
- Turnover
- Number
- Skills
- Tasks needed to be performed from job analysis
- Experience
- Knowledge
- Ideas

Forecast supply

What staffing do we already have available?
- Human resources inventory
- Numbers; qualifications; skills; occupations; performance; experience
- Turnover rates (high/low)
- Career goals

Determine variances

Staffing shortage
- Increase overtime, use of casuals
- Stop retirements
- Accelerate training and development
- Start recruiting
- Outsourcing

No variance
- May need to change some other aspect of employment relations (e.g. training, improved workplace culture)

Staffing surplus
- Reduce overtime, use of casuals
- Encourage early retirements — retrenchment packages
- Stop recruiting
- Reduce working hours

Develop appropriate objectives and strategies

human resource planning the process of determining current and future staffing needs for a business and the development of strategies to meet those needs

When forecasting the demand for employees, human resource planning needs to take into account both internal and external factors. Internal factors may include budget constraints, changes in production, a planned expansion or contraction in operations, the purchase of new equipment, improved customer service, or likely retirements. External factors may include the state of the economy, social and technological change, government regulation and the degree of competition in the market. Given the pace of today's technology and the global economy we now operate in, businesses must respond to change quickly. If a business does not plan its human resource needs in line with its business strategy, it is unlikely that the business will succeed.

A business should combine all of this information when planning for its staffing needs, to help determine:

- the number of employees required
- the qualifications of employees and their knowledge, skills, previous experience and ideas
- when and where employees will be needed.

CASE STUDY

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.

The Workforce BluePrint model provides advice and support for businesses in workforce planning and development.



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?

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.

The knowledge and ideas that new employees bring to the business may come from their experience or from the training they undertook to earn a qualification. The way that the business gathers and uses this knowledge and new ideas can be central to its ability to succeed in the future. New employees may bring new ideas and fresh approaches to tasks that can be used to improve the product the business offers, improve customer satisfaction, increase worker productivity or improve efficiency in the processes the business uses. Businesses should also benefit from new employees who bring skills that the business may need to respond to change. These skills include communication skills, technical skills, the ability to work in a team, leadership and a willingness to adjust to change.

CONTEMPORARY CASE STUDY

John Holland values a skilled and knowledgeable workplace

John Holland is a business that builds roads, tunnels and other infrastructure, with operations in Australia, New Zealand and South East Asia. As part of the North Western Program Alliance, John Holland has been awarded the $844 million contract to remove three level crossings in the Melbourne suburbs of Pakenham and East Pakenham. John Holland estimated that the project will create 750 new jobs. The company believes that employing high quality staff and looking after them is important:

> The ability to attract, develop and retain the skills, knowledge and capabilities relevant to John Holland is fundamental and critical to our success.
>
> Our operations span a range of diverse sectors and disciplines all around Australia, New Zealand and South East Asia. Working with us, there are often opportunities to take on new roles and build on your skills. At John Holland, we are proud of our ability to offer people roles in a huge variety of areas, as well as the ability to transfer between a range of competencies, specialisations and sectors both on site and in support positions.
>
> And all this is done with the benefit of industry-leading training, remuneration, paternity and maternity leave, and other staff benefits.

John Holland is committed to being an employer of choice and looks after its employees by providing a safe workplace, training, opportunities to develop careers and a supportive culture.

Source: Extracts from the John Holland website.

John Holland is involved in building the stations and tunnel for the Metro Tunnel project, as a member of the Cross Yarra Partnership with Lendlease, Bouygues and Capella Capital.



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.

Resources

Video eLesson Proposing and justifying staffing strategies (eles-2983)

KEY IDEAS

- 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.

6.4 Exercises

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6.4 Quick quiz | 6.4 Exercise | 6.4 Exam questions

6.4 Exercise

TEST your understanding

1. **Outline** the process involved in identifying the staffing needs of a business.
2. **Explain** why determining staffing needs is an ongoing process.

APPLY your understanding

3. **Explain** why it is important to link business strategy to workforce planning.
4. Using a contemporary business case study, **outline** how the business values the knowledge and skills of its employees.
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 above, **outline** the issues they need to consider when staffing the three new stores.

6.4 Exam questions

Question 1 (2 marks)

Define the term ‘staffing needs’.

Question 2 (2 marks)

Explain the relationship between identifying staffing needs and strategic business planning.

Question 3 (4 marks)

Discuss the importance of identifying the staffing needs of a business, such as the knowledge, skills and ideas that staff can contribute to the business.

More exam questions are available online.

6.5 The effect of technological development on staffing needs

KEY KNOWLEDGE

- The effects that developments in technology may have on staffing needs

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6.5.1 Developments in technology

We have looked at developments in technology (applications of knowledge that have changed people's lives and changed the way in which businesses operate) a number of times throughout Units 1 and 2 of Business Management. The past decades have seen a technological revolution through the development of information and communications technology. Since the mid 1990s, the internet has been generally available to businesses and customers, making **e-business** a common way of buying and selling. 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 used by most businesses as a means of communicating with customers and promoting their products and services. Just as all of these developments can affect the way businesses operate, they will also strongly influence staffing needs and workforce planning.

6.5.2 Impacts on staffing needs

New information and communications technologies have changed the nature of the workplace. New jobs are created that use new technology, while other jobs become redundant because of technology. 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, some of the following workplace issues can arise:

New technology allows employees to become more mobile and carry out their tasks from almost anywhere.



- 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 mean fewer staff are needed 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 work colleagues or be concerned about job security.
- 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. This flexibility may mean that the division between work and personal lives is blurred.
- Laptops, tablets and smartphones have changed 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.

e-business use of the internet to conduct the full range of business activities

EXAM TIP

The **Unit 2, Area of Study 3** key skills advice states that you may need to 'discuss business information and ideas'. The task word 'discuss' generally requires you to consider both sides of an issue or a topic. This suggests that you should understand positive aspects relating to staffing needs, as well as negative aspects. For example, in regard to the effects of developments in technology on staffing needs, you might point out that new technology may create new jobs, requiring the need for training of existing staff or recruitment of new employees with the necessary skills; however, it may also result in other staff becoming redundant.

CONTEMPORARY CASE STUDY

Developments in technology have positive and negative effects on the workforce

Automation and advanced technology in the workplace have dramatically transformed the way that employees work. Evolving technology such as Artificial Intelligence (AI) can have a positive impact on employees, including the enrichment of an employee's job and the creation of new professional development opportunities. While the use of technological developments may replace or undermine existing jobs, it can also create new jobs that tend to be more highly skilled.

New technology has resulted in more flexible working conditions and remote working. In recent years changes in communications technology have allowed many employees to work 'virtually' from home. Even so, it did not come about without adverse implications. People were forced to manage their work–life balance and many employees found the lack of physical contact with colleagues a challenge.

Developments in technology have enabled more flexible and remote working opportunities, but have also negatively affected work–life balance and mental health.



A study published in the *Australian Journal of Management* in 2020 examined the positive and negative ways that technology can impact on workers and businesses. Led by researchers from the University of Sydney Business School, the peer-reviewed research examined over 100 studies on how technology-driven changes at work affect workplace mental health and employee wellbeing.

The paper concluded that mental health needs to be a high priority. Co-author Dr Shanta Dey from the University of Sydney's Discipline of Work and Organisational Studies said, 'While technology can streamline many aspects of work, its continued use with few breaks can be really draining, especially when the boundaries between work and home life are blurred'.

The study highlighted key strategies to safeguard mental health including:

- following a regular routine that includes physical exercise
- taking regular breaks
- turning off unnecessary notifications on digital devices.

Associate professors Helena Nguyen and Anya Johnson, co-directors of the Body, Heart and Mind in Business Research Group, suggested that managers have a critical role to play in modelling healthy behaviour for employees. 'It's important that managers and supervisors embed systems for routinely checking in on the wellbeing of their employees. This can be especially difficult without in-person contact,' Associate Professor Nguyen said.

Associate Professor Anya Johnson added, 'Employees need to be involved in the decision-making process around the implementation of new systems and procedures'.

Source: Adapted from 'Study reveals dual impact of technology on workers' mental health', University of Sydney, 18 June 2020.

DID YOU KNOW?

The Yellow Business Hub has put together a handy working from home checklist to help employees stay productive while working from home. The tips include removing social media from the mix — this means logging out of all social media accounts on your computer and setting your phone to 'do not disturb'.

KEY IDEAS

- Developments in technology can lead to the creation of new jobs, but also change and 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.

6.5 Exercises

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6.5 Quick quiz on | **6.5 Exercise** | **6.5 Exam questions**

6.5 Exercise

TEST your understanding

1. **Explain** why a business owner or manager would 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 replace them with more qualified staff.
3. After reading the 'Developments in technology have positive and negative effects on the workforce' case study, answer the following questions:
   a. **Outline** the positive and negative effects that developments in technology may have on staffing.
   b. **Identify** the strategies suggested for responding to the negative mental health effects associated with blurring the lines between work and home life.

APPLY your understanding

4. **Explain** how a business owner might solve each of the following staffing issues arising from changes in technology.
   a. Older employees have little experience in working from home, but the employer wishes to give employees the opportunity to do that.
   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.

6.5 Exam questions

Question 1 (2 marks)

Explain the meaning of the term 'developments in technology'.

Question 2 (4 marks)

Technological developments can both destroy and create jobs. **Discuss** this statement.

Question 3 (4 marks)

Explain two effects that developments in technology may have on staffing needs.

Question 4 (4 marks)

Good Flight Ltd is introducing new technology for improving passenger processing and enhancing customer service. **Discuss** the effects that developments in technology may have on staffing needs at Good Flight.

More exam questions are available online.

6.6 Job analysis, job design, job descriptions and job specifications

KEY KNOWLEDGE

- Job analysis and its relationship to job design, job descriptions and job specifications

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6.6.1 Job analysis

When a business hires a new employee, it must be 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. This involves the business carrying out a job analysis. **Job analysis** is a 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 may be performed through observation or interviews of employees to determine the duties performed by employees, the time involved with each of those duties, as well as the responsibilities involved and the equipment required.



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.

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

- *the interview method*. In this method, employees may be interviewed by a supervisor or human resources 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 information provided by a job analysis for a particular position is typically used to develop:

- a **job description**, which is a written statement describing the employee's duties, and tasks and responsibilities associated with the job — essentially, it is a summary of what the worker will be doing (the role they will have in the business). It will usually include the job title, the purpose of the job, the placement of the job within the business, responsibilities and activities to be performed, working conditions and performance standards.
- a **job specification**, which is a list of the key qualifications needed to perform a particular job in terms of education, skills, knowledge and level of experience — it indicates the sort of person a business is seeking (the personal attributes necessary for the job). It will usually include required levels of training or education, work experience, personal qualities and areas of expertise.

job description a written statement describing the employee's duties, and tasks and responsibilities associated with the job

job specification a list of the key qualifications needed to perform a particular job in terms of education, skills, knowledge and level of 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 from ALDI

	ALDI Careers — Home The ALDI in You Search Jobs Careers
Job description	**You will be responsible for:** • Accurate delivery of fortnightly payroll for 1200 + employees • Processing payroll-related payments for PAYG tax, authorised payroll deductions, superannuation and parental leave • Setting up new starters and processing terminations • Administer the payroll inbox and action all requests and queries or escalate accordingly • Providing advice regarding Award/EBA interpretation and other relevant payroll legislation • Maintaining employee records • Preparing and remitting monthly reporting • Preparing employee contracts and letters as requested • Ad-hoc duties as required
Job specification	**What we are looking for:** • Three years' experience in similar role • Previous experience in Chris21 is desirable • Previous experience in Kronos is desirable • Experience in calculating LSL payments • Exceptional attention to detail and great time-management skills • Ability to work in a high pressure and fast paced environment • Intermediate to advanced Microsoft Office skills • Excellent customer service and communication skills with the ability to build relationships with multiple stakeholders across the business

6.6.2 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 a supermarket, jobs can be divided into tasks such as 'shelf stacker' or 'checkout worker'. Alternatively, a single employee may do both tasks and may have other responsibilities, such counting stock, assisting customers and cleaning. 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 on the checkout register everyday, and found this very repetitive, you may lack motivation and look for a job elsewhere. Although it has its disadvantages, this approach is based on specialisation and is generally an efficient process that often makes use of low-skilled, cheap labour.

A well-designed job is likely to include a variety of tasks, challenges and opportunities.



In recent times, however, job design has been expanded to incorporate a more general approach with workers performing a greater variety of tasks. This is sometimes referred to as job enlargement — that is, the horizontal expansion of the job by adding similar level responsibilities. As we have already discussed, the main objective of providing a wider variety of tasks is to improve worker engagement, satisfaction and productivity. However, managers must avoid simply adding tasks for the sake of it and should recognise that there is some benefit from a specialised approach.

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.

