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Cambridge Business Studies

Stage 6 • Year 11

Fifth Edition

MARIANNE HICKEY • DORIAN KIPRIOTIS • TONY NADER • TIM WILLIAMS

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Overview

To the student

Welcome to the Preliminary component of *Cambridge Business Studies Stage 6 Fifth Edition*, a resource that lays the foundation for the knowledge and skills that you will need to successfully complete the HSC exams.

The authors of this book, teachers in schools just like yours, have a shared desire to provide you with an informative and helpful resource written in language designed for students.

Make sure you consolidate each concept as it is covered; it will be too hard to master them all at once during the end of the year revision. Activities and reviews that appear throughout chapters are designed to check your deep understanding of each concept. Even if your teacher doesn't set all tasks, these activities and reviews will provide an excellent opportunity for you to check how you are going. Extended-response questions at the end of chapters build your skills in this assessment type that students traditionally struggle with.

Use the QR codes in this book to access explanatory videos of some difficult concepts. In the digital component, you will also find auto-marked quizzes to help you check your recall of content.

Chapter summaries as well as the unit and chapter concept maps are excellent revision tools.

We wish you well with your studies this year!

The authors

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About the authors

Marianne Hickey

Marianne Hickey, BA Dip Ed, obtained her degree from Macquarie University, majoring in Economics. She is a highly experienced teacher of Social Sciences in New South Wales schools. Currently teaching at Epping Boys High School, she has taught Business Studies since its inception at Epping. Marianne has also taught senior Geography and Economics as well as junior social science subjects such as Commerce. Marianne has experience as a year coordinator and for many years took part in marking the HSC Economics papers.

Dorian Kipriotis

Dorian Kipriotis completed his Business Degree at UTS, majoring in Marketing. After several years working in the corporate sector he transitioned into secondary teaching where he has served as an HSC Business Studies Marker and Judge Marker. Dorian has been fortunate to guide numerous state-ranked students in HSC Business Studies and Economics. He has led many Trial HSC Business Studies Pilot Marking committees and lectures students in preparation for their HSC exams. Dorian has held various senior leadership positions in NSW Catholic schools and is currently the Leader of Teaching at his school.

Tony Nader

Tony Nader is a highly experienced teacher of Business Studies in New South Wales schools. He has been an HSC exam marker and has written exam material and books for Commerce, Economics and Business Studies. Tony also lectures HSC Business Studies students in preparation for their final exam. Tony has served as a Head Judge, assessor, senior marker and member of the Examination Committee for the NESA Economics course and was also a member of the Catholic Schools Secondary Association Economics Trial Committee. Tony also writes a number of independent Business Studies exams. He is currently HSIE Coordinator at Marist Catholic College Penshurst.

Tim Williams

Tim Williams began a career as an accountant in the late 1980s before moving into the hospitality industry. An accidental move into teaching occurred in the early 1990s when Tim spent five years as a casual teacher with the New South Wales Department of Education. Following this, he entered the private education system and spent over 10 years with SCEGGS Redlands in North Sydney. His time there culminated in the position of Head of Social Sciences, administrating both Board of Studies and International Baccalaureate courses. Tim was the head of Social Sciences at Abbotsleigh School for Girls. Moving to South Australia, Tim is now the head of Business Innovation, Accounting and Economics as well as Head of Year Level at Eynesbury Senior College.

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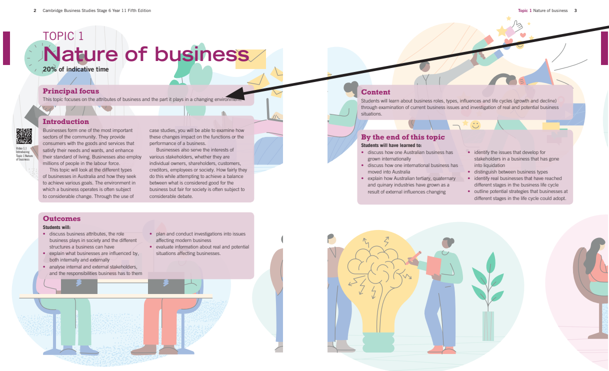
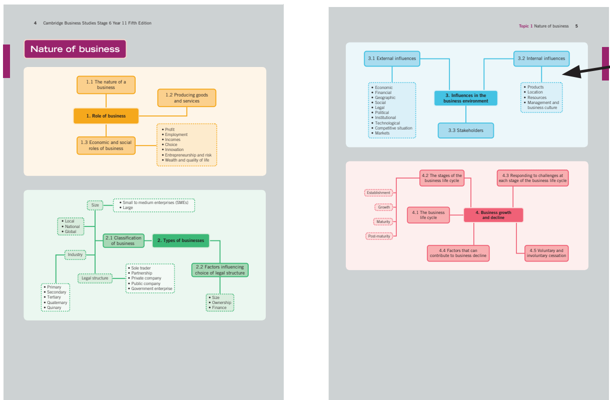
How to use this resource

Topic openers



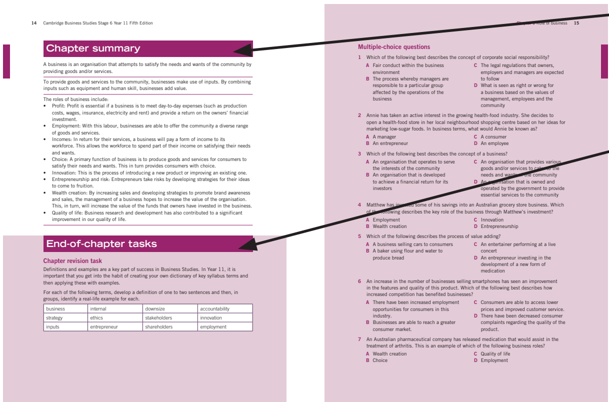
Each topic starts with an overview that sets out:

- The principal focus of the topic. A QR code enables you to watch a short video on this topic
- An introduction on the various aspects of the topic and how they fit together
- The outcomes covered in the topic
- The skills that students will acquire while working through the contents and executing the various activities.



This is followed by a comprehensive concept map of the topic, illustrating how the various concepts interlink. The relevant sub-section of these concept maps appear within each chapter.

End-of-chapter materials



Each chapter ends with a summary of its most important learnings to assist you with your revision.

This is followed by questions assisting you with exam preparation, namely a chapter revision task, multiple-choice questions, short-answer questions and extended-response questions.

Icons

QR codes are included for easy access to related videos

Video available in the Interactive Textbook

Digital quiz
Please see the Interactive Textbook to access digital activities.

End-of-section questions are to be completed in the Interactive Textbook. There are two types: auto-marked quizzes identified by this icon and Review questions that are completed in Workspaces.

For a list of the websites related to this book, go to www.cambridge.edu.au/busstudies115ed

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TOPIC 1

Nature of business

20% of indicative time

Principal focus

This topic focuses on the attributes of business and the part it plays in a changing environment.

Introduction

Video 1.0 Introducing Topic 1 Nature of business

Businesses form one of the most important sectors of the community. They provide consumers with the goods and services that satisfy their needs and wants, and enhance their standard of living. Businesses also employ millions of people in the labour force.

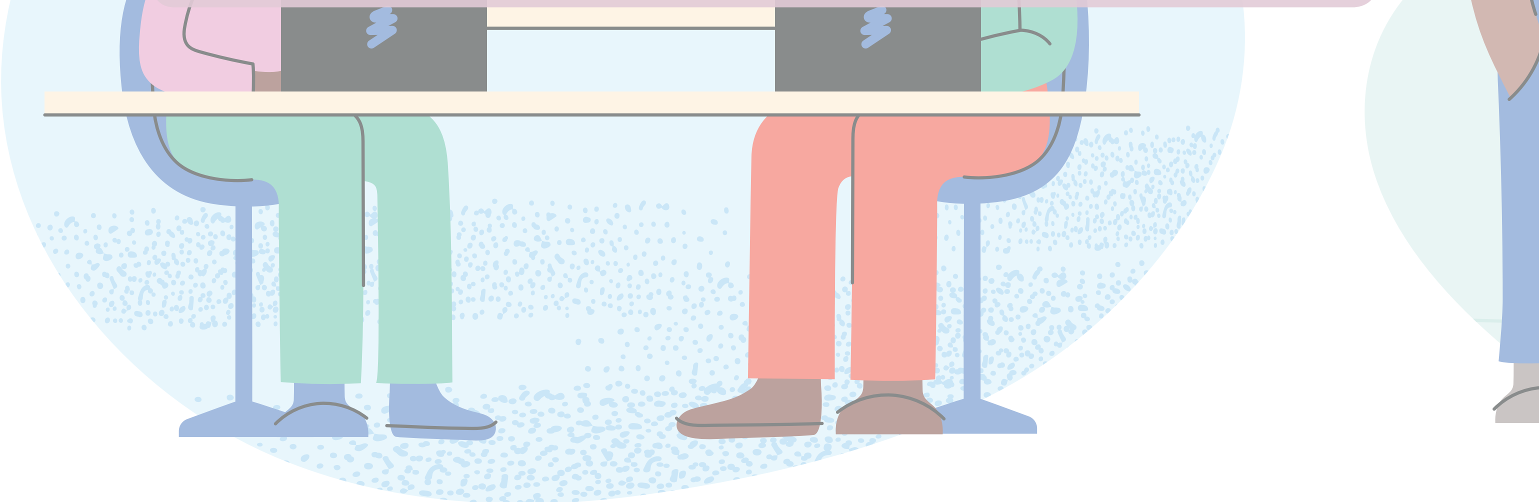
This topic will look at the different types of businesses in Australia and how they seek to achieve various goals. The environment in which a business operates is often subject to considerable change. Through the use of case studies, you will be able to examine how these changes impact on the functions or the performance of a business.