The common elements of a well-designed job are shown in the figure. Employees are more motivated and likely to share ideas if they have autonomy, clear task identity (know what they have to do), are well trained and feel competent, and receive feedback that allows them to be recognised and develop further. Feedback is demotivating when it is controlling, whereas feedback that is informative and constructive is motivating. Employees also tend to be more motivated when they are able to plan, schedule and determine how to do a job.

Carrying out a job analysis and implementing strategies for good job design are likely to result in a number of benefits for the business and the employees. However, there are also some limitations to both of these strategies.

The benefits and costs (or limitations) of job analysis and job design

Benefits	Limitations/costs
• Job analysis ensures that staff will have the necessary skills and knowledge to be able to perform a job at the level required. • Job analysis allows a business to create better recruitment and selection strategies, as well as effective training programs, remuneration schemes and performance management processes. • Job design can lead to motivated and productive employees. • The development of job descriptions and job specifications ensures that clear expectations are established for employees at the outset of their employment — they know what is expected of them.	• Undertaking job analysis and job design can be time consuming. • It can be difficult to capture every aspect of a job in a single job description/specification. • As a business grows or changes, and as technology changes, the jobs within the business may change — job descriptions and specifications can therefore become outdated as they are written at particular points in time. Job analysis needs to be completed regularly.

on Resources

Video eLessons Evaluating the costs and benefits of staffing strategies (eles-2984)
Job analysis and its relationship to job design (eles-2986)

CASE STUDY

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.



KEY IDEAS

- Job analysis involves a systematic study of each employee's duties, tasks and work environment.
- Job analysis will result in documentation, including a job description (an employee's duties and responsibilities) and a job specification (qualifications and experience required).
- 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.

6.6 Exercises

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6.6 Exercise

TEST your understanding

1. **Explain** the relationship between a job analysis, a job description and a job specification.
2. Select three job advertisements from an online job website (or from a newspaper). Using the figure in section 6.6.1 as a guide, **distinguish** between the job description and the job specification.
3. **Define** the term 'job analysis' and explain why well-designed jobs might lead to lower staff turnover.

APPLY your understanding

4. Choose one of the contemporary business case studies in this topic, go to the business's website and select a job. If you were redesigning this job, which job design approach discussed in the case study above would you use? **Justify** your selection.
5. 'Job enrichment is just another name for worker exploitation.' **Discuss**.

6.6 Exam questions

Question 1 (2 marks)

Explain what is meant by the term 'job analysis'.

Question 2 (3 marks)

Define the term 'job design' and provide one example of how job design may be carried out.

Question 3 (8 marks)

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**

Question 4 (4 marks)

Discuss the use of job analysis for a business's future staffing needs.

More exam questions are available online.

6.7 Recruitment methods

KEY KNOWLEDGE

- Recruitment methods and the advantages and disadvantages of each method:
  - internal such as intranet and word of mouth
  - external such as websites, online recruitment agencies and social media

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6.7.1 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, or a specific trade journal, and this method is still widely used. Online recruitment has grown significantly over the last decade. Many businesses advertise through online agencies such as seek.com.au or mycareer.com.au. It is also common for businesses to use social media platforms to advertise for employees.

Because recruitment is such an important, yet expensive, activity, it should be performed in a planned and considered way. Recruitment begins with identifying a need to fill a vacancy, analysing the requirements of the position, and then selecting an appropriate source (whether internal or external) and method of attracting potential applicants to apply for the position.

Using appropriate recruitment methods will help a business select the best person for the role.



The sources and methods used by a business will depend on its recruitment goals and policies. These may include a preference for internal recruitment, the conditions of the labour market, the location of the business, the financial or other resources of the business, and the specifications of the job to be filled; for example, whether general or specific skills are needed. Internal recruitment may be used as a strategy to motivate and reward employees. If recruiting externally, 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 method. Businesses may also use a mixture of internal and external recruitment.

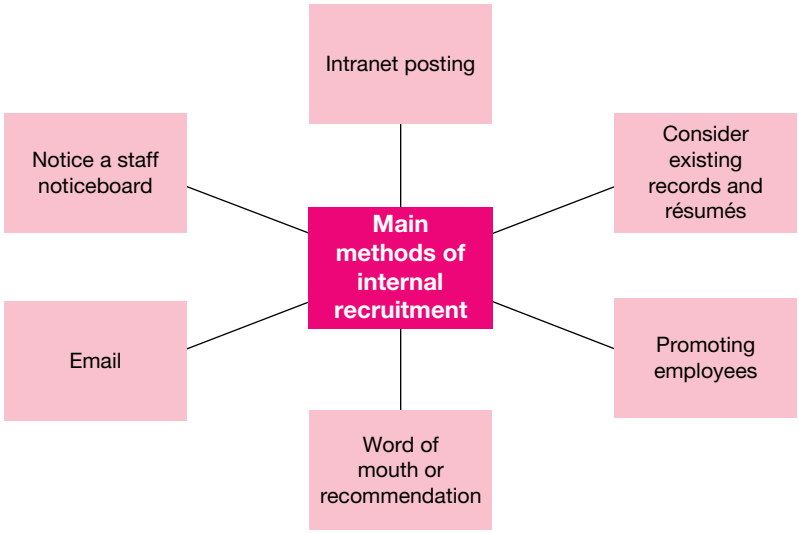
Internal recruitment

Internal recruitment occurs when a business decides to recruit someone already employed in the business to a vacancy. This usually involves an opportunity for an employee to take on different duties, and can mean a promotion to take on greater responsibilities within the business. Internal recruitment can occur through a wide range of sources, as shown in the following figure. This includes using an intranet posting (an intranet is a private computer network for communication, sharing information and operational systems within a business), by word of mouth among employees or by simply posting a notice on a staff noticeboard.

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

internal recruitment filling job vacancies with employees, rather than looking outside the business

The main methods of internal recruitment



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. These include websites, online recruitment agencies and social media.

ALDI has a specific careers section on its website, with an extensive list of vacancies, training programs and information on working at ALDI.

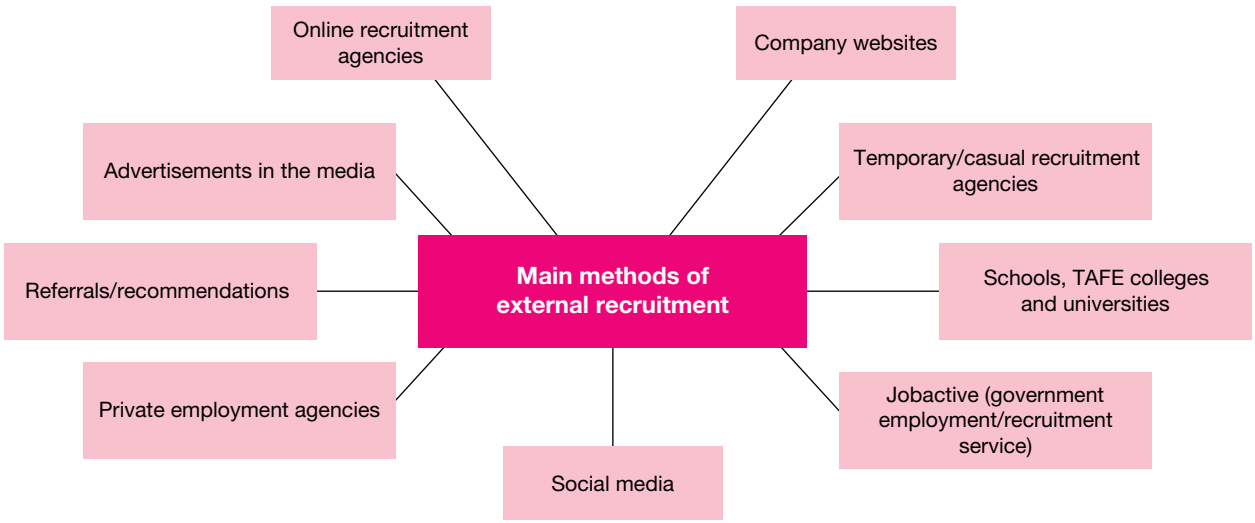


Many large businesses post vacant positions on their websites to attract qualified applicants. Using the website, the potential candidate can become familiar with what the business does and its values, purpose and culture — in other words, the brand of the employer. Most large businesses have a recruitment page or careers section on their corporate website so that potential applicants can search for positions. For example, ALDI, Coles and Woolworths have careers pages on their websites that allow job seekers to search for vacancies and apply for positions. To use a website for recruitment purposes, a business should ensure that its website is device-friendly and create an easily located careers page. A business might also provide a video tour of its operations, interviews with current employees and links to a blog or social media page.

For larger businesses, engaging a recruitment agency to handle the recruitment of staff can be cost effective — many of these agencies are now online. An **online recruitment agency** is a business that specialises in finding suitable candidates to fill vacancies for a variety of different employers. Typically, the recruitment agency will receive a job description and job specifications from a business who becomes their client, and will then look for the best applicant to fill that role. These 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 online employment sites not only charge a fee for employers to advertise, but can also 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 free of charge.

online recruitment agency
a business that specialises in finding suitable candidates to fill vacancies for a variety of different employers

The main methods of external recruitment



CONTEMPORARY CASE STUDY

SEEK provides online recruitment services



SEEK is a public company operating a global online employment marketplace with a presence in 18 countries, including Australia, New Zealand, China and across South-East Asia and Latin America. The business uses technology, data and artificial intelligence to meet the needs of job seekers and employers and support the matching of candidates to employers.

SEEK was founded in 1997 by Andrew Bassat, Paul Bassat and Matthew Rockman. The website was launched the following year, and was an online version of the employment advertisements found in newspapers. SEEK has now grown to be one of the world's largest online recruitment agencies, employing 1000 people in Australia and over 10 000 people around the world. SEEK believes in offering its own employees flexible working models. The majority of SEEK's own employees work 2–3 days per week in the office. The rest of the time is worked from home. It has relationships with more than 215 million job candidates and over 1 million employers.

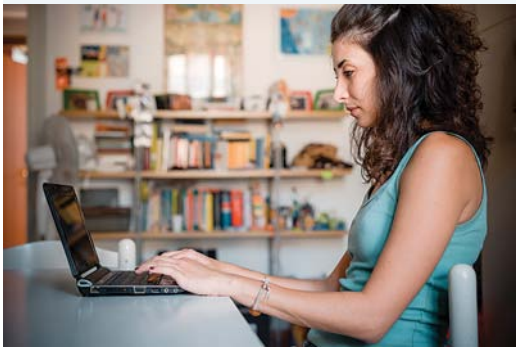
SEEK allows job candidates to create a profile on its website so that they can be contacted with opportunities from prospective employers. SEEK also provides job recommendations. Job adverts become visible when applicants search for a vacancy on SEEK, and are also matched and sent to the email inboxes of relevant candidates who have opted to receive job alerts. Candidates who may not be actively applying for roles will also have job ads recommended to them.

Employers who have registered an employer account and who post job ads on the website can search the SEEK profiles to find relevant candidates for advertised positions. The database can be searched based on specific parameters; for example, role title, skills and/or location.

The fastest growing recruitment methods today are via social networking sites, such as Facebook, Twitter and LinkedIn. Social media platforms may be used by a business to share job vacancies, raising awareness of positions available. They can also be used to research applicants, complete background checks and network with potential candidates. To add credibility to the business's recruitment strategy and reinforce its culture, current employees may be encouraged to use social media to share the work they have created or their experience working at the business. In using social media for recruitment, a business should be aware of where their target audience is and how they use social media — not all potential applicants will use social media.

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; for example, 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.



6.7.2 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, which reduces risk. • Applicants are already familiar with the business and its objectives, culture and processes. • If the position is a managerial or supervisory position, it creates a career path within the business to reward valued employees. • Costs of advertising the position are reduced, and no external agencies need to be paid.	• There may be no-one suitable from within the business. • If there is more than one internal applicant, it can lead to conflict or rivalry between those employees. • Applicants may be set in their ways and not open to new ideas. • 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. • Outside applicants may bring new ideas and fresh approaches to tasks. • Different qualifications or experience from those already within the business can be specified in the advertising process. • This method allows for rapid growth of the business because it allows for an increase in actual staff numbers.	• The applicants are all unknown, so the choice may be more difficult. • There are costs associated with advertising the position. • The field of applicants may be larger, so the process of selection may become more time consuming. • 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 interpret, discuss, compare and evaluate business information and ideas. This suggests that you should understand the key concepts within this area and understand the relative benefits for both employers and employees, as well as their limitations for both stakeholders.

KEY IDEAS

- Recruitment is the process of attracting qualified job applicants.
- Recruitment can be internal or external.
- Internal recruitment involves advertising a position on an intranet or by word-of-mouth.
- External recruitment involves advertising a vacancy in the media, online, or through a private or government-owned agency.