Businesses also serve the interests of various stakeholders, whether they are individual owners, shareholders, customers, creditors, employees or society. How fairly they do this while attempting to achieve a balance between what is considered good for the business but fair for society is often subject to considerable debate.

Outcomes

Students will:

- discuss business attributes, the role business plays in society and the different structures a business can have
- explain what businesses are influenced by, both internally and externally
- analyse internal and external stakeholders, and the responsibilities business has to them
- plan and conduct investigations into issues affecting modern business
- evaluate information about real and potential situations affecting businesses.



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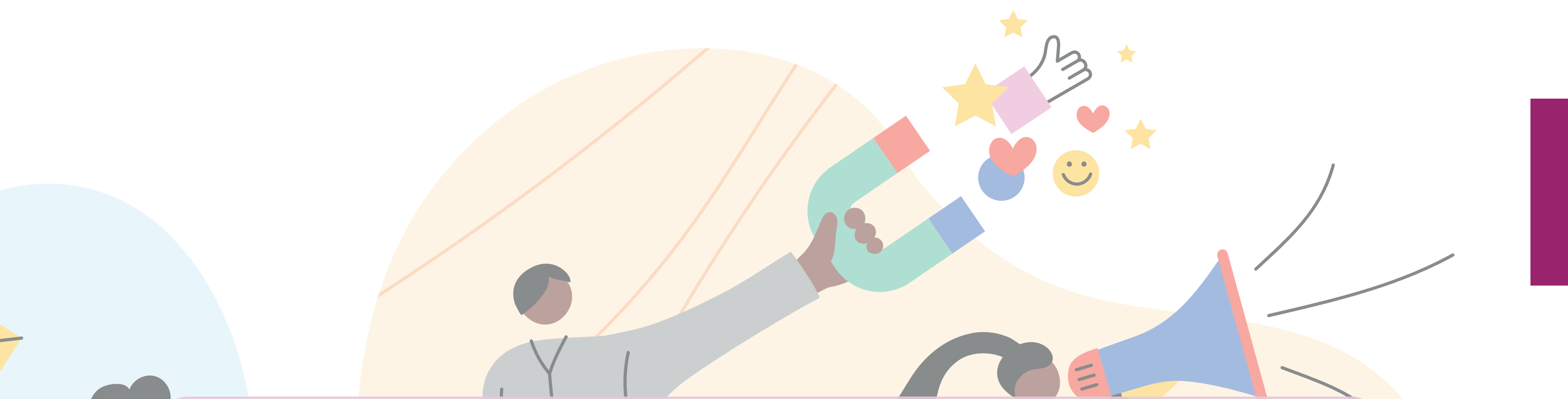


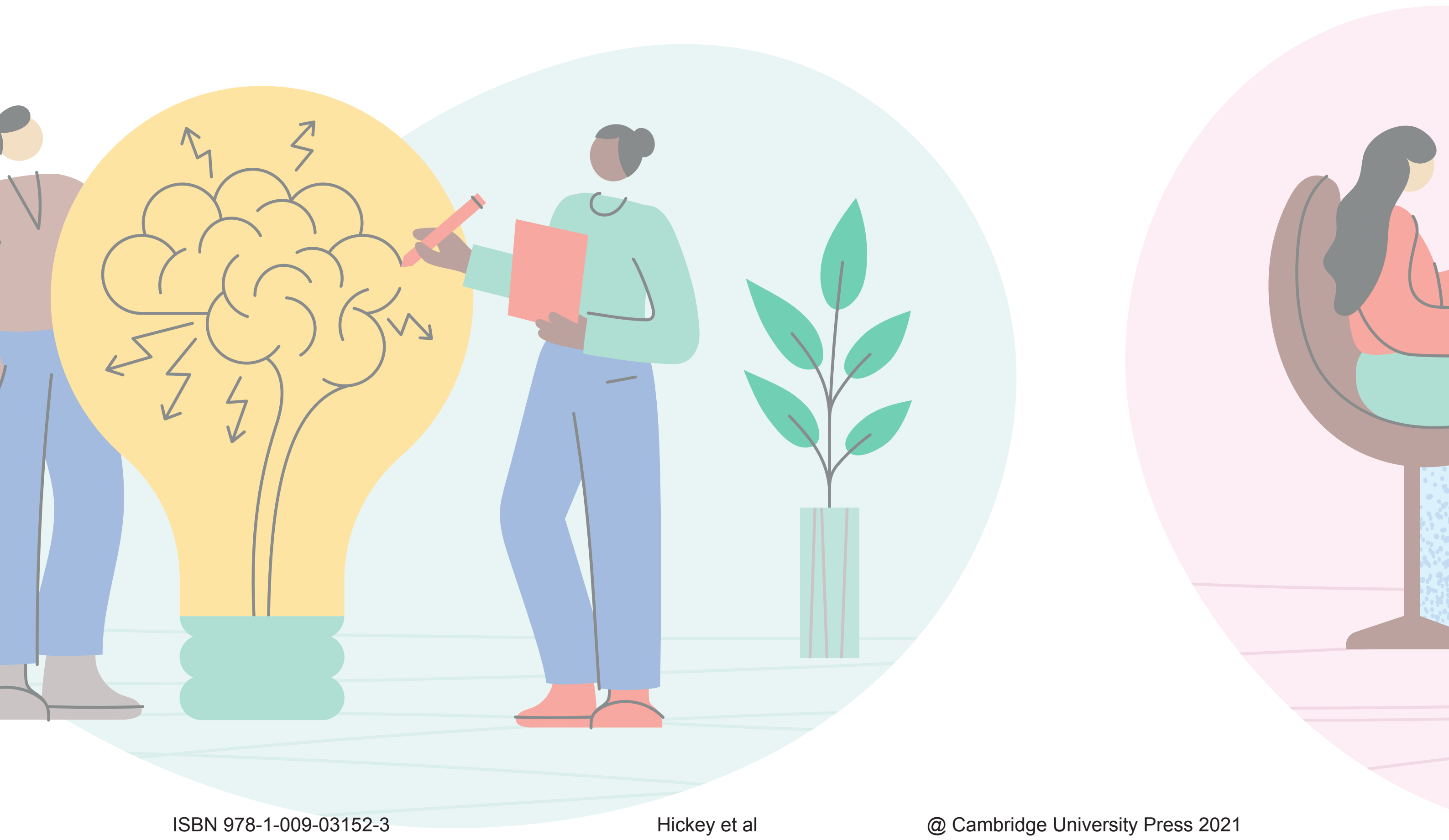
Content

Students will learn about business roles, types, influences and life cycles (growth and decline) through examination of current business issues and investigation of real and potential business situations.

By the end of this topic

Students will have learned to:

- discuss how one Australian business has grown internationally
- discuss how one international business has moved into Australia
- explain how Australian tertiary, quaternary and quinary industries have grown as a result of external influences changing
- identify the issues that develop for stakeholders in a business that has gone into liquidation
- distinguish between business types
- identify real businesses that have reached different stages in the business life cycle
- outline potential strategies that businesses at different stages in the life cycle could adopt.



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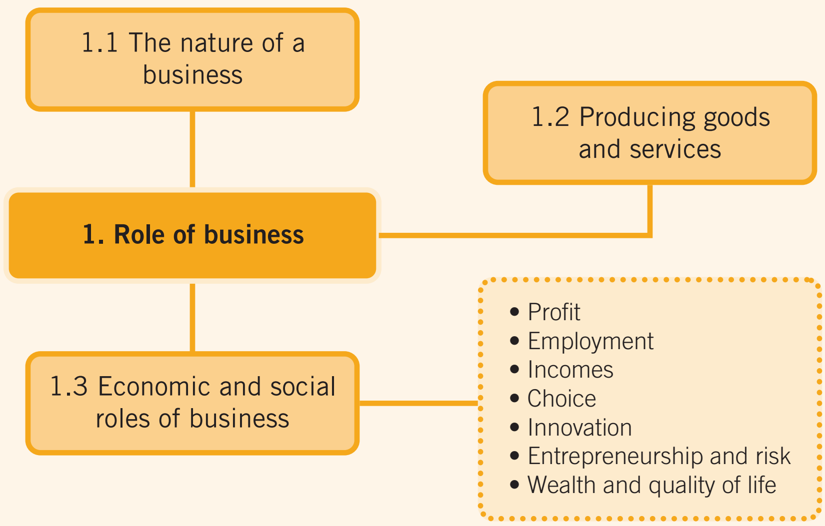
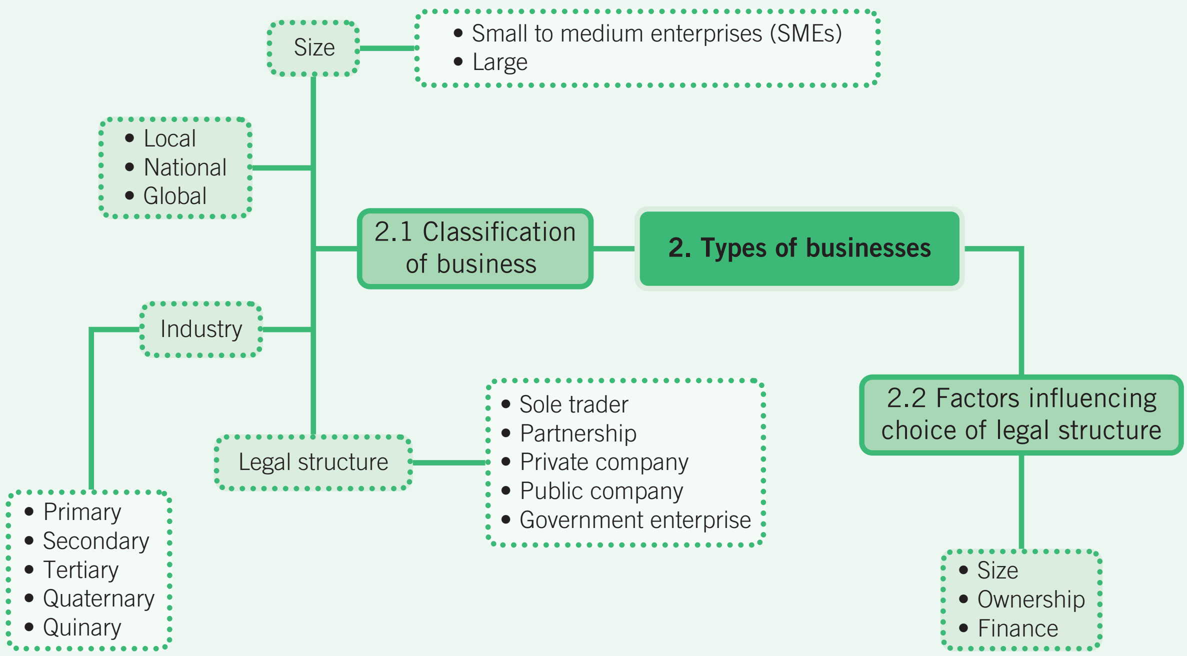
Nature of business





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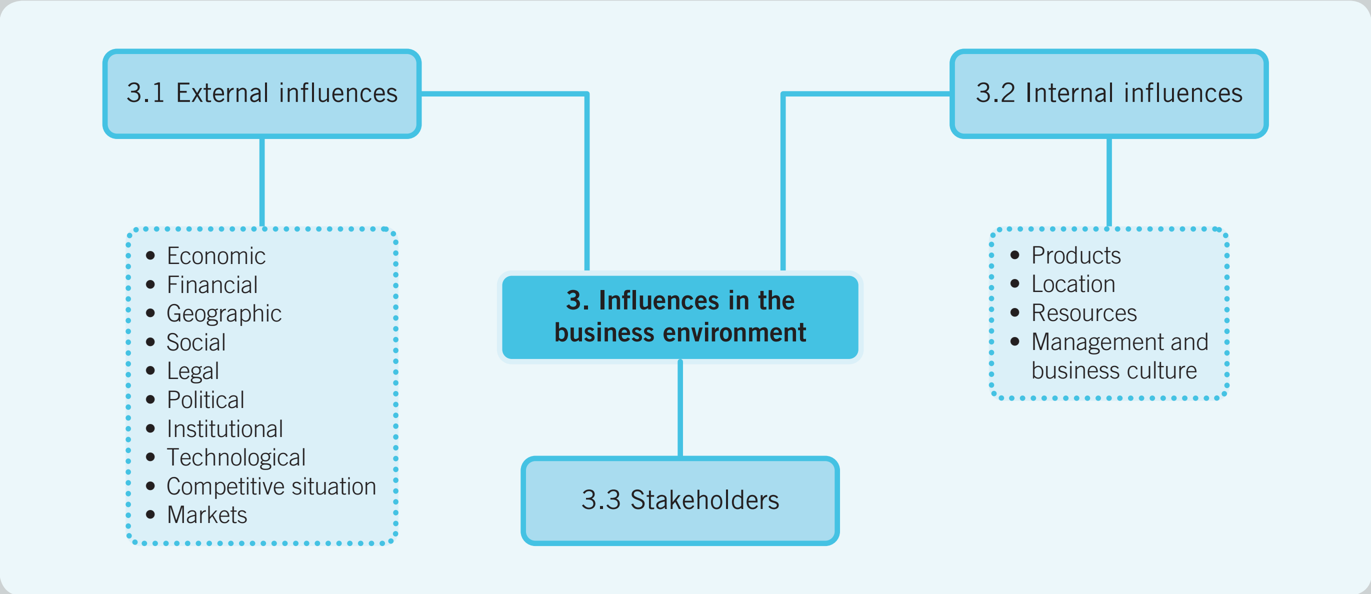

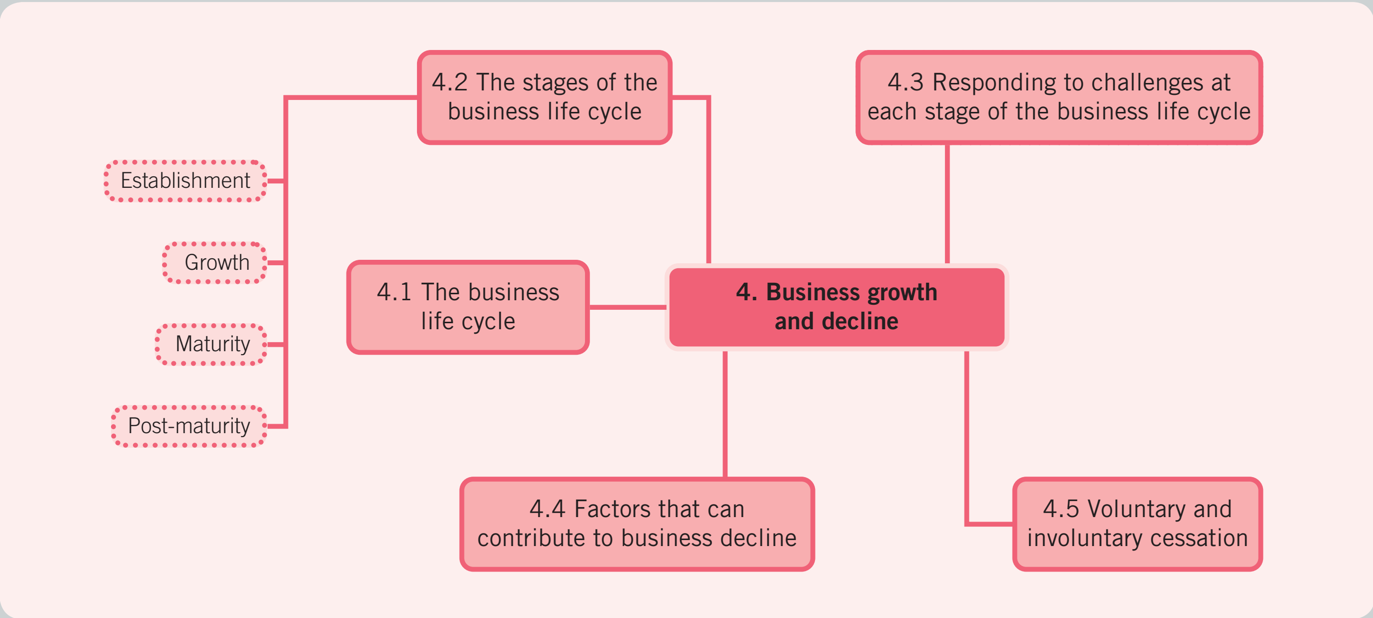

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1 Role of business

Chapter objectives

In this chapter, students will:

- identify the nature of a business
- investigate the production of goods and services in a business
- analyse how value is created and added to business processes
- discuss the benefits that business provides for stakeholders.