6.7 Exercises

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6.7 Exercise

TEST your understanding

1. **Explain** the difference between internal recruitment and external recruitment.
2. **Select** three methods of external recruitment and **explain** why each is an effective method of recruitment.
3. **Outline** the importance for an employer of promoting a positive image of the business in a job advertisement.

APPLY your understanding

4. Max runs a successful car repair business, with a large number of regular customers who have their cars serviced with him. Seeing the growth in electric vehicles, 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 expressed an interest in a qualification in the mechanics of electric cars and would like to 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?

6.7 Exam questions

Question 1 (4 marks)

Define the term 'internal recruitment' and outline one advantage and one disadvantage of this type of recruitment.

Question 2 (3 marks)

Distinguish between intranet and word-of-mouth as recruitment methods.

Question 3 (9 marks)

Diane needs to recruit a new accounts manager for her parcel delivery 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**

Question 4 (5 marks)

Jon employs 20 people in his software development business. Following a job analysis he has identified a need for two specialist employees. **Discuss** two methods of recruitment available to Jon and suggest which would be most suitable.

More exam questions are available online.

6.8 Selection methods

KEY KNOWLEDGE

- Selection methods such as interview, psychological testing, work testing, online selection, and the advantages and disadvantages of each

Source: VCE Business Management Study Design (2023–2027) extracts © VCAA; reproduced by permission.

6.8.1 Employee selection

Employee **selection** may be described as a screening or sorting 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. When selecting candidates, the idea is to choose the most 'appropriate' person with the qualifications and attributes that best match the position, rather than the applicant with the 'most' qualifications.

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.

selection the process of choosing the candidate who best matches the business's requirements

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.

6.8.2 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 methods 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.

After gathering information about each applicant, an employer can select the person who best suits the business's requirements.

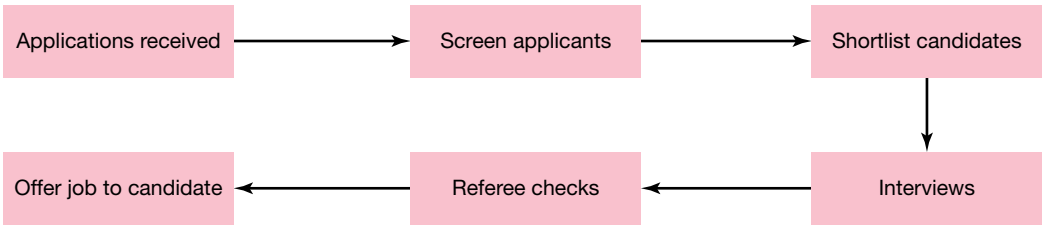


- *Tests*. These may be written or practical and are designed to assess aptitude, intelligence or ability. Psychological testing and work testing are two forms of testing commonly used. Psychological testing aims to reveal aspects of a candidate's personality to determine how they may respond in certain types of work situations. Work testing is more closely related to the actual job, and may seek to test specific technical knowledge and 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 early on in the process 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. 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.

Steps in a typical selection process



Advantages and disadvantages of different selection methods

Method	Advantages	Disadvantages
Interview	• The employer meets prospective employees, can assess their appropriateness for the job (or any future jobs with the business). • Provides the applicant with an opportunity to ask questions about the job and the workplace	• Some people are able to present well at an interview, but may not be completely honest. • Doesn't assess actual skills or abilities on the job
Psychological testing	• Can give an insight into the personality of the applicant, not just job skills • Can be used to assess skills such as the ability to work in a team, leadership and decision making	• Relies on the applicant giving honest answers to the test questions or tasks • Not all tests have the necessary reliability in measuring what they claim to measure.

Work testing	• Can provide an assessment of the actual skills needed to carry out the job • Allows future work colleagues and supervisors an opportunity to see different applicants in action	• May test technical skills but not broader skills such as leadership or problem solving • Can be an artificial environment, and some applicants may be nervous and not demonstrate their actual abilities
Online selection	• Convenient: applicants can complete at any time, and selection panel can view responses in their own time • Can be used for a wide variety of different types of tasks and responses	• Impersonal — gives no indication of the actual person performing the tasks • There may be many applications (especially for lower skilled positions). These can be difficult to sort with no context or background.

DID YOU KNOW?

The Australian Bureau of Statistics publishes a report each month examining recruitment across the key industries in Australia. Over 50 per cent of businesses report difficulty in recruiting suitable employees. This difficulty affected businesses productivity, revenue and ability to meet demand.

EXAM TIP

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.

KEY IDEAS

- Employee selection involves choosing the most suitable applicant.
- Selection methods include interviews, psychological testing, work testing and online selection.
- The selection process can involve a combination of examining a written application, different types of testing, interviews and background checks.

6.8 Exercises

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6.8 Exercise

TEST your understanding

1. **Outline** the costs that may result from a poor selection process. Provide examples to support your answer.
2. **Discuss** the strengths and weaknesses of two different selection methods.

APPLY your understanding

3. 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 process you might take to identify potential capable employees.
4. 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.
5. Write a series of questions that could be asked at an interview for the following positions:
   a. dental assistant
   b. hairdresser
   c. electrician.

Interviewers ask questions to evaluate the candidate's motivation, personality and attitudes.



6.8 Exam questions

Question 1 (3 marks)

Define the term 'selection' and **outline** one common method of selection.

Question 2 (2 marks)

Distinguish between psychological testing and work testing as selection methods.

Question 3 (6 marks)

Carrying out interviews and requiring applicants to complete an online selection process are two possible methods of selecting staff.

a. **Outline** one advantage and one disadvantage of each of these methods. **2 marks**
b. Referring to a contemporary business with which you are familiar with, **propose** and **justify** the most appropriate method for staffing this business. **4 marks**

Question 4 (5 marks)

Lucy has a small chain of restaurants in Geelong. She recently advertised for a new chef and received five applications. **Evaluate** the most effective selection method for Lucy to staff her business.

More exam questions are available online.

6.9 APPLY YOUR SKILLS Recruitment and selection

PRACTISE YOUR SKILLS

- Identify, define, describe and apply business management concepts and terms
- Interpret, discuss, compare and evaluate business information and ideas
- Analyse case studies and contemporary examples of business management
- Apply business management knowledge to practical and/or simulated business situations

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6.9.1 The role of recruitment agencies

CASE STUDY

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
- 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.

Businesses are increasingly turning to recruitment professionals to source the best people for the job, without drawing on their own limited resources.



However, the principal reason for using a recruitment agency is to avoid the cost of employing a person who is not suitable for the business or someone who leaves shortly after being recruited.

6.9.2 Recruitment and selection

CASE STUDY

Vacancy — barista

The following text might be used by a business in the hospitality industry to attract a new barista. This advertisement might be posted on an online site such as SEEK, on a social media site or in a newspaper or industry journal.

We have a position for a motivated team member to assist with customer service, food preparation and barista duties. Experience is preferred; however, full training is provided.

The successful applicant will have excellent customer service skills, be willing to learn and take on new skills and be well presented.

Availability to work on weekdays and weekends is essential.

Please apply with a current résumé and details of at least one referee.



on Resources

Weblinks How to conduct the job interview
SEEK

6.9 Exercises

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6.9 Exercise | **6.9 Exam questions**

6.9 Exercise

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 recruitment and selection are not performed well.
3. **Identify** and **explain** two advantages and two disadvantages of putting each applicant through a work test as part of the selection process for the position of a barista.
4. **Explain** how the business might carry out background checks on potential applicants for the barista job. Outline two advantages of carrying out background checks.
5. **Outline** two advantages of carrying out background checks on potential applicants for the barista job.

APPLY your skills

6. Working with a partner, or in a small group, **create** a list of strategies a business owner could use to retain valued employees.
7. a. **Identify** the advantages and disadvantages of using an external recruitment agency to recruit new employees.
   b. With reference to the 'Vacancy — barista' case study, **evaluate** which method of advertisement will be most appropriate in attracting the best applicants. 'Evaluate' requires you to consider both sides of a concept and then provide an overall conclusion.
8. 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 dos 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.
9. Use the **SEEK** weblink in the resources tab to find hints for applicants preparing for an interview. Compile a list of ten hints for applicants to assist them to succeed at an interview.
10. 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.

6.9 Exam questions

Question 1 (3 marks)

Distinguish between online recruitment agencies and the use of social media as recruitment methods.

Question 2 (6 marks)

Evaluate the use of a business's website as a recruitment method, relating your answer to a contemporary business that you are familiar with.

Question 3 (4 marks)

Discuss interviews as a selection method.

More exam questions are available online.

6.10 Employment arrangements and the National Employment Standards

KEY KNOWLEDGE

- Overview of the National Employment Standards

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6.10.1 Employment arrangements

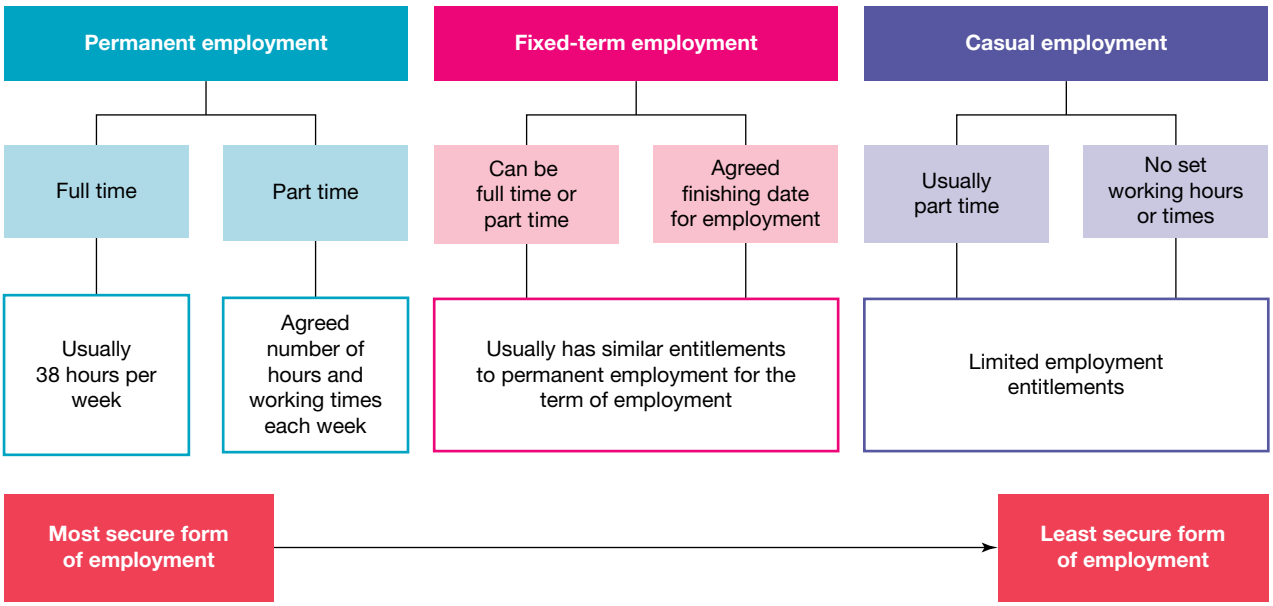
The different needs of businesses will determine the types of employment arrangements offered to employees. **Full-time permanent employment** is the traditional method of employment for most people. Permanent full-time employees usually work for between 35 and 38 hours per week, and are entitled to 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, they 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.

full-time permanent employment an ongoing employment contract that includes all legally required entitlements

part-time permanent employment working fewer ordinary weekly or monthly hours compared with full-time employees

Different employment arrangements



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 appointed without a firm commitment in advance from the employer with respect to how long they will be employed, or the days and hours they will work. They are typically employed on a daily basis (or an hourly basis) and do not receive a range of entitlements (non-wage benefits) such as annual leave and sick leave. Casual employees will usually work irregular hours. To compensate, they are sometimes paid a 'casual 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.

fixed-term contract employment offered for a specific period

casual employees workers employed on an hourly basis

6.10.2 National Employment Standards

Employees are entitled to a set of minimum standards for employment, 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. However, only certain entitlements apply to casual employees. The 10 National Employment Standards are:

SES volunteers are entitled to take community service leave for emergency work.



1. ***Hours of work.*** An employer must not request or require an employee to work more than 38 hours of work in a week, unless the additional hours are considered reasonable, and the special provision of penalty rates is applied. Employees have the right to decline additional hours.
2. ***Parental leave.*** Employees are entitled to 12 months' unpaid parental leave in relation to the birth or adoption of a child. Parental leave provisions include birth-related leave and adoption-related leave and recognise same-sex de facto relationships.
3. ***Offers and requests to convert from casual to permanent employment.*** The National Employment Standards (NES) provide casual employees with a pathway to become a permanent employee. This is also known as 'casual conversion'. This means that casual employees who have worked for their employer for 12 months need to be offered the option to convert to full-time or part-time (permanent) employment by their employer.
4. ***Flexible working arrangements.*** An employee may request a change in their working arrangements from their employer if they require flexibility because they are a parent of, or care for, a child of school age or younger. This also applies to carers, people who have a disability, those who are 55 or older, are experiencing domestic violence or are supporting a victim of domestic violence. Flexible working arrangements include reduced hours, different start and finish times or home-working arrangements.
5. ***Annual leave.*** For most employees this is four weeks, with part-time employees entitled to a pro rata amount. Casual employees are not entitled to annual leave.