Key terms

- accountability
- brand
- business
- competitive advantage
- dividend
- downsize
- economy
- entrepreneur
- ethics
- expenses
- finance
- global business
- goals
- good
- innovation
- inputs
- management
- marketing
- net profit
- outputs
- price
- product
- profit
- quality
- redundancy
- service
- shareholders
- small business
- strategy
- wage

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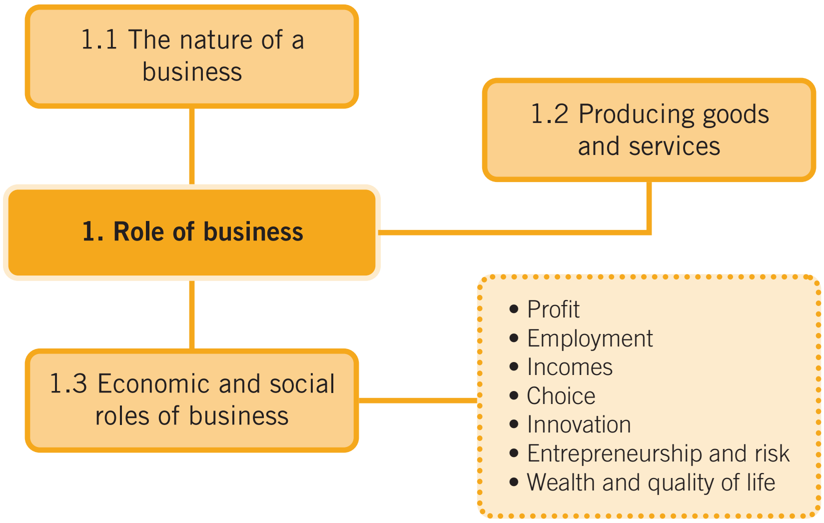
1.0 Introduction



Source 1.1 Role of business

1.1 The nature of a business

A **business** is an organisation that attempts to satisfy the needs and wants of the community by providing **goods** and/or **services**. Businesses play an important part in satisfying our needs and wants as consumers and provide employment to millions of people in Australia each year. There are many types of businesses and not all businesses exist in order to earn a **profit**.

From this definition of business, we can see that businesses are responsible for providing us with the goods and services that help maintain and improve our standard of living. But to do this, a business owner must be able to combine a variety of resources to produce goods and/or services. These resources are known as **inputs**.

Inputs are the resources (such as labour, **finance** and equipment) that a firm uses to create **outputs**. For example, the inputs of cans of Coca-Cola include sugar, water, syrup and aluminium cans. The finished **product** is the Coca-Cola soft drink available for us to consume.

Creating and adding value to business processes

By combining inputs such as raw materials with human skill and equipment, businesses add value. They take resources and combine them into a product that is of more importance to the consumer than the value of the individual resources. Milk, cream and flavouring are processed using machinery and a variety of human skills to create ice-cream, a product that has greater worth to many consumers than the individual inputs. This process is referred to as value adding.

Digital quiz
Please see the Interactive Textbook to access digital activities.

Business An organisation that attempts to satisfy the needs and wants of the community by providing goods and/or services.

Good An item that businesses produce that can be seen and touched.

Service An intangible product that is performed for someone by another person. An example is a consultation provided by a dentist.

Profit The difference between revenue earned and total expenses for the period.

Inputs The resources (such as labour, finance, raw materials and equipment) that a firm uses to create outputs.

Finance The process of providing and managing the funds that are needed so that goods can be produced and services provided.

Outputs The goods and/or services produced using various inputs.

Product A good, service or idea that can be exchanged in the market. It includes all tangible and intangible features, such as size, colour, image and warranty.

Source 1.2 Businesses can satisfy the needs of the customer and provide employment to millions of people.

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1.2 Producing goods and services

Digital quiz Please see the Interactive Textbook to access digital activities.

Businesses play a key role in our society. They are the driving force behind much of what occurs in our day-to-day lives. They provide us with a diverse range of goods and services, from the fashion items we wear to entertainment and leisure activities. Businesses also provide goods and services that improve our quality of living. They employ millions of Australians each year and generously give to social organisations that seek to assist those members of the community in need.

1.3 Economic and social roles of business

The role of business can be examined from social and economic viewpoints. The economic role of a business is concerned with the financial impact that the activities of the business have on various groups in the business environment. Has additional wealth been created for the owners? Can more people be employed? Are businesses developing new products and entering new markets in order to reach more consumers? The social role of a business is focused primarily on the impact of the business on the community. How does the community benefit from the activities of the business? Do businesses provide essential services? Are their actions environmentally friendly? Does **management** operate the business in a fair and just manner?

Issues of **accountability** and **ethics** are also raised in relation to the social and economic roles of business.

Management The people responsible for running the organisation.

Accountability The process whereby managers are answerable to particular groups affected by the activities of the business.

Ethics Standards of behaviour and moral position, which influence the choices and decisions the person makes; what is seen as right or wrong for a business based on the values of management, employees and the community.

Expenses All the costs incurred in earning revenue; this could include wages, the cost of marketing and the purchase of materials and stock.

Wage An hourly rate of pay; may include overtime payments for work done outside normal hours.

Small business A business that employs fewer than 20 people (Australian Bureau of Statistics classification).

Net profit The final amount of revenue remaining after all expenses have been paid.

Activity 1.1
Comprehension

Choose one of the following goods:
- bread
- soft drink
- doughnut
- ice-cream.

Using illustrations, demonstrate how a business would add value to inputs to produce the good you selected.

Accountability refers to the process whereby managers are answerable to particular groups affected by the activities of the business. Ethics may be defined as what is seen as right or wrong based on the values of management, employees and the community. They are what society considers the most appropriate courses of action. Ethics determine the 'right' choice to make in any given situation.

Profit

The profitability of a business is a key consideration for its long-term survival. Profit is essential if a business is to meet day-to-day **expenses** (such as production costs, **wages**, insurance, electricity and rent).

Business owners will often have different expectations of what level of profit is adequate. A business operating in a very competitive market and located near many of its competitors would be unlikely to achieve the same level of profit as a business with few competitors spread across a particular market. **Small business** owners will achieve lower levels of profit than their larger, better-known competitors. As a general rule, the level of profitability within a business is measured by the return on investment.

The return on investment is the level of profit an investor receives based on the amount that the investor has invested in the business. This can be illustrated by the following examples:

- Don invested $200 000 in a café and received a **net profit** of $50 000 in his first year. The return on investment is 25 per cent.
- Cheryl invested $100 000 in a children's clothing store and earned a net profit of $50 000. The return on investment is 50 per cent.

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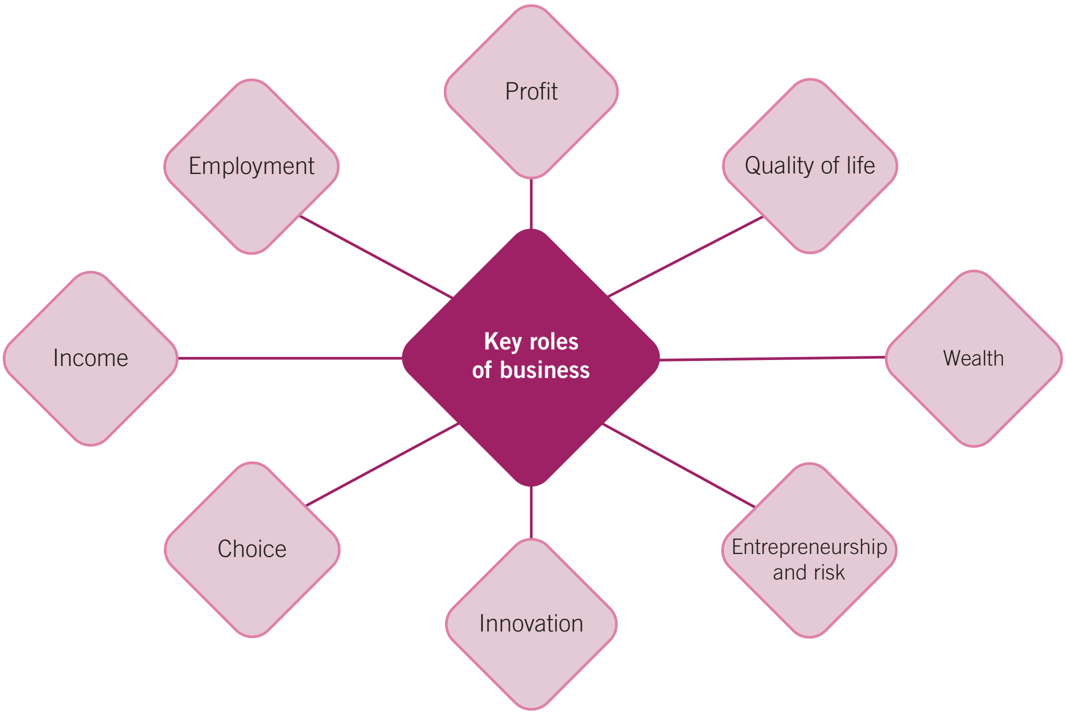

Source 1.3 Key economic and social roles of business

Source 1.4 A business's profits will depend on the size of the company.

Although both **entrepreneurs** achieved a profit of $50 000, it took Cheryl less money to achieve this return. As a result, she has the higher return on her investment. It is important to also compare the return on investment with that of competing businesses. The café industry is very competitive and may have an average return on investment of 12 per cent. When Don's profitability levels are compared with those of his competitors, his business is performing very well. (This is known as comparative ratio analysis, and is discussed in more detail in *Cambridge Business Studies Stage 6 Year 12 Fifth Edition.*)

Employment

In many cases, the owners of a business will employ other people to perform various activities within the business. The goods and/or services the business provides to the community are produced using the knowledge, skills and effort of human resources. For this reason, the provision of employment is a key function in business.

Over the past 20 years, the Australian **economy** has opened up to increased competition from **global businesses**. In response, many Australian businesses have **downsized** their workforce in order to remain competitive. For example, in 2018, Telstra announced that it would reduce its workforce by 25 per cent. This is equal to more than 8000 employees.

Entrepreneur An individual who has developed certain ideas and is willing to take a risk to implement them through a business.