Having enough superannuation makes for a more comfortable retirement.



6. ***Personal/carer's leave, compassionate leave and family and domestic violence leave.*** These forms of leave are designed to help an employee deal with things such as personal illness or injury, caring responsibilities, family emergencies, family and domestic violence, and the death, life-threatening illness or injury of close family members. Generally, full-time employees are entitled to ten days each year and part-time employees the equivalent pro rata amount. Casual employees are entitled to take leave such as unpaid carer's leave, unpaid family and domestic violence leave and unpaid compassionate leave.
7. ***Community service leave.*** Employees, including casual employees, can take community service leave for activities such as voluntary emergency management activities (i.e. dealing with an emergency or natural disaster) or jury duty.
8. ***Long service leave.*** An employee gets long service leave after a long period of working for the same employer. The amount of leave differs between states and between industries and occupations.
9. ***Public holidays.*** Employees are not required to work on public holidays but will be paid for the hours that they would have worked. The National Employment Standards protect an employee's right to reasonably refuse to work on a public holiday. If an employee does work on a public holiday, they will be entitled to a penalty rate or other compensation.
10. ***Notice and redundancy pay.*** Employers and employees may need to give notice when they end the employment relationship. There are also rules about what needs to be included in an employee's final pay. The Australian government Fair Work website provides a Notice and Redundancy Calculator, which calculates entitlements when employment ends, including the amount of notice to be given (by employer or employee) and the appropriate redundancy pay.

Finally, employers must give every new employee a copy of the Fair Work Information Statement (the FWIS) before, or as soon as possible after, they start their new job. Employers also have to give every new casual employee a copy of the Casual Employment Information Statement (the CEIS) at the same time. These statements ensure that the employees have the correct information about the terms of their employment. The FWIS and the CEIS are sometimes referred to as an eleventh National Employment Standard.

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.

superannuation a system by which contributions are made to a fund that will provide benefits to an employee after retirement

KEY IDEAS

- Employment contracts can be permanent or fixed term, full time, part time or casual.
- 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.

6.10 Exercises

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6.10 Exercise

TEST your understanding

1. Not everyone works nine to five. **Describe** three different employment arrangements that can exist between the employer and employee.
2. **Explain** two employment entitlements available to permanent employees that are not available to casual employees.
3. **Summarise** the National Employment Standards and how they protect workers.

APPLY your understanding

4. What benefits may both the employer and employee enjoy as a result of making more flexible work arrangements available to employees?
5. Using the **Australian government Fair Work** Ombudsman website, locate the National Employment Standards page. Summarise the National Employment Standards for casual workers. **Outline** why these entitlements differ from those of a full-time employee.
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.

6.10 Exam questions

Question 1 (3 marks)

Distinguish between full time and part time as employment arrangements.

Question 2 (4 marks)

Explain two employment arrangements that must be considered when staffing a business.

Question 3 (4 marks)

Describe and **justify** one employment arrangement that would be most suitable for a new baker position at a supermarket.

Question 4 (3 marks)

With reference to a contemporary business that you are familiar with, **describe** one employment arrangement that might be offered to allow it to maintain its status as an employer of choice.

More exam questions are available online.

6.11 Employer expectations — contracts of employment, business loyalty and terms of notice

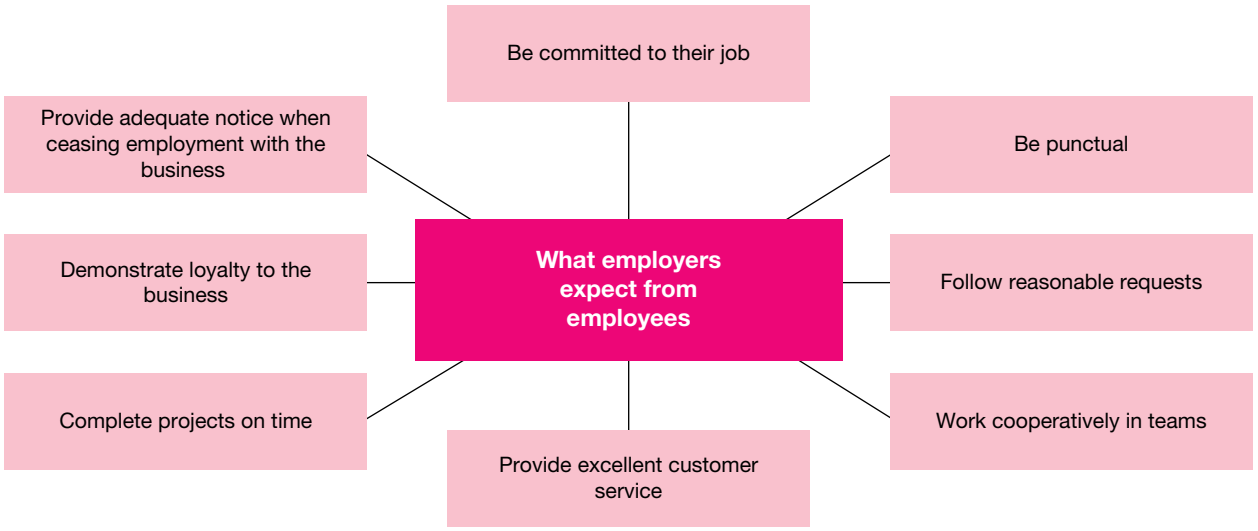
KEY KNOWLEDGE

- Employer expectations such as contracts of employment, loyalty and terms of notice

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When a new employee joins a business or other organisation, they 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 following diagram outlines what these expectations might include.

What an employer might expect from employees



6.11.1 Employment contracts

Employers expect that employees will enter into a contract of employment with the business. 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 and agreements will be covered in more detail in Unit 3 Business Management.

Award a legally binding document that sets out the minimum wages and conditions for a group of employees

enterprise agreement an agreement that has been directly negotiated between an employer and the employees of a business or enterprise

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 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. Some businesses in Australia are attempting to move away from enterprise agreements. Coles, Bunnings and McDonald's have failed to renegotiate enterprise agreements for some or all of their workers.

In an enterprise bargaining process, wages and conditions are determined through negotiations between the employer and representatives of the employees.



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 2020 it was set at an annual income of $158 500 for the 2021–22 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.

6.11.2 Business loyalty

Most employers would expect their employees to show loyalty to the business that employs them. For example, employers generally hope that employees will not resign in the short term to pursue work with a rival business. Employers also prefer that employees avoid making negative comments about the business, its products or its customer service. Employment contracts may sometimes include a provision that prohibits an employee from doing anything that may harm the reputation of the business; this may include not referencing the business on their social media account. 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.

penalty rates additional payments made to workers who are required to work outside of normally accepted working hours

Some businesses include confidentiality provisions in employment contracts that specifically prohibit employees from disclosing any confidential 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.

Businesses that conduct themselves in a socially responsible manner, involve employees in decision making and offer great employment conditions and positive workplace cultures are more likely to have loyal employees. Loyal employees who are motivated and engaged are more likely to work productively. Staff who are working efficiently and as part of a team are more likely to support the business in achieving its objectives.

6.11.3 Terms of notice

Situations arise when an employee decides to leave the business. It may be because they have 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 their 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 although it can be more, especially for senior or hard-to-fill positions. 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 their 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 reasonable 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.

KEY IDEAS

- 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.

6.11 Exercises

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6.11 Exercise

TEST your understanding

1. **Identify** two provisions that might be included in an employment contract.
2. **Outline** three ways in which an employer might expect an employee to demonstrate loyalty to the business.
3. **Explain** why it is appropriate that an employee provides adequate notice of their intention to leave the business.

APPLY your understanding

4. **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.
   - b. An Award usually provides better pay and conditions than an enterprise agreement.
   - c. An employee who earns above the high-income threshold must be employed on pay and conditions governed by an Award.
   - d. A confidentiality clause in an employment contract can prohibit an employee from disclosing commercial information for up to 12 months.
   - 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.
5. In the following situations, **explain** which employer expectations have been not been met.
   - a. Alex starts work as a receptionist in a medical practice, but keeps forgetting to bring in a signed copy of the employment contract.
   - b. Tim makes critical comments about his employer on his social media account.
   - c. Ahmed leaves one job to commence work with a new 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.

6.11 Exam questions

Question 1 (2 marks)

Define 'terms of notice' as an employer expectation.

Question 2 (3 marks)

Distinguish between contracts of employment and business loyalty as employer expectations.

Question 3 (3 marks)

With reference to a contemporary business case study, **outline** two expectations that this business may have of its employees.

Question 4 (5 marks)

Outline two employer expectations and **explain** how employees meeting these expectations might support the achievement of business objectives.

Question 5 (4 marks)

Explain two ways that business loyalty might be demonstrated by an employee.

More exam questions are available online.

6.12 Employee expectations — conditions of employment, remuneration, job security and work–life balance

KEY KNOWLEDGE

- Employee expectations such as conditions of employment, remuneration, job security and work–life balance

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6.12.1 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 ten days' paid paternity or partner leave, leave for reasons such as blood donation, emergency relief activities and sporting events. Many workplaces have been experimenting with different types of flexible working arrangements in recent years. Some European businesses have already started implementing a four-day working week. In a research project involving over 500 business leaders and 2000 employees, including businesses that have already implemented a four-day working week, it was found that a four-day week brought the following benefits:

- increased overall employee satisfaction
- lower employee sickness levels
- increased productivity.

Unilever and Microsoft are examples of companies that have trialled four-day work arrangements in sections of their respective companies.

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 equivalent to a year's salary or more.



conditions of employment what an employer has agreed to give the employee in return for the work of the employee, such as hours of employment and leave entitlements

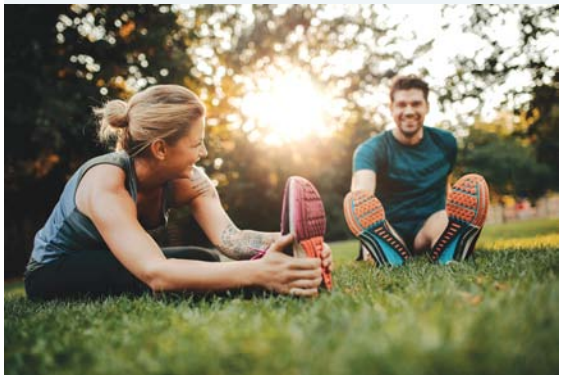
6.12.2 Remuneration

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.

Enhanced flexible working arrangements mean that employees can have a better work–life balance.



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.

6.12.3 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 ten 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.

remuneration monetary payment in return for the work an employee performs

wage an hourly or weekly rate of pay

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

flexible working conditions conditions that allow employees to balance work and family responsibilities more effectively

6.12.4 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.

job security the belief that the employee will not lose their job

In 2021 it was estimated that nearly a third of Australian workers were in arrangements with unpredictable, fluctuating pay and hours, which created feelings of increased job insecurity. Job insecurity can cause employees to become anxious, tense, irritable and depressed.

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 an 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.

Some business models rely on casual workers who face unpredictable and fluctuating hours and pay.



CONTEMPORARY CASE STUDY

Job security at Qantas



Long established businesses, such as Qantas, that have traditionally been associated with job security have found that external and economic conditions beyond their control have forced them to make unprecedented decisions regarding staffing. In response to the COVID-19 pandemic, Qantas CEO Alan Joyce stated that 'airline revenues had collapsed, entire fleets had been grounded and airline companies were taking extreme action to survive'. For Qantas, this meant cutting the jobs of 6000 employees across all parts of the business. A further 15 000 employees would be stood down without pay throughout the pandemic. Mr Joyce remarked that the company had no work for these people at the time, but that they would have work in the future.

Despite these reassurances, some employees were not reinstated. Instead, their jobs were outsourced to third-party providers.

Qantas has suffered bad publicity throughout the pandemic and beyond. This has been related to its treatment of employees and to the chaos that has followed with staff shortages, cancelled flights and missing bags. These issues may damage the reputation of the Qantas brand and make future recruitment more difficult.