Economy A system where governments, businesses, consumers and other relevant organisations interact to satisfy the needs of society.

Global business A business that often sells its products across many countries.

Downsize To decrease the scale of operations – for example, through a reduction in the number of staff employed.

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Redundancy Workers are made redundant when their labour is no longer needed. This may be a result of the business downsizing, restructuring or introducing technology to perform the workers' role. The business may ask workers to volunteer to leave (voluntary redundancy) or their employment may be terminated (involuntary redundancy).

Brand A name, design or symbol that distinguishes a particular product from the product of another business.

Price The money value or cost to the consumer of buying a good or service.

Quality The extent to which employees are working to the best of their ability within the business and the extent to which outputs are free from errors.

Innovation The process of introducing a new product or improving an existing one through new ideas, methods, systems and procedures.

Marketing The process of developing a product and implementing a series of strategies aimed at correctly promoting and pricing the product and distributing it to a core group of customers.

Strategy A plan designed to achieve a goal or objective.

Telstra faces strong competition from Optus and Vodafone, and has lost considerable revenue from the number of Australians who no longer have a fixed land line phone connected to their home.

Redundancy occurs when a business needs to get rid of employees as the jobs they are doing are no longer required – for example, where there has been structural change. Often technology replaces these employees.

Incomes

In return for their services, employees are paid an income by the business. This allows the workforce to spend part of their income on satisfying their needs and wants.

Choice

A primary function of business is to produce goods and/or services for consumers to satisfy their needs and wants. Most Australian businesses operate in a competitive market environment. This means that there are a large number of competitors offering similar goods and services. For example, if a teenager sought to purchase a pair of brand-name sports shoes, there would be a variety of **brands** from which to choose and a number of different retail stores from which to purchase the shoes.

This choice presented to consumers encourages businesses to provide goods and services at the lowest possible **price** with the highest **quality**. The ways in which the product is promoted will also influence the brand that consumers will buy and where they will choose to purchase the product.

Innovation

Choice encourages businesses to be **innovative** and to be different from their competitors. Innovation can be defined as the process of improving the features of a product. A business will seek to develop new products, improve product features and/or use different **marketing strategies** to ensure that when the consumer

Source 1.5 Choice forces businesses to produce better-quality and better-value products to enable them to stay ahead of their competitors.

does make a purchasing decision, they will decide to purchase that business's product.

Innovation can also be applied to the production process, where improved methods of production are implemented. The new production methods may make use of fewer resources and result in increased output. Innovation may also be evident in products that offer improved and/or advanced features.

Technology has played a key role in developing new methods of production that require less labour. It has also facilitated the development of improved features in many of the products that we use in our day-to-day lives. For example, mobile phones were once large and bulky with limited uses. Today, mobile phones – now known as smartphones – are compact and offer the consumer the ability to access the internet, take photos and send images to other users, among other things.

In the modern commercial environment, innovation is crucial for a business to maintain its **competitive advantage** over other businesses. Business managers must continually seek new product ideas, consider the possibilities of expanding into new markets and, where necessary, modify their products to revitalise sales. An innovative business is one that stands out in the marketplace. It is regarded as better than its competitors.

Competitive advantage Those features of a product or business that provide it with an advantage over its competitors.

Entrepreneurship and risk

An entrepreneur is an individual who has developed certain ideas and is willing to take a risk to implement these ideas through a business. Entrepreneurs take risks by developing strategies to enable their ideas to reach fruition. Through business, entrepreneurs are provided with an avenue to transform their ideas into actual goods and services.

Business Bite

Using Bluetooth to connect to a person's phone, smartwatches allow the wearer to access email, make and answer calls, check and reply to messages, control their music player and track fitness activity as well as tell the time. Their versatility makes them convenient for a wide range of activities.

There has also been innovation in the introduction of pay services through smartwatches where consumers can easily link their banking details to their watch. Google Pay and Apple Pay allow the consumer to simply scan their watch to the business's payment system and then the transaction occurs.

Source 1.6 Smartwatches have a variety of uses.

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Business Bite

They are delicious and tasty and we all enjoy eating pastry scrolls. Based in Sydney's south, Oregano Bakery is now one of Australia's leading producers of pastry scrolls. Tony and Sonia Jabbour came up with a very simple yet effective idea – flavoured scrolls. They range from cookies and cream to salted caramel, and Nutella and banana. As she is the face of the business, Sonia is now referred to as the Scroll Queen.

Source 1.7 Oregano Bakery is known for its flavoured pastry scrolls.

Wealth creation

Wealth refers to the total value of all assets owned by a person or business. Most businesses seek to make a profit from their activities. The production and provision of goods and services are the means by which businesses fulfil this **goal**. By increasing sales and developing strategies to promote brand awareness and sales, the management of a business hopes to increase the value of the organisation. This, in turn, will increase the value of the funds that owners have invested in the business.

In the case of public companies, a successful business may see its share price rise on the stock exchange. This creates wealth for **shareholders**, which they can convert to cash by selling their shares at the higher price. Alternatively, if they retain the shares, they should see an increase in the **dividends** they receive from them.

Businesses also generate increased wealth for the community. Profits generated by business are taxed by the government. The government uses this taxation to: fund essential services; improve educational, health and transport facilities; and employ emergency staff, such as police, fire brigade and ambulance officers.

Goals Targets to work towards in the longer term; the overall accomplishments that an organisation plans to achieve. Goals are realistic, achievable and measurable.

Shareholders Owners of a company; they provide the capital that allows the company to operate.

Dividend The income earned from owning shares in a company. It is usually paid every three or six months, and is based on the profits the company makes.

Ethical Spotlight 1.1

Do employees have the right to know the true financial performance of the business employing them or should this information be restricted to management and shareholders? Not all businesses create long-term wealth for shareholders.

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Business Bite

Buy now and pay later – it's a simple concept that has proved to be extremely popular with Australian consumers.

Launched in 2016, Afterpay is an Australian business that allows consumers to purchase an item, take it home and pay for the item over a period of four weeks. Any payments beyond the four weeks incur interest.

Source 1.8 Services such as Afterpay are believed to have led to decreasing use of credit cards.

Over the past five years, Afterpay has increased its customer base to now be used by more than one million Australians across all major retailers.

Its share price of $1.00 in 2016 has now risen to more than $100 in 2021. This means that every $1000 worth of Afterpay shares five years ago is now worth $100 000.

Quality of life

In the early 1980s, consumers would not have imagined being able to take photographs using their phone or talking to their friends via a computer video link. Through the variety of products and services provided by business, the quality of life of almost all Australians has improved.

Business research and development has also contributed to a significant improvement in our quality of life. Each year, governments, research organisations and pharmaceutical companies spend millions of dollars on research and development. Part of this expenditure is used to develop products that will help consumers maintain a healthy lifestyle. For instance, a growing number of different types of bread cater to consumers' diverse range of health issues and concerns, such as the need for gluten-free products.

Review 1.1

Comprehension

Answer these questions on paper or in the Interactive Textbook.

1. Explain how businesses benefit economic activity.
2. Describe how businesses encourage wealth creation within society. List those features of a product or business that provide it with a competitive advantage.

Source 1.9 The larger choice of healthy alternatives is improving consumers' quality of life.

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Chapter summary

A business is an organisation that attempts to satisfy the needs and wants of the community by providing goods and/or services.

To provide goods and services to the community, businesses make use of inputs. By combining inputs such as equipment and human skill, businesses add value.

The roles of business include:

- Profit: Profit is essential if a business is to meet day-to-day expenses (such as production costs, wages, insurance, electricity and rent) and provide a return on the owners' financial investment.
- Employment: With this labour, businesses are able to offer the community a diverse range of goods and services.
- Incomes: In return for their services, a business will pay a form of income to its workforce. This allows the workforce to spend part of their income on satisfying their needs and wants.
- Choice: A primary function of business is to produce goods and services for consumers to satisfy their needs and wants. This in turn provides consumers with choice.
- Innovation: This is the process of introducing a new product or improving an existing one.
- Entrepreneurship and risk: Entrepreneurs take risks by developing strategies for their ideas to come to fruition.
- Wealth creation: By increasing sales and developing strategies to promote brand awareness and sales, the management of a business hopes to increase the value of the organisation. This, in turn, will increase the value of the funds that owners have invested in the business.
- Quality of life: Business research and development has also contributed to a significant improvement in our quality of life.

End-of-chapter tasks

Chapter revision task

Definitions and examples are a key part of success in Business Studies. In Year 11, it is important that you get into the habit of creating your own dictionary of key syllabus terms and then applying these with examples.

For each of the following terms, develop a definition of one to two sentences and then, in groups, identify a real-life example for each.

business	internal	downsize	accountability
strategy	ethics	stakeholders	innovation
inputs	entrepreneur	shareholders	employment

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Multiple-choice questions

1 Which of the following best describes the concept of corporate social responsibility?

A Fair conduct within the business environment
B The process whereby managers are responsible to a particular group affected by the operations of the business
C The legal regulations that owners, employers and managers are expected to follow
D What is seen as right or wrong for a business based on the values of management, employees and the community

2 Annie has taken an active interest in the growing health-food industry. She decides to open a health-food store in her local neighbourhood shopping centre based on her ideas for marketing low-sugar foods. In business terms, what would Annie be known as?