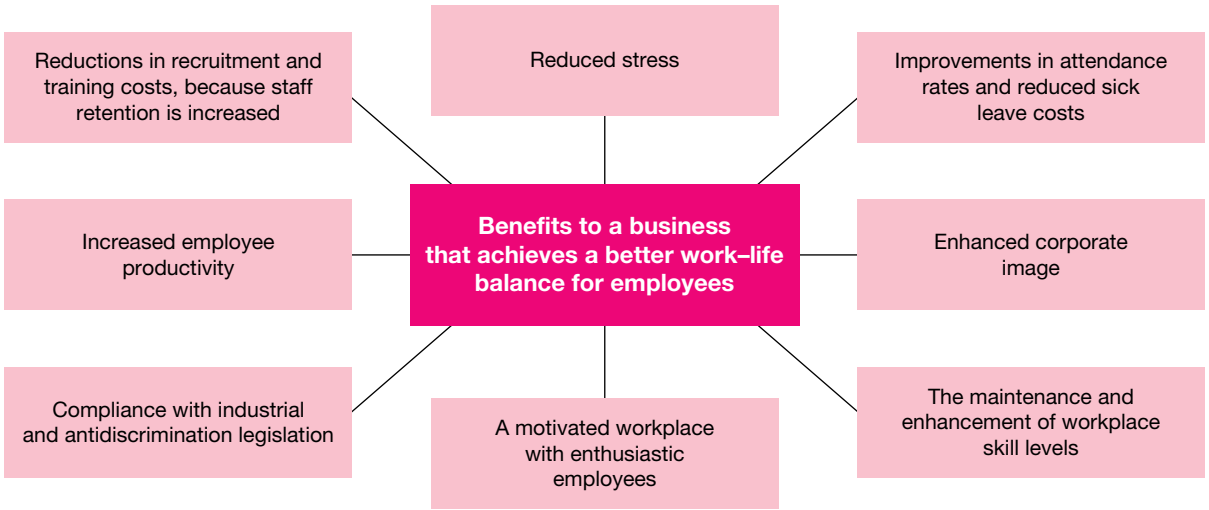
6.12.5 Achieving work–life balance

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.

work–life balance achieving the right amount of time for work and for personal or family life

The benefits of achieving a work–life balance for employees



DID YOU KNOW?

Professor Anna L. Cox, of University College London, defines work–life balance as 'feeling in control of how you balance the various demands of all aspects of life to enable wellbeing and avoid illness'. As more people are working from home, work–life balance is being threatened because people are working more hours and the lines between work time and leisure time are becoming blurred.

on Resources

Weblink OECD Better Life Index

KEY IDEAS

- Employees expect appropriate conditions of employment and remuneration in return for their work.
- 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.
- Job security is the belief that the employee will not lose their job. Human resource managers need to provide some stability in the employment relationship.

6.12 Exercises

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6.12 Exercise

TEST your understanding

1. **Outline** the types of monetary reward that can be given to an employee over and above a base salary or wage.
2. **Explain** why offering flexible working conditions may help:
   a. the employee
   b. the employer.
3. **Outline** three reasons why the feeling of job security among employees may have declined in the past couple of decades.
4. **Describe** what is meant by the term 'work–life balance'.

APPLY your understanding

5. Use the OECD Better Life Index weblink (choose the Work–Life Balance category) in the resources tab to read key findings about 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?
6. Read 'Job security at Qantas' and answer the following questions:
   a. **Explain** the reasons why Qantas decided to cut jobs in 2020.
   b. **Describe** how an employee of Qantas might be affected in both the short and long term if they are made redundant.
   c. **Outline** how the cutting of jobs at Qantas may affect existing employees at the business.
   d. Job security for Qantas employees is likely to be low. **Explain** how this might affect the business in achieving its objective of making a profit and return for its shareholders.

6.12 Exam questions

Question 1 (2 marks)

Define the term 'job security'.

Question 2 (2 marks)

Explain why remuneration is important for a business in attracting and retaining employees.

Question 3 (4 marks)

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.

Propose and **justify** one employee expectation that Debra should try to address to resolve this issue.

Question 4 (3 marks)

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. **1 mark**
b. **Describe** one problem Henry might have faced in the future if he chose to make staff redundant rather than reduce their hours and pay. **2 marks**

More exam questions are available online.

6.13 Legal obligations for staffing

KEY KNOWLEDGE

- Overview of legal obligations for staffing such as occupational health and safety (OH&S) regulations and equal employment opportunity (EEO) legislation

Source: VCE Business Management Study Design (2023–2027) extracts © VCAA; reproduced by permission.

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.

CASE STUDY

Safe Work Australia Report

The Annual Safe Work Australia Report is a document which provides statistics about people who die from an injury sustained in the course of a work activity. The report, published in 2021, revealed that in 2020:

- 194 people were killed while at work
- Most of these deaths were among males (95 per cent).

Most fatalities occurred within the agriculture, forestry and fishing and transport, postal and warehousing industries. Sixty-seven per cent of deaths occurred within the occupations of machinery operators and labours.

On top of these statistics, it was reported that 120 355 workers lodged a compensation claim following a serious injury. Thirty-seven per cent of these claims were related to body stressing such as joint, ligament and muscle injury.

Workplace health and safety must be taken seriously by all employers and employees.



WorkSafe Victoria offers a wide range of health and safety related information and support for both employers and employees.

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 equipment and substances are used, handled, stored and transported safely

legislation a law made by parliament

- giving employees the necessary information about the equipment 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.

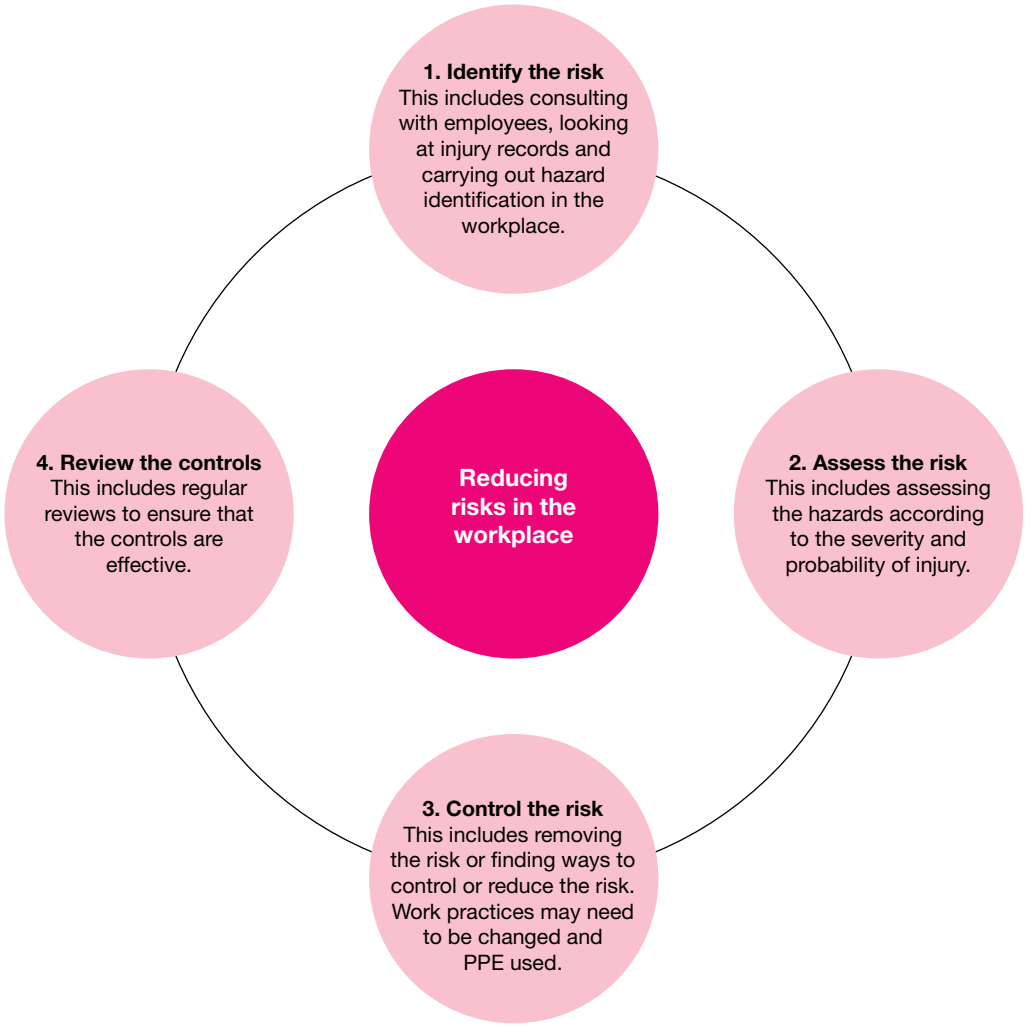
Safety signs are used to provide a specific message to those who may be exposed to a hazard in the workplace.



6.13.2 Safe workplace strategies

All businesses should carry out the steps in the following flow chart to ensure a safe workplace.

Although models may differ slightly, it is generally accepted that there is a four-step approach to reducing 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 *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* (Vic):

- 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 becomes an obligation during the recruitment and selection process. When devising a job advertisement, the employer must use inclusive language which encourages applications from all people. 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.

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.



Normal day-to-day employment practices also have relevance for equal employment opportunity. Business owners and managers must ensure that they provide equal pay for equal work and equal opportunities for promotion 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* (Vic) 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 eliminate 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 and understand the different cultures that support those markets
- customers' needs may be better serviced
- creativity, flexibility and responsiveness to change may be enhanced.

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, they 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 (WGEA) was established under the *Workplace Gender Equality Act 2012* (Cwlth), and is a federal government body set up to work with employers to promote and improve gender equality and outcomes for both women and men in the workplace.

A mediator can assist the parties to resolve the dispute.



WGEA was created to reflect this new focus and achieves this by:

- advising and assisting employers with the promotion of gender equality in the workplace
- providing research findings and educational programs to improve gender equality outcomes
- establishing a workplace profile and analysing the issues in the specific workplace
- reporting on the actions taken by the employer to address priority issues
- describing the action plans for the following period and evaluating the strategies used.

The agency 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.

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.

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.

KEY IDEAS

- 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 must work with employees to improve safety in the workplace. This includes assessing hazards and levels of risk, and eliminating and minimising these risks.
- 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 must use inclusive language and encourage applications from all people.
- 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.

6.13 Exercises

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6.13 Exercise

TEST your understanding

1. **Identify** the relevant legislation dealing with occupational health and safety.
2. **Outline** the major responsibilities of employers under occupational health and safety legislation.
3. **Outline** major state and Commonwealth Acts that deal with equal employment opportunity (EEO).
4. **Explain** how the EEO affects the recruitment and selection process.
5. **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

6. With reference to the case study, Safe Work Australia Report, answer the questions below. You can find more information on the Safe Work website.
   a. **Explain** the possible reasons for most fatalities being within the two industries of agriculture, forestry and fishing and transport, postal and warehousing.
   b. **Outline** possible reasons why males are more likely to be fatally injured than females.
   c. Worker fatalities have continued to fall since 2007. **Identify** some possible reasons for this.
7. **Identify** 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?

d. Would you be interested in gaining further qualifications to be eligible for promotion?
e. Could you give us an example of your greatest strength and your greatest weakness?
f. Have you had any recent illness that might limit your ability to handle the pressure of this job?

6.13 Exam questions

Question 1 (8 marks)

Explain the purpose 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**

Question 2 (5 marks)

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 men on building sites. She was unsuccessful in getting the job and believes she had been discriminated against based on her gender. Kirsty would like to make a formal complaint against the business.

a. **Explain** two forms of action that Kirsty could 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**

Question 3 (4 marks)

Explain one legal obligation for staffing and **outline** why it is important for a business to adhere to this legislation.

More exam questions are available online.

6.14 EXTEND YOUR KNOWLEDGE Maintaining a healthy workplace

EXTEND YOUR UNDERSTANDING OF THIS CONCEPT

- Maximising employee health, safety and wellbeing can improve worker output and business productivity.

CONTEMPORARY CASE STUDY

Wellbeing in the workplace



The Black Dog Institute is a not-for-profit organisation that facilitates the diagnosis, treatment and prevention of mood disorders such as depression.

The organisation promotes workplace wellbeing as a priority for both employees and businesses. It believes that a mentally healthy workplace results in benefits, such as increased work performance, higher levels of productivity and increases in profit.

The Black Dog Institute identifies a number of risk factors and prevention factors that contribute to health and wellbeing in the workplace. Support from colleagues, rewarding work, work–life balance and job design can all have a significant influence on overall wellbeing.

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? 2020 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: in Australia, 13 per cent of employees work very long hours, above the OECD average of 11 per cent. The more people work, the less time they have to spend on other activities, such as personal care or leisure. In Australia, full-time workers devote 60 per cent of their day on average, or 14.4 hours, to personal care (eating, sleeping, etc.) and leisure (socialising with friends and family, hobbies, games, computer and television use, etc.) — less than the OECD average of 15 hours. Many studies have shown that Australians feel that work frequently interferes with other life activities.

Australia is well behind other countries when it comes to providing employees with work–life balance.



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.