A A manager
B An entrepreneur
C A consumer
D An employee

3 Which of the following best describes the concept of a business?

A An organisation that operates to serve the interests of the community
B An organisation that is developed to achieve a financial return for its investors
C An organisation that provides various goods and/or services to cater to the needs and wants of the community
D An organisation that is owned and operated by the government to provide essential services to the community

4 Matthew has invested some of his savings into an Australian grocery store business. Which of the following describes the key role of the business through Matthew's investment?

A Employment
B Wealth creation
C Innovation
D Entrepreneurship

5 Which of the following describes the process of value adding?

A A business selling cars to consumers
B A baker using flour and water to produce bread
C An entertainer performing at a live concert
D An entrepreneur investing in the development of a new form of medication

6 An increase in the number of businesses selling smartphones has seen an improvement in the features and quality of this product. Which of the following best describes how increased competition has benefited businesses?

A There have been increased employment opportunities for consumers in this industry.
B Businesses are able to reach a greater consumer market.
C Consumers are able to access lower prices and improved customer service.
D There have been decreased consumer complaints regarding the quality of the product.

7 An Australian pharmaceutical company has released medication that would assist in the treatment of arthritis. This is an example of which of the following business roles?

A Wealth creation
B Choice
C Quality of life
D Employment

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8 X-Part Plastics Pty Ltd has developed a new form of production that would improve the quality of its plastics. Which of the following business roles is identified here?

- **A** Entrepreneurship
- **B** Quality of life
- **C** Employment
- **D** Innovation

9 Not all businesses achieve profitability within their first year of trading. What would be an important reason for this?

- **A** The low number of competitors in the marketplace
- **B** The costs of establishing the business, resulting in a delay in achieving a return
- **C** The skills and training of the entrepreneur
- **D** The location of the business

10 A company's decision to release a new range of foods aimed at higher-end consumers would be seeking to fulfil which of the following roles?

- **A** Choice
- **B** Profit
- **C** Quality of life
- **D** Employment

Short-answer questions

1 Businesses create wealth for individuals and for the community. Explain how these two types of wealth creation differ.

2 Define the term 'entrepreneur'.

3 Describe how entrepreneurs act as facilitators of choice and innovation in the community.

Extended-response question

'Businesses exist not to serve the community but to maximise the financial investments of their owners.' With reference to this statement, discuss the role of business and explain how these roles can conflict with each other.

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2 Types of businesses

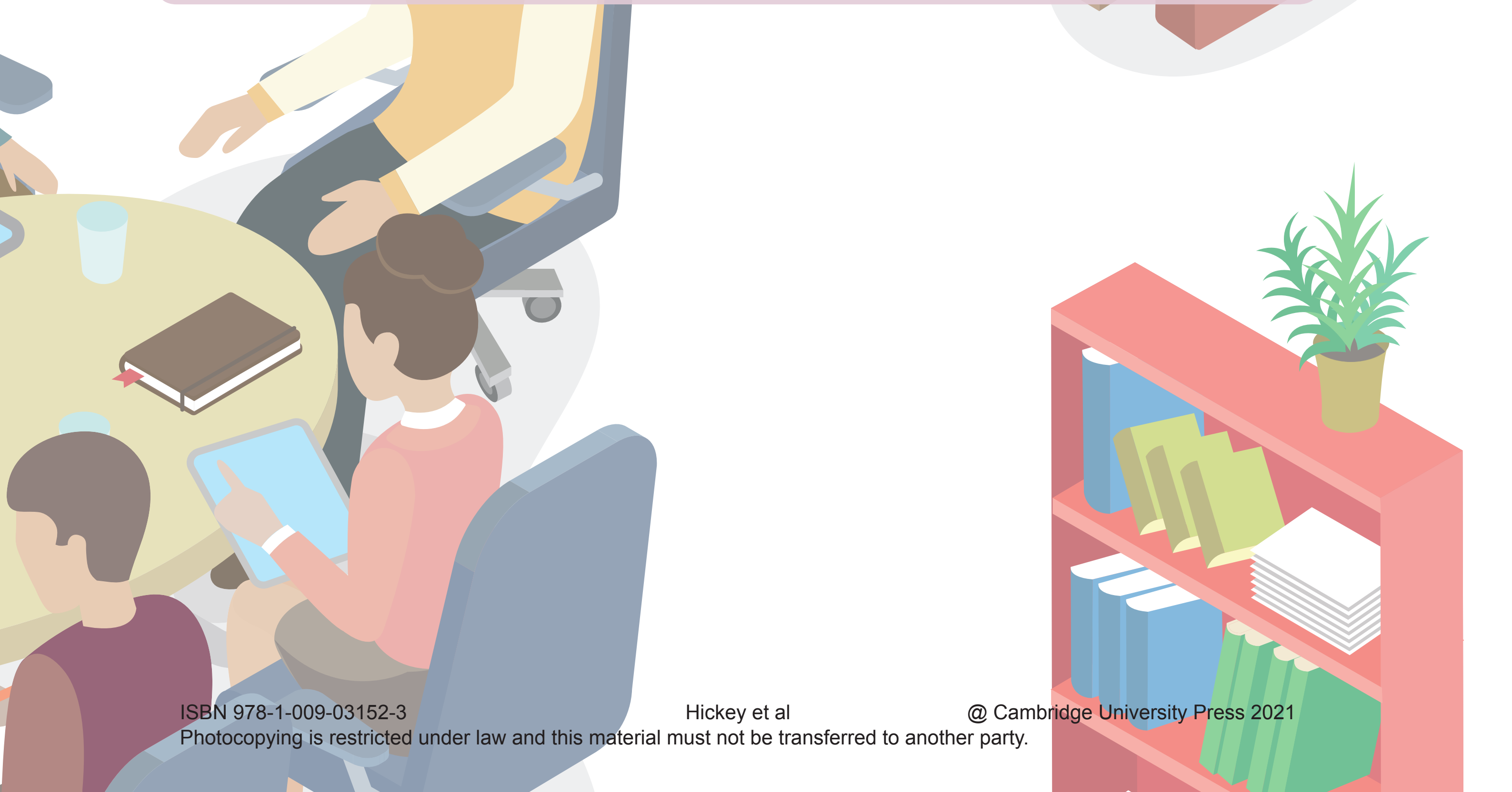
Chapter objectives

In this chapter, students will:

- investigate different classifications of business
- analyse the factors influencing choice of legal structure.

Key terms

- accounting
- assets
- demutualisation
- dividend
- financial institutions
- global business
- government enterprise
- large business
- legal structure
- limited liability
- local business
- medium-sized business
- micro business
- national business
- owner's equity
- packaging
- partnership
- primary industry
- private company
- privatisation
- prospectus
- public company
- quaternary sector
- quinary sector
- revenue
- secondary industry
- shareholders
- small business
- sole trader
- tertiary industry
- transnational business
- unincorporated businesses
- unlimited liability



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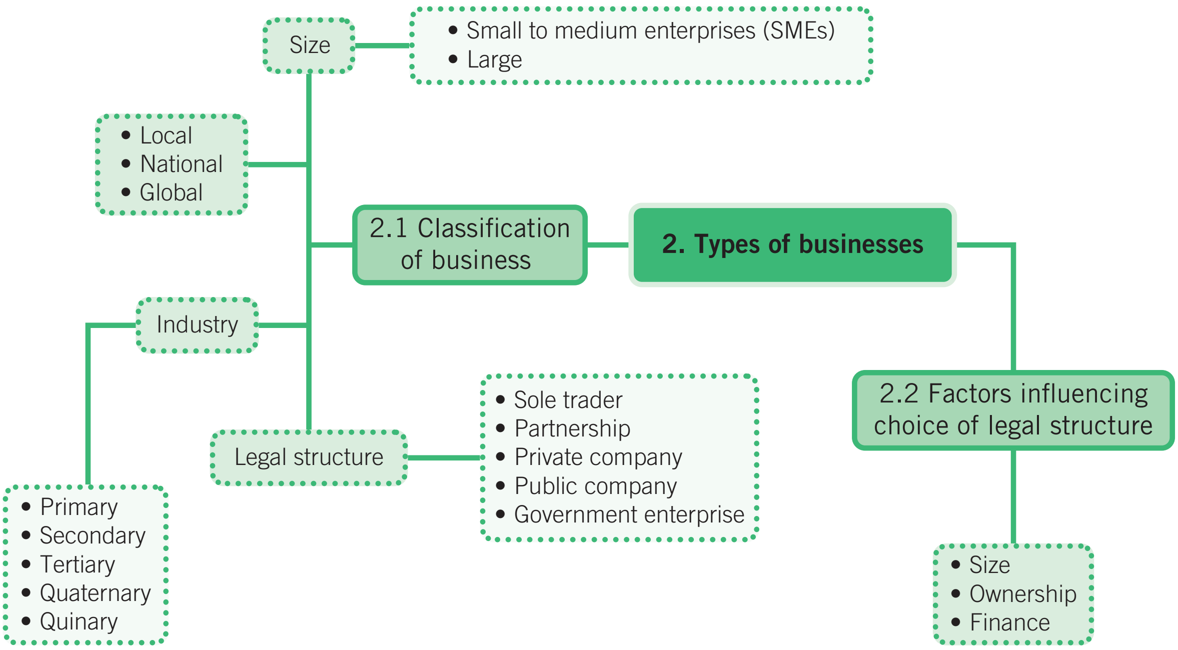
2.0 Introduction



Source 2.1 Types of businesses

2.1 Classification of business

Many types of businesses exist in the commercial environment. They produce a range of goods and services aimed at different consumer groups within the community. As you go about your day-to-day activities, you will come across these different types of businesses. As we discussed earlier, the term 'business' can be a little difficult to define. The reason for this is that there are so many types of businesses. This chapter will examine the different methods of classifying a business.