The ABS reported that for employed people in August 2021:

- Thirty-six per cent had an agreement to work flexible hours, up from 32 per cent in 2015 and 34 per cent in 2019
- Forty-one per cent regularly worked from home in August 2021, up from 30 per cent in 2015 and 32 per cent in 2019
- Thirty-four per cent usually worked extra hours or overtime, down from 36 per cent in 2015
- Twenty-three per cent were usually required to be on call or standby, down from 24 per cent in 2015.

It has been shown that flexible work arrangements help reduce unscheduled absences, such as personal leave. The 2020 Public Service employees' census indicated that employees who have access to flexible work arrangements are less likely to take unscheduled personal leave days.

6.14 Exercises

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6.14 Exercise | **6.14 Exam questions**

6.14 Exercise

TEST your understanding

1. Read 'Wellbeing in the workplace'. **Identify** the strategies that employers may be able to use to improve the health and wellbeing of their employees.
2. **Outline** 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?' **Discuss** whether Australian workers are 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. 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?

6.14 Exam questions

Question 1 (2 marks)

Define the term 'work–life balance'.

Question 2 (2 marks)

Explain what is meant by Occupational Health and Safety (OHS).

Question 3 (2 marks)

Explain the relationship between work–life balance and Occupational Health and Safety (OHS).

More exam questions are available online.

6.15 Employee induction

KEY KNOWLEDGE

- The purpose and common methods of employee induction

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Beginning a new job means that a new employee will need to go through a process of learning about the organisation and how things are done in the business. When a new employee starts a new job, this is referred to as a period of transition. The employee will take time to settle in. However, to assist in this transition the business will provide an **induction** training program.

6.15.1 The induction process

The process of induction (sometimes called orientation or onboarding) introduces new employees to the business. They will be introduced to the various procedures and policies that the business uses. 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 (see the figure below).

Supervisors, co-workers and the human resources department may be involved in the induction process. Research shows that most employees who leave a business do so in the first six months, so the need for support is greatest when an employee is new in a job.

induction the process of acquainting new employees with the business — its history, structures, objectives, culture, policies and practices — and the jobs they will perform

A sample employee checklist provided by the Fair Work Ombudsman — this checklist helps employers to ensure that their new employees get off to a good start.

INDUCTION CHECKLIST

Employee's name: _____ Starting date: _____

Department: _____ Position: _____

All items to be marked off where applicable.

About the organisation
- ☐ Telephone and email address
- ☐ Organisation chart
- ☐ Current staff telephone lists
- ☐ Staff facilities
- ☐ Superannuation
- ☐ Workers compensation
- ☐ Affirmative action policy statement
- ☐ Training and development
- ☐ Promotion
- ☐ Welfare policies
- ☐ Grievance procedures

Conditions of employment
- ☐ Salary and wages
- ☐ Methods of payment
- ☐ Employment tax declaration
- ☐ Tax file number declaration
- ☐ Sick leave
- ☐ Hours
- ☐ Overtime
- ☐ Shift arrangements
- ☐ Incentive and bonus schemes
- ☐ Annual leave
- ☐ Special leave
- ☐ Redundancy and retirement

Floor plans
- ☐ Location of facilities — first aid room, cantee, tea room, toilets, staff
- ☐ Parking

Work procedures
- ☐ Job description
- ☐ Work instructions
- ☐ Care of organisation's property
- ☐ Supply and maintenance of equipment
- ☐ Stock requisition

Occupational health and safety
- ☐ Safety rules and procedures
- ☐ Safety regulations
- ☐ Protective clothing
- ☐ Lifting and handling
- ☐ Relevant legislation explained
- ☐ First aid officers

Emergency procedures
- ☐ Tour of premises
- ☐ Explanation of fire warning system
- ☐ Evacuation plan
- ☐ Fire escapes
- ☐ Evacuation assembly points
- ☐ No smoking rule
- ☐ Training in use of fire-fighting equipment
- ☐ Closing fire doors
- ☐ Restricted areas
- ☐ Maintaining clearance of exits

Feedback opportunities
- ☐ Progress in job — after first day; after first week; after first month
- ☐ Performance appraisal
- ☐ Matters requiring further clarification

Purposes of induction

A well-structured induction program for new employees should serve the following purposes:

- 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.

Even small businesses, and the new employees who commence working for a small business, will benefit from a well-designed induction.



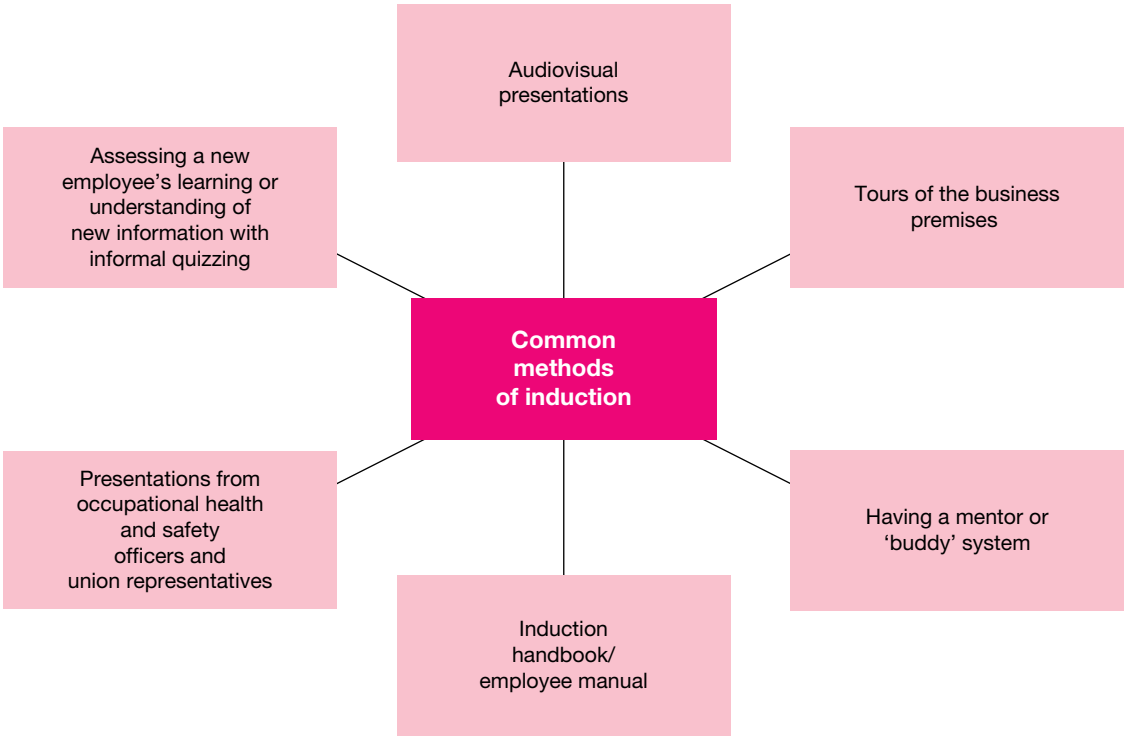
- to create favourable relationships with other members of the business, including those with similar duties and responsibilities, those in a position of authority and those who may have different types of duties within the business
- to minimise the time it takes for new employees to become fully productive and contribute to the achievement of the business's objectives.

Common methods of induction

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 common methods of employee induction are summarised in the following figure.

Some common methods of employee induction



Many businesses will start the induction process by using videos and PowerPoint presentations to introduce policies, procedures and its culture to new employees. An explanation of the management structure, channels of communication and initiation into the tasks that new employees will perform might also be provided using this method. 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 is very likely to be passed on to new employees this way.

Another commonly used method of induction is an employee handbook or manual. For example, a business might provide new employees with the handbook or manual on the day that they commence working at the business. The handbook would consist of information such as the business's management structure identifying current responsibility-holders and their contact details, the company's human resources policies, a copy of the employee's job description, occupational health and safety information and security access.

Many businesses also establish a mentor or 'buddy' system to help new employees acclimatise over an extended period of time. This involves a person already working at the business taking on the role of an experienced colleague who supports the development of a new employee, providing guidance where necessary. Larger businesses will typically combine these methods in some sort of induction program, as outlined in the process

below. It is important that the employer arranges regular evaluation meetings with a new employee following an induction. This will provide monitoring, specific training for processes, tasks and equipment where necessary.

ALDI, our contemporary business case study, has a comprehensive induction and training program for all employees. Retail assistants are given a planned induction, with a day-to-day and month-by-month timeline. The induction starts with introductions to the store and the team. Employees learn retail basics (such as running stock and serving customers) in the first month. From month two, employees work a range of in-store shifts to gradually familiarise them with procedures and processes. Each month the employee has a formal 'check in' with the store manager, as they work towards becoming independent by months 4–12.

6.15.2 The benefits of induction

The benefits of a well-prepared induction program are shown in the figure below.



CONTEMPORARY CASE STUDY

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 video and games, as well as on-the-job activities to broaden their experience and deliver highly competent sales consultants.

KEY IDEAS

- 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.
- Induction methods include an audiovisual presentation, induction handbook or employee manual, or mentor system.

6.15 Exercises

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6.15 Exercise

TEST your understanding

1. **Explain** what is meant by an induction program.
2. **Outline** three purposes of a new employee induction program.
3. **Identify** three common methods of induction.

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 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. However, most of the day was focused on how to achieve sales targets.
   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.

6.15 Exam questions

Question 1 (4 marks)

Define the term 'induction' and **outline** two purposes of an induction program.

Question 2 (2 marks)

Sebastian started an online health and beauty store several years ago and has experienced rapid growth. He now employs 20 people. Due to strong demand for his products, Sebastian is employing another five people in the business's warehouse. **Describe** an induction method that Sebastian could use after hiring the five new staff.

Question 3 (4 marks)

Propose and **justify** a method of employee induction for achieving business objectives.

Question 4 (5 marks)

Discuss the importance of an employee induction program. You may reference a contemporary business with which you are familiar.

More exam questions are available online.

6.16 Corporate social responsibility management in relation to staffing and overseas recruitment

KEY KNOWLEDGE

- Corporate social responsibility management considerations regarding establishment of staffing for a business and overseas recruitment

Source: VCE Business Management Study Design (2023–2027) extracts © VCAA; reproduced by permission.

Corporate social responsibility has been discussed in previous topics and is an important issue to consider when staffing a business. You may recall that we define corporate social responsibility as managing a business so that the broader social welfare of the community, including employees, customers, suppliers and the environment, is taken into consideration when making decisions. 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. Corporate social responsibility in relation to employees means treating employees in an ethical manner and placing their wellbeing at the forefront of decisions.

6.16.1 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 recruitment and selection will avoid nepotism.



Socially responsible employers will also take the time to provide feedback to unsuccessful applicants. 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. 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.

6.16.2 Employment arrangements

There are many horror stories about employers exploiting their employees. Over recent years, stories of staff being underpaid by franchise businesses, such as Caltex, 7-Eleven stores and Domino's Pizza, and companies such as Woolworths, Qantas and Commonwealth Bank, have been 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

nepotism occurs when a family member is favoured for a position

affirmative action measures taken to eliminate discrimination and to implement positive steps to overcome current and historical lack of equal opportunity

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 and well-promoted 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.

CONTEMPORARY CASE STUDY

Job sharing to attract and keep women in Parliament

Workplace flexibility is mandatory under Commonwealth employment laws, and solutions such as job sharing have become popular in all business types.

Historically, job sharing, which involves two people sharing what is normally a full-time role, has been seen as an alternative way for women to stay in the workforce. It is common in administration positions. However, research suggests that job sharing might also be a viable option for politicians. This is because evidence shows that job sharing works at the highest level of business, so this is perhaps one way parliaments can learn from the business community.

However, like all flexible working arrangements, job sharing cannot be seen as a solution or alternative for women alone. Male politicians with children would need to be encouraged to adopt these arrangements too.

Source: Extracts from Brendan Churchill, 'Australia can do more to attract and keep women in parliament — here are some ideas', *The Conversation*, 23 January 2019.

Employment arrangements such as job sharing are provided by the business above and beyond what is legally required. For employees, the demands of balancing family and work can be challenging. Offering employees the opportunity to job share may be mutually beneficial for the employer, the employee and for our wider society.



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.

6.16.3 Workplace diversity

Employees increasingly expect that they will work in a diverse workplace. Australia's population is becoming more diverse, and this is reflected in the range of staff working in many businesses. Workplace diversity refers to the differences between employees in a business. Diversity encompasses race, gender, ethnic group, age, disability, sexual orientation, the terms of employment, personality, education and many other characteristics.

Employees are more likely to feel comfortable and engaged in a diverse workplace, improving their performance. The reputation of the business should also improve.



Successful businesses, particularly those demonstrating a commitment to corporate social responsibility, understand the need to manage diversity in the workplace and realise that embracing it can deliver many benefits. Employees in a diverse workplace have a wide range of skills, talents, ideas and experience that allows the business to develop better products and improve customer service, because there is a better understanding of the demographics of the marketplace. A business embracing workplace diversity employs people from a wide variety of social groups and cultures. This includes but is not limited to Aboriginal and Torres Strait Islander peoples, people of multicultural backgrounds, people with tertiary or other specialist qualifications, young and older people, and people of different sexual orientations. Employees with these diverse backgrounds will be able to better meet the needs of the public they serve.

Given we now operate in a global market, promoting workplace diversity has never been more important because a business can relate to a diverse range of customers, both in Australia and globally. A business that is serious about diversity will improve communication and involve employees in decision making and problem solving, leading to greater creativity and innovation. Successful diversity management leads to improvements in employee satisfaction, along with productivity and retention.

6.16.4 Industrial democracy

Employees in many businesses today demand the right to be more involved in the decision-making process; they want to make decisions for themselves. This process of industrial democracy or empowerment breaks down the traditional 'boss–worker' relationship, placing new demands on human resource managers and resulting in the formation of autonomous work teams. It acknowledges that employees can take responsibility for their own actions and can initiate tasks without being ordered to. A business that is committed to corporate social responsibility is likely to provide its employees with responsibility and involvement in decision-making.

6.16.5 Employer of choice

A business that meets all employees' expectations and needs is often referred to as an 'employer of choice'. This means that the business attracts, motivates and holds on to highly talented workers. These employees choose to work for the business rather than another, because of the conditions, rewards and opportunities it offers. The employees of an employer of choice will also feel that their manager or managers respect them and value their input. It is important for a business to have a reputation as a good place to work. Employers of choice are likely to attract large numbers of applicants whenever they have a vacancy. It is equally important for the business to be aware of their employees' expectations and needs, and continue to meet them in order to maintain their reputation.

CONTEMPORARY CASE STUDY

ALDI as an employer of choice

ALDI Stores Australia was first selected as an Employer of Choice in the Australian Business Awards 2018, an award that it has now won several times. As we have already established in this topic, ALDI sees its staff as very important. ALDI has a corporate social responsibility statement that specifically relates to its employees, outlining that it is 'committed to ensuring that each employee receives the opportunity for individual personal growth and further development — irrespective of their origin, religion and ideology, age, gender, disability or sexual orientation'. ALDI values the long-term relations that it has with its employees and this can be seen through the training and development programs that it offers.



6.16.6 Overseas recruitment

Businesses that require employees with special expertise may recruit applicants from overseas. In addition, Australian companies may decide to move some of their operations offshore, sometimes to take advantage of lower wages in other countries.

Qualifications and experience are generally internationally recognised and transferable. Many people attend university overseas, and they are also more prepared to move internationally to other countries for employment purposes. Australian companies can recruit from anywhere in the world, and online advertising of vacant positions makes this a relatively simple process. Interviews and 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**. The TSS visa enables employers to address labour shortages by bringing in skilled workers where they can't source an appropriately skilled Australian worker. 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.

visa an official authorisation for an overseas visitor to enter a country and remain there for a specific period

DID YOU KNOW?

Overseas workers may be eligible to work in Australia if they have an occupation that is listed on the 'skilled occupation list'. This list is made up of those occupations that have worker shortages. It contains hundreds of occupations that Australian businesses struggle to find skilled workers for. These include agricultural engineer, boat builder and repairer, chef, and gas fitter, to name just a few. Many of the shortages exist in regional areas.

6.16.7 Sending existing 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 local people some locals in these operations, Australian employees may fill some of the senior 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.

It is common for Australian employees to work overseas. Most major organisations who have international offices or stores will send existing employees overseas to use their expertise.



6.16.8 Transnational corporations opening and closing branches

Transnational corporations (TNCs), also known as multinational corporations, are companies that operate in more than one country. Large organisations such as Unilever, McDonald's, Amazon, Shell and Apple are all examples of TNCs.

TNCs tend to have offices and headquarters located in their country of origin and will set up other offices in other countries around the globe, such as Australia. In most cases, these companies send in senior managers from their home countries to establish a company presence or to take advantage of a new market. They do, however, provide employment for local Australians, particularly in middle management, supervisory and semi-skilled worker roles.

6.16.9 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.



KEY IDEAS

- 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 treated fairly and given 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.
- Socially responsible employers will also provide workplace diversity and industrial democracy, and may be an employer of choice.
- 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.

6.16 Exercises

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6.16 Quick quiz on | **6.16 Exercise** | **6.16 Exam questions**

6.16 Exercise

TEST your understanding

1. **Outline** how an employer can 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. **Outline** the benefits of managing a diverse workplace.
4. **Explain** what is meant by 'employer of choice'.
5. **Identify** two reasons why a business might seek to recruit workers from overseas.
6. **Outline** what is meant by a TSS visa.

APPLY your understanding

7. Applying the principles of corporate social responsibility, **explain** how you would deal with the following situations.
   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.
8. With reference to a TNC with which you are familiar, answer the following questions:
   a. When did the business first become established in Australia?
   b. **What** does the business do?
   c. **Examine** why the business has established a presence in Australia.
   d. **How** many employees does the business employ globally, and how many employees are employed in Australia?
   e. Do you think that this business will remain in Australia? **Explain** your responses.

6.16 Exam questions

Question 1 (4 marks)

Explain the term 'corporate social responsibility management'. In your answer, provide an example from a contemporary business with which you are familiar.

Question 2 (6 marks)

With reference to a contemporary business case study, **analyse** the business's commitment to corporate social responsibility when establishing the staffing of the business.

Question 3 (2 marks)

Explain what is meant by the term 'overseas recruitment'.

Question 4 (8 marks)

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. Discuss an advantage and a disadvantage of recruiting employees from overseas. **4 marks**

Question 5 (5 marks)

With reference to a contemporary business with which you are familiar, **analyse** the suitability of overseas recruitment.

More exam questions are available online.

6.17 EXTEND YOUR KNOWLEDGE Researching issues in staff management

EXTEND YOUR UNDERSTANDING OF THIS CONCEPT

- A socially responsible employer can be expected to achieve safe and fair working conditions that improve the welfare of employees.

6.17.1 Safe working conditions

The following fictional case studies 'Mike's electrical service' and 'The hot bread shop' provide information which will be used to answer the questions in 6.17 Exercise.

CASE STUDY

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 training in workplace safety. To achieve this he decided to produce a training manual for his employees to help them in training the apprentices.



Resources

Weblink WorkSafe Victoria

6.17.2 Fair working conditions

CASE STUDY

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 $6 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 that she was lucky to have a job, and that he could not afford to give her a pay rise. 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.

Resources

Weblink Victorian Equal Opportunity and Human Rights Commission

6.17.3 Employee welfare

CASE STUDY

Bullying in the workplace



Workplace bullying occurs when a person, or group of people, at work repeatedly behave in an unreasonable manner towards another employee or group of employees. The behaviour may create a risk to health and safety.

The more noticeable forms of workplace bullying are intimidation, humiliation, verbal abuse, slamming doors, pushing, touching 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.

Verbal abuse is the most common form of workplace bullying. 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.

6.17 Exercises

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6.17 Exercise | **6.17 Exam questions**

6.17 Exercise

TEST your understanding

1. **Explain** why it is important for a business to comply with Occupational Health and Safety (OHS) legislation.
2. **Explain** how Equal Opportunity legislation protects workers.
3. **Define** what is meant by bullying in the workforce.

EXTEND your understanding

4. After reading the 'Mike's electrical service' case study, use the **WorkSafe Victoria** weblink in the resources tab to find out more about this organisation and then answer the following questions.
   a. What is the role of WorkSafe Victoria?
   b. What are Mike's responsibilities as an employer under the OH&S legislation?
   c. What assistance does WorkSafe Victoria offer to business?
   d. **Identify** the major safety risks faced by workers in this industry (construction).
5. If an employee was injured on the job, what processes would Mike and the employee have to follow?
6. After reading 'The hot bread shop' case study, 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.
   a. What is the first step Janet should take in attempting to resolve this problem?
   b. If Janet decides to make a formal complaint, describe the process she should follow to do this.
   c. **Explain** what the employer should do in response to a complaint from Janet.
   d. Who handles the complaint, and what processes do they follow?
7. After reading the 'Bullying in the workplace' case study, use the online WorkSafe Victoria guide to bullying to answer the following questions.
   a. **Outline** the law in relation to workplace bullying.
   b. **Describe** the main action that an employer should take in response to a bullying accusation.

6.17 Exam questions

Question 1 (4 marks)

Describe two corporate social responsibility management issues that a business will need to consider in establishing staffing.

Question 2 (4 marks)

Analyse one strategy for staffing a business that communicates a commitment to corporate social responsibility.

Question 3 (4 marks)

Safe and fair working conditions improve the welfare of employees. **Discuss** this statement.

More exam questions are available online.

6.18 APPLY YOUR SKILLS Gender equality in the workplace

PRACTISE YOUR SKILLS

- Identify, define, describe and apply business management concepts and terms
- Interpret, discuss, compare and evaluate business information and ideas
- Analyse case studies and contemporary examples of business management
- Apply business management knowledge to practical and/or simulated business situations

Source: VCE Business Management Study Design (2023–2027) extracts © VCAA; reproduced by permission.

6.18.1 Workplace inequality

CONTEMPORARY CASE STUDY

Inequality in the workplace

In 2021, the Workplace Gender Equality Agency reported that women earn on average 14.2 per cent less than men. This equates to $261.50 less per week.

A growing body of research evidence shows people's experiences in Australian workplaces are not only shaped by their gender but also by other characteristics. For example, following a survey of 1033 Aboriginal and Torres Strait Islander workers across Australia, it was found that 44 per cent of people reported hearing racial slurs while at work.

According to the Australian Human Rights Commission, people with a disability also face challenges within the workplace. In particular, this relates to gaining and keeping employment, due to discrimination or a lack of flexible work arrangements.

It has also been highlighted that culturally diverse women currently feel invisible and undervalued when it comes to leadership opportunities. While the Workplace Gender Equality Agency reported that 47.4 per cent of all persons employed in Australia are women, only 10 per cent of women who belong to culturally diverse backgrounds strongly agreed that their leadership traits were recognised or that their opinions were valued and respected in the workplace.

6.18.2 Addressing sexual harassment

CONTEMPORARY CASE STUDY

How to change attitudes to sexual harassment



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, with 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 movement brought the issue out into the open and thrown down a challenge for employers and politicians to act.

In an article for *The Sydney Morning Herald* 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 establish effective reporting and complaint mechanisms. 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 promote trust and encourage women to report 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. 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. In 2021, the #MeToo movement continued to gain traction, with the ABC reporting on how federal parliament was forced to deal with its 'man problem' amid reports of sexual harassment and assault towards female MPs. At around the same time a former private school student demanded sexual consent education in Australian schools. A common thread in all of these events is the abuse of power and feelings of entitlement among men.

Source: Adapted from K. Hilton, 'The real story of #MeToo is much bigger than front-page scandals', *The Sydney Morning Herald*, 6 March 2018.

6.18 Exercises

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6.18 Exercise | **6.18 Exam questions**

6.18 Exercise

TEST your skills

1. Read the 'Inequality in the workplace' case study and answer the following questions:
   a. **Outline** how much less women earn than men.
   b. **Explain** the main issue in the workplace for people with a disability.
   c. **Outline** the issue facing women who belong to culturally diverse backgrounds.

APPLY your skills

2. Women have been identified as earning less than men. In groups, **identify** the reasons for this.
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 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, then **propose** and **justify** an appropriate response from an employer.

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.

6.18 Exam questions

Question 1 (2 marks)

Describe one way in which a business can meet its legal obligations for staffing.

Question 2 (5 marks)

Corporate social responsibility in staffing a business can improve a business's triple bottom line. **Discuss.**

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6.19 Review

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6.19.1 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.
- Performance of staff refers to how well the job activities of employees are carried out.

Identifying staffing needs of a business

- 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, job design, job descriptions and job specifications

- Job analysis involves a systematic study of each employee's duties, tasks and work environment.
- Job analysis will result in documentation, including a job description (an employee's duties and responsibilities) and a job specification (qualifications and experience required).
- 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.

Recruitment methods

- Recruitment is the process of attracting qualified job applicants.
- Recruitment can be internal or external.
- Internal recruitment involves advertising a position on an intranet or by word-of-mouth.
- External recruitment involves advertising a vacancy in the media, using a website, making use of online recruitment agencies, or through social media.

Selection methods

- Employee selection involves choosing the most suitable applicant.
- Selection methods include interviews, psychological testing, work testing and online selection.
- The selection process can involve a combination of examining a written application, different types of testing, interviews and background checks.