A business can be classified based on:

- its size
- the industry sector in which it is located
- its legal structure
- its geographic location(s).

Large business A business that employs 200 or more people (ABS classification).

Small business A business that employs fewer than 20 people (ABS classification).

Revenue All funds flowing into the business; may include sales receipts and fees for services, rent, interest from investments and dividends from shares in other businesses.

Micro business A business that employs fewer than five people (ABS classification).

Medium-sized business A business that employs between 20 and 199 people (ABS classification).

Size

When classifying by size, there is normally a distinction between **large businesses** and small to medium enterprises (SMEs).

The term '**small business**' is often used, but does not lend itself to an exact or widely accepted definition. Some Australian organisations seek to determine whether a business is small based on the number of employees the business has. Other sources base their definition on the business's total **revenue** and value of production. The Australian Bureau of Statistics (ABS) bases its official definition of small business in Australia on the type of industry in which the business operates as well as the size of that particular business's labour force. According to the ABS, a small business is one that employs fewer than 20 people.

The ABS also uses the term **micro business** to define an organisation with a workforce of fewer than five employees. **Medium-sized businesses** fill the gap between small and large businesses.

Small businesses play an important role in the commercial environment. They serve the interests of many local communities, employ many thousands of people in the Australian workforce each year and often act as a vital supplier of materials to the better-known large businesses. As consumers, we often use the services of small businesses to cater to our diverse range of needs and wants. Whether it is a local real estate agent or builder, a hairdresser or accountant, or even a favourite café or restaurant,

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every small business plays a vital role in the Australian business environment.

The number of small businesses

Small businesses are represented in many different industries in the Australian economy. In this section, we will look at the number of small businesses operating in New South Wales in particular.

As the largest contributor to Australia's economic activity, the New South Wales economy is characterised by a considerable number of small businesses across a diverse range of industries.

Small businesses are represented across all industries in New South Wales. Construction, property and business services and retail trade are three key areas of small business in New South Wales. The Australian retail sector is one of the largest employment sectors in the economy. One in 10 Australians are currently employed in the retail sector, with most employees being younger casual staff and female.

Many of the small businesses in New South Wales are based in the Sydney and Central Coast region. The high population of these geographic areas is the obvious reason why these small businesses choose to locate there. Western Sydney is the location of more than 30 per cent of small businesses in New South Wales. This is consistent with the population spread that Sydney has experienced in recent years – it is becoming increasingly common for people to move beyond the inner-city regions of Sydney to live and work.

Geographic: Local, national, global

Many consumers tend to be aware of businesses and brands that spread beyond their local area. Some businesses are small and operate only in a suburban area, while other businesses are global, reaching more than four billion consumers.

A **local business** is an organisation that operates within one area. It may produce or sell goods and services to a local consumer market. Small businesses tend to be local businesses.

Local business A business that operates within a local area.

National business A business that operates across an entire country.

National businesses operate across Australia. These businesses have greater awareness among consumers and tend to be trusted brands. Their geographical diversity across the country allows the business to achieve cost savings through bulk buying due to the size of its national customer base. Leading Australian stores such as Myer, Coles, Woolworths

Source 2.2 LEGO is an example of a business that has been very successful globally.

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Global business A business that often sells its products across many countries.

Transnational business A business that operates in many countries. Its goods and services are produced and sold in a number of different countries.

and Supercheap Auto are all examples of national stores. They are Australian-based businesses with stores located across the nation.

In a **global business**, production is often based in one country while its sales are global; it exports the goods and/or services it produces to other countries. Communications giant Samsung is based in South Korea and its products are assembled in China using components produced across the world.

Technological developments and strengthening relations between countries have encouraged the growth of common consumer markets across many countries. Around the world, teenagers drink Coke, communicate via Instagram and stream their favourite programs on Netflix.

Global businesses can also be known as **transnational businesses**. A transnational business is a business that operates in many countries. Its goods and services are produced and sold in a number of different countries. Toyota and Ford, for example, have production facilities in a number of different countries. These products are then either used in the domestic market or exported to other countries.

Business Bite

More than 90 per cent of Australians own a smartphone. More than 90 per cent of families in Australia own a car. Yet these two very common products in Australia are provided by businesses that did not originate in Australia; nor do they manufacture their products in Australia. Samsung, Apple and Oppo, along with Toyota, Ford, Holden and Mazda, are all foreign-owned businesses that produce their goods in countries other than Australia. They are all transnational companies that source their inputs, manufacture their products and sell their goods and services across different regions of the world.

Source 2.3 Dairy Farmers is one of Australia's leading providers of milk in the local market. Yet, despite the images of an Australian farmer overlooking his farm across its packaging, from 2008 until 2020, the business was owned by a Japanese firm called Kirin.

Ethical Spotlight 2.1

Should foreign businesses be allowed to promote their products with Australian-based images on their products, although the company is not Australian-owned?

Industry

A diverse range of businesses exists in Australia, but it is possible to classify businesses according to their role in the production process – that is, by industry. There are five classifications according to industry sector:

1. primary
2. secondary
3. tertiary
4. quaternary
5. quinary.

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Source 2.4 Many businesses operate in the tertiary sector.

Primary industry businesses are involved in the acquisition of raw materials, including natural resources such as wheat, sugar cane, iron ore, aluminium and timber.

A **secondary industry** business uses raw materials, combined with labour and capital equipment, to create finished products. All businesses involved in the manufacturing sector are examples of secondary industries.

The prime function of a **tertiary industry** business is to provide a service. Hairdressers, doctors, engineers and nurses all provide services to the community. The growth of the tertiary industry in Australia has seen this broken down into two further sub-classifications: the **quaternary** and **quinary sectors**.

The quaternary sector consists of those businesses that provide information services to their customers. Banks, the media and telecommunications companies are all examples.

The quinary sector is concerned with businesses that provide services traditionally performed in the home. Takeaway food restaurants, home-maintenance businesses, cleaning businesses and childcare centres are all examples of businesses operating in the quinary sector.

Legal structure

The **legal structure** of a business refers to how the ownership of the business is registered. Is the business controlled by a select group of individuals or is ownership open to the public? If the business is unable to meet its financial obligations, are the owners or investors responsible for covering all debt? These are just two of the issues that are raised when a business decides on its most appropriate legal

Primary industry Businesses involved in the acquisition of raw materials, including natural resources.

Secondary industry Businesses that use raw materials as well as labour and capital equipment to create finished products.

Tertiary industry Businesses whose prime function is related to providing a service.

Quaternary sector Tertiary sector businesses that provide information services to their customers and businesses, which enable the transfer of information.

Quinary sector Tertiary sector businesses that provide services traditionally performed in the home.

Legal structure How the ownership of the business is registered.

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structure. There are seven main types of legal structure:

1 sole trader
2 partnership
3 private company
4 public company
5 company limited by guarantee
6 cooperative
7 trust.

Source 2.5 Legal structure of business

Sole trader An unincorporated business with one owner.

Unincorporated businesses Sole traders and partnerships. These are businesses that are not companies because they have not gone through the legal steps for incorporation.

Owner's equity The owner's financial claim on the assets of a business. It is the original investment the owner made into the business by contributing capital or buying shares, plus any profit the business makes. Also called proprietorship or proprietor's funds.

Financial institutions Organisations such as banks and finance companies that collect funds from savers to lend to businesses and other borrowers.

Unlimited liability If a business has unlimited liability, the owner of the business is personally responsible (liable) for debt incurred by the business.

Assets All the resources owned by and under the direct control of a business or individual.

Partnership An unincorporated business with more than one owner.

Sole trader

A **sole trader** is an **unincorporated business** with one owner. The owner is responsible for all decisions made within the business and is able to retain all of the profits.

Funding for the business is through the owner's own funds (**owner's equity**) and money borrowed from **financial institutions** (debt).

Liability is an important issue for sole traders. Businesses that are registered as sole traders are unincorporated businesses, which have **unlimited liability**. This means the owner of the business is personally responsible for the debt incurred by the business.

Source 2.6 A sole trader can assume greater control over their business, but also takes on a lot of the risk.

In the event that the business is unable to meet its financial obligations, the owner must take responsibility for finding funds to pay this debt. In many instances, this could involve selling the owner's personal **assets**.

The law recognises that the business and its owner are one and the same; so not only could a sole trader lose their business, they are also at risk of losing their personal assets.

Partnership

A **partnership** is an unincorporated business that has more than one owner. The individual owners work together to achieve the goals of the business.

The size and operations of the partnership are subject to specific requirements under the *Partnership Act 1892* (NSW). According to this Act, the number of partners within a business is dependent on the type of industry in which the business operates. The Act states that a partnership must have at least two owners and places limitations on the total number of partners that may be involved in the business. Most partnerships are able to have two to 20 owners, with the following exceptions:

- Up to 100 owners are permitted for veterinary practices and pharmacies.
- Up to 200 partners are permitted for accountancy and legal practices.

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- Up to 50 owners are permitted for businesses consisting of other professional occupations, including medical practitioners and engineers.

The *Partnership Act* also requires partners in a firm to develop a partnership agreement. The agreement is required to cover such areas as:

- the name and place of residence of each partner
- the percentage of the total business that is owned by each partner
- how profits will be distributed
- the process of selling a partner's share within the business
- conflict-resolution procedures.

Partnerships allow businesses an opportunity to access the specialist skills and knowledge of possible investors. Responsibility is spread, as is the decision-making process. It also allows additional funds to be brought into the business, which could be used to fund business growth and expansion.

Partnerships are unincorporated businesses and have unlimited liability. Should the business be unable to meet its financial obligations, each partner will be required to contribute a portion of their own money to the business.

Problems may arise in the joint decision-making process. Within any partnership, conflict may occur as a result of different ideas and personalities within the organisation. This could cause instability within the business and have a negative impact on its long-term survival.

Private company

A **private company** is a business that has between one and 50 owners. These owners are commonly referred to as **shareholders**. As with partnerships, increasing the number of owners of the business allows the organisation to access increased funds for future use. Decision-making and responsibility within the business are also shared.

Private companies are legal entities separate from their owners. This means that, although shareholders are the owners and are responsible for the day-to-day organisation of the business, the company itself is legally recognised as a separate organisation. Private companies have **limited liability**. This means that the business's shareholders are not personally liable for the financial obligations of the business. The directors can be fined or imprisoned if, during the course of running the business, they are found to have broken the law, such as by thieving or using fraudulent **accounting** practices. Shareholders will lose only their portion of the funds they invested. This is a popular reason why small business owners register their businesses as private companies.

Shareholders of private companies appoint directors to manage the long-term operations of the business. The directors may be shareholders themselves, and are elected or appointed to this position by the fellow owners of the business.

The conduct of private companies is governed by the *Corporations Act 2001* (Cth). This law states that, prior to the company starting to trade, a document must be set up that covers how the business will operate, the number of owners within the business and issues relating to the sale of shareholdings within the company. This document is lodged with the Australian Securities and Investments Commission (ASIC) and is commonly referred to as a company constitution.

A private company has 'Proprietary Limited' (abbreviated to Pty Ltd) after its name. 'Proprietary' means the company is private and ownership is based on the wishes of its current shareholders. 'Limited' means the company has limited liability.

Public company

A **public company** is a business that is listed on the Australian Securities Exchange (ASX) and has ownership open to all members of the public. Owners buy shares in the business and, in return, receive a portion of the profits for each share they own. This is called a **dividend.**

A dividend is the amount of income a shareholder receives for each share they own in the business. It is usually

Private company A business that has limited liability and between one and 50 owners.

Shareholders Owners of a company; they provide the capital that allows the company to operate.

Limited liability If a business has limited liability, the owners (shareholders) are not personally responsible for the debt incurred by the business.

Accounting The process of collecting and analysing the financial information of a business and then communicating the financial results to relevant stakeholders.

Public company A business that is listed on the Australian Securities Exchange and has ownership open to all members of the public. Public companies have limited liability.

Dividend The income earned from owning shares in a company. It is usually paid every three or six months, and is based on the profits the company makes.

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Source 2.7 Two of Australia's most well-known businesses are owned by many shareholders. These businesses are public companies.

paid every three or six months and is based on the profits the company makes.

For a business to be listed on the ASX, its existing owners must first issue a **prospectus**. A prospectus is a document describing the nature of the business, its financial performance and possible risks that the business may face. The prospectus must be approved by ASIC and the ASX.

Once shares are traded on the ASX, members of the public are free to buy and sell shares. The ASX acts as the market where shares can be traded. Stockbrokers are used by the public to buy and sell shares on their clients' behalf.

Public companies must have a minimum of five shareholders, but there is no upper limit on the number of owners. Each shareholder has limited liability and, as such, can only lose the amount of money that they have invested in the firm.

Prospectus A document that describes the nature of the business, its financial performance and possible risks that the business may face. It is issued to potential investors.

The shareholders elect directors, who manage the long-term operations of the business. A senior management team is appointed by the board of directors to assist with the organisation and day-to-day running of the business. ASIC requires public companies to release an annual report to shareholders outlining the financial performance of the business in the past year.

It is important to remember that public companies are not the same as public sector businesses. Public sector businesses are owned by the government. Public companies, on the other hand, are owned by private individuals.

Ethical Spotlight 2.2

Limited liability does not offer sole traders and partnerships protection of personal assets in the event that the debts of the business cannot be repaid. Shareholders in public and private companies are protected in the event that this occurs.

Should all investors be treated with the same level of protection?

Company limited by guarantee

Some businesses are more concerned about the services they provide to the community than they are about making a profit. These businesses are called non-profit organisations, and they encourage patrons to join as members. In common with shareholders, members of non-profit organisations elect the board of directors of the business.

If the business is able to achieve a profit, its members do not receive a dividend. Instead, profits are reinvested back into the organisation to improve the services offered to members.

Should the organisation be unable to meet its financial obligations, members of the organisation are not required to cover any shortfall in debt. These types of businesses are known as companies limited by guarantee. This means that their members are protected by limited liability. Examples of companies limited by guarantee are sporting clubs, art foundations and charities.

Cooperative

A cooperative is a type of company in which the owners have a common purpose and are either the suppliers or customers of the business. They operate for mutual benefit and not for the benefit of individual members. Owners buy shares in the cooperative and at the end of each year some cooperatives issue a dividend to their owners. Cooperatives have limited liability. The main purpose of a cooperative is to benefit its members. It is democratically controlled by its members. The three main types of cooperatives are discussed below:

1. Consumer cooperatives provide a retail service to their members. They are set up by a group of consumers who seek a particular product. A committee is formed to manage the day-to-day running of the business. Members of the cooperative often receive a discount when they buy goods from the cooperative – for example, in the case of Alfalfa House in the Business Bite below.
2. Producer cooperatives act as an agent for individual businesses to sell their goods and services. A group of similar small businesses will produce a good and then sell this to a cooperative. The cooperative will then transform this good into a finished product to sell to retailers and consumers. The advantage here is that it allows small businesses to access skills, expertise, equipment and markets without the high costs usually associated with these. The cooperative receives a portion of the profits, with the remaining funds returned to its members.
3. A financial cooperative is an organisation that is formed to provide financial services for its members. Credit unions are a popular form of financial cooperative. The financial organisation is owned by its members. Profits are often reinvested in the company to provide lower interest rates and additional services for members – for example, the Police Credit Union.

Packaging Provides protection for a product and attracts interest in the product.

Business Bite

Alfalfa House, based in the inner-city Sydney suburb of Newtown, is a not-for-profit consumer cooperative that aims to provide, where possible, minimally packaged and minimally processed, affordable, wholesome, organic food to its members.

Most of what the co-op sells is unpackaged. Shoppers bring their own containers and scoop, pour or ladle out the exact amount they want. Neither you nor the environment pays for unnecessary **packaging**. As well, you only buy what you need – the price per kilo is the same whether you buy 5 grams or 5 kilos!

The co-op stocks a surprisingly wide range of foods for such a small shop. This includes staples such as dried fruit, nuts, seeds, grains,

Source 2.8 Alfalfa House was hard hit by the COVID-19 lockdowns. In December 2020, the Members' Council alerted members that they might have to close the Enmore Road shop by the end of January 2021.

Continued →

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rice, beans, flour, bread, herbs and spices, tea and coffee, and cooking oil, plus lots of refrigerated goods such as tofu, tempeh and dairy lines, as well as pasta, macrobiotic goods, sea vegetables, soy and rice milk, juice, and chocolate and carob snacks. They stock a range of laundry and cleaning products as well as personal care items such as soap, shampoo and conditioner, toothpaste and eco toothbrushes. They also stock a wide range of in-season organic fresh fruit and vegetables, some of which is Farmer Direct.

The co-op prefers ethically and environmentally sound products and checks with suppliers to ensure the conditions and methods under which the goods are grown and processed meet those standards. As much as possible, they buy goods produced by organic/biodynamic methods and by other co-ops.

They also encourage reuse by returning bulk packaging (such as boxes, drums and crates) to suppliers, and recycle and compost wherever possible, and encourage all members to do the same.

Prices are competitive and any profits are returned to the co-op in the form of better services and more affordable goods. The more involved members are, the cheaper the goods become; the cheaper the goods are, the more people will shop! As well, all bookkeeping and accounting processes are freely available for member scrutiny. All members are entitled to a 10 per cent discount every time they shop, although a 25 per cent discount is also available if they choose to volunteer.

Source 2.9 At the end of January 2021, the Members' Council announced that their trading position had stabilised, 'boosted by late Christmas and better than expected new year sales, and since January, voluntary payment of member fees, some generous donations and a combination of reduced opening hours and lower running costs