Employment arrangements and the National Employment Standards

- 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

- Employees expect appropriate conditions of employment and remuneration in return for their work.
- 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.
- Job security is the belief that the employee will not lose their job. Human resource 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 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.
- Induction methods include an audiovisual presentation, induction handbook or employee manual, or mentor system.

Corporate social responsibility management in relation to staffing and overseas recruitment

- 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.

- Socially responsible employers will also provide workplace diversity and industrial democracy, and may be an employer of choice.
- 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.

6.19.2 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 document 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.
conditions of employment what an employer has agreed to give the employee in return for the work of the employee, such as hours of employment and leave entitlements
e-business use of the internet to conduct the full range of business activities
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
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 employment 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 planning the process of determining current and future staffing needs for a business and the development of strategies to meet those 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 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 written statement describing the employee's duties, and tasks and responsibilities associated with the job
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 a list of the key qualifications needed to perform a particular job in terms of education, skills, knowledge and level of 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
online recruitment agency a business that specialises in finding suitable candidates to fill vacancies for a variety of different employers
part-time permanent employment 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

performance of staff how well the job activities of employees are carried out
productivity a measure of business efficiency comparing output produced with the quantity of inputs. It is calculated using the formula: *Productivity = outputs/inputs*.
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 the income that a business earns from the sale of goods and services to customers
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
selection the process of choosing the candidate who best matches the business's requirements
staffing the process of finding, acquiring, preparing and retaining the right employee for a position in the business
staffing needs the human resource requirements of a business
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

on Resources

Digital documents Key terms glossary (doc-37634)
Missing word glossary quiz (doc-29429)
Crossword (doc-29430)

6.19.3 Practice school-assessed coursework

OUTCOME 3

On completion of this unit the student should be able to discuss the importance of staff to a business, discuss the staffing needs for a business, and evaluate staff-management strategies from both an employer and staff perspective.

ASSESSMENT task — investigation and report (written, visual, oral)

Hiring blitz to replenish staff



The last couple of years have been difficult for supermarkets in relation to staffing. With the consequences of the pandemic — isolation, COVID hotspots and mandated vaccination for workers — supermarkets had been reporting weekly staff shortages. In extreme cases more than 6500 distribution centre and store staff employed by Woolworths, Coles and ALDI were forced to isolate, worsening transport disruptions and contributing to increased shortages on supermarket shelves.

Of course, many of these staff complete their isolation, test negative and return to work, but retailers have been forced to recruit new staff to provide flexibility for when more employees are inevitably forced to isolate. The supermarkets reported that the disruptions to staff levels meant that it was hard to operate at full capacity. In late 2021, Woolworths was seeking 'hundreds of new staff' and ALDI was seeking up to 1000 new staff in the lead up to Christmas.

Coles relied on overcoming staff shortages by rotating team members from other stores and using labour hire services (recruitment consultants) to source temporary staff to assist with tasks such as stocking shelves and night shifts.

Question 1 (3 marks)
Explain how hiring additional staff may help Woolworths, Coles and ALDI achieve one of their business objectives.

Question 2 (4 marks)
Discuss whether the supermarkets should employ permanent or casual staff, outlining the advantages and disadvantages of each form of employment, for their business.

Question 3 (4 marks)
Identify two possible methods that the supermarkets could use in their employee selection process, and **explain** one advantage and one disadvantage of each method.

Question 4 (4 marks)
Both employers and employees have expectations of each other.

a. **Outline** two expectations that Woolworths, Coles and ALDI could reasonably expect from their potential new employees. **2 marks**

b. **Outline** two expectations that employees could reasonably expect from their new employers. **2 marks**

Question 5 (6 marks)
Explain three legal obligations that the supermarkets have in relation to occupational health and safety legislation.

Question 6 (2 marks)
Identify the main Equal Employment Opportunity considerations Woolworths, Coles and ALDI have to address in the recruitment and selection process.

Question 7 (5 marks)
Evaluate the use of an induction process for the new staff who are recruited to work at the supermarkets.

Question 8 (4 marks)
Propose and **justify** a strategy that the supermarkets can use to ensure they act in a socially responsible way in establishing employment arrangements with new employees.

Resources

Digital document School-assessed coursework (doc-38073)

6.19 Exercises

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6.19 Quick quiz | 6.19 Exercise | 6.19 Exam questions

6.19 Exercise

TEST your understanding

1. **Explain** the importance of staff planning for a business.
2. **Explain** why it is recommended that a business produces a job description and a job specification prior to advertising a position.
3. **Explain** how changes in technology are changing the staffing needs within the workplace.

4. **Identify** how an employer can attract the best applicants to a vacancy.
5. When might external recruitment be preferred to internal recruitment?
6. **Identify** the advantages and disadvantages of different methods of selecting the best applicant for a job.
7. **Outline** the benefits employees gain from full-time, permanent employment.
8. **Outline** the reasons an employer might have for preferring part-time employees.
9. **Explain** the key expectations that employers are likely to have of employees.
10. **Describe** how an employer can contribute towards the work–life balance of employees.
11. **Explain** why job security is so important to most employees.
12. **Outline** the steps an employer might go through to ensure a safe workplace.
13. **Describe** the impact that the application of EEO principles can have on the different stages of the employment cycle.
14. **Why** is it important to have an effective induction process for new staff?
15. **Identify** two common methods of employee induction.
16. **Explain** how globalisation can affect employment practices within Australian businesses.
17. **Identify** and **explain** three examples of socially responsible 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.

6.19 Exam questions

Question 1 (6 marks)

Explain the meaning of each of the following terms:

a. job analysis **2 marks**
b. job design **2 marks**
c. external recruitment. **2 marks**

Question 2 (4 marks)

'Implementing thorough human resource planning is essential to achieving business objectives.' **Discuss** this statement.

Question 3 (8 marks)

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**

Question 4 (6 marks)

Megan strives for a reputation of being a fair and understanding employer. She has implemented flexible working conditions to assist her employees in achieving a better work–life balance.

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**

Question 5 (6 marks)

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

b. employment arrangements for staff.

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APPENDIX
Task words used in VCE Business Management assessable tasks and examinations

It is important to understand the meaning of the terms used in assessed tasks and the short- and extended-response questions of the examination. The terms listed below are the most frequently used.

Term	Explanation
analyse	Identify the main features of a concept, theory, case study or contemporary example of business management. An analysis provides detail and breaks a larger concept into smaller parts. You should show how these parts relate or connect to each other.
apply	Use the relevant business management knowledge of key concepts and terms, and link or relate it to the particular business situation, prompt or case study that you are given
compare	Bring together firstly the similarities and then the differences between business information, theories and ideas
define	Accurately and clearly state the meaning of a business management concept or term
describe	Provide a detailed account of a business management concept or term. This can include facts about a concept or term, or stating the key features and characteristics. If the question refers to a process, you may provide features in a certain order.
discuss	Consider both sides of an issue relating to business information, theories and ideas. This might mean writing about the advantages and disadvantages, the strengths and weaknesses, or the benefits and costs
distinguish	Show the main points of difference between business management concepts or terms
evaluate	Consider both sides (e.g. strengths and weaknesses) of a theory or management strategy, then provide an overall concluding judgement related to the overall suitability or value of the theory or strategy
examine	To look at, and write about, a business management concept or idea, noting the important details
explain	Make the meaning of business management concepts or terms clear and understandable. You may refer to the main idea or principles.
identify	Recognise/name a business management concept or idea
interpret	Understand and get meaning from information and show how it relates to other business information, theories and ideas
justify	Show how a suggestion that you have made in relation to management strategies to improve business performance is correct. Provide evidence to show why your suggestion will work.
outline	Write the main points, principles or features that relate to a business management concept, term or strategy
propose	Put forward an idea, argument or suggestion in relation to management strategies to improve business performance. You will need to outline the details.

Source: Adapted from VCAA, *Glossary of command terms*, https://www.vcaa.vic.edu.au/assessment/vce-assessment/Pages/GlossaryofCommandTerms.aspx

GLOSSARY

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.
artificial intelligence intelligence demonstrated by machines, as opposed to the natural intelligence displayed by humans
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* (Cwlth) 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
Award a legally binding document 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
boycotting 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 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
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 of 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 an 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 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 businesses that sell products which 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.
conditions of employment what an employer has agreed to give the employee in return for the work of the employee, such as hours of employment and leave entitlements
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
crisis public relations the strategies that a business implements when an unforeseen event generates unfavourable publicity that may threaten the image and reputation of the business
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
customer loyalty program a rewards-based program offered by a business to customers who frequently make purchases
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.
data analytics the science of analysing raw data to draw conclusions about that information
debt the funds provided by banks, other financial institutions, government and suppliers, which must be paid back over time with interest
decision making the ability to identify the options available and then choose a specific course of action from the alternatives
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 an increase in the real value of goods and services 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 a measure of how well we do things; for example, if we are able to produce more outputs 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
email marketing the act of sending a commercial message, typically to a group of people, using email
employee retention the ability of a business to keep employees
employment when a person works one hour or more in a specified week
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 act of starting and operating a new business in response to opportunities, assuming all the risk 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
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
exports goods and services that are produced in Australia to be sold overseas
external data published data from outside the business
external environment factors over which the business has little control. It may be further divided into two categories: operating and macro.
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
financial independence the capacity to support a lifestyle without having to be employed or be dependent on others
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
freelancers independent workers who charge businesses or individuals for work on a per job basis

full-time permanent employment an ongoing employment contract that 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 business
government business enterprise a type of business which is controlled by the government. These types of businesses provide a range of essential services, but run in a similar way to companies with shareholders and a board of directors.
green marketing the practice of promoting and selling products based on their environmental benefits
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 planning the process of determining current and future staffing needs for a business and the development of strategies to meet those needs
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 a business 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 factors over which the business has some degree of control; it is sometimes called the micro environment.
internal recruitment filling job vacancies with 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 written statement describing the employee's duties, and tasks and responsibilities associated with the job
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 a list of the key qualifications needed to perform a particular job in terms of education, skills, knowledge and level of 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

manager a person who has responsibility for overseeing the operations of the business to ensure that it successfully achieves its goals

manufacturing a business that produces physical goods, often in a factory. 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, including 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

market need the goods or services that customers require that are not readily available

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 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

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 on a property, 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. Examples include land, water and raw materials.

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

online recruitment agency a business that specialises in finding suitable candidates to fill vacancies for a variety of different employers

operating environment the specific outside stakeholders with whom the business interacts in conducting its business; it is sometimes called the task environment.

opinion leader a person who influences others

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 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
people everyone who is involved in the product of a business, whether they are in direct contact with customers or have an indirect connection
percentage mark-up increase to the cost price by a fixed percentage to give the selling price
performance of staff how well the job activities of employees are carried out
personal independence the capacity to be in control of decisions that affect one's everyday actions or activities
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
physical evidence everything that the customer sees when interacting with a business
place making the product available to the customer, wherever the customer chooses to purchase it
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
private limited company an incorporated business with a minimum of 1 shareholder and a maximum of 50 non-employee shareholders
procedure a series of actions that enable a policy to be put into practice
process the flow of activities or mechanisms that take place when there is any interaction between the customer and a business
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
product a good, service, experience, idea or information that can be offered in an exchange for the purpose of satisfying a need or want
product development the creation of a product with new or different characteristics that offer new or additional benefits to customers
productivity a measure of business efficiency comparing output produced with the quantity of inputs. 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 a tax rate 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 the promotion methods a business uses in its promotional campaign. Methods include personal selling, advertising, and publicity and public relations.
prospectus a legal document that provides details about investment in the company
psychological factors influences within an individual that affect their buying behaviour
public listed company an incorporated business with a minimum of one shareholder (and no maximum), and whose shares are openly traded on the Australian Securities Exchange
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.
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

publicity any free news story about a business's products
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 the process of improving a business's website to increase its visibility when people search for products or services via various search engines
search engine optimisation (SEO) the strategies used to increase the number of visitors to a website by making it more visible on search engines
secondary data information that some other person or business has already collected
secondary target market usually a smaller and less important market segment
selection the process of choosing the candidate who best matches the business's requirements
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
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 type of business that produces goods and services for the market. This kind of business operates with the primary objective of fulfilling a social need, yet it has profit as an objective.
social media a computer-based technology that facilitates the sharing of ideas, thoughts and information through virtual networks and communities
social media advertising a form of online advertising that uses social media channels to deliver targeted commercial messages to potential customers
social need the production and/or selling of goods and services for the purpose of making the world (or the community) a better place
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
staffing the process of finding, acquiring, preparing and retaining the right employee for a position in the business

staffing needs the human resource requirements of a business
staff morale the general level of satisfaction and wellbeing of employees
stakeholders 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 who 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 that 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 considerations methods, systems and devices that are the result of scientific knowledge being used for practical purposes
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
unemployment when a person who, during a specified period, is not employed for one hour or more, but is actively seeking work and is currently available for work
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 their 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 (e.g. five years from now)
wage an hourly or weekly rate of pay
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
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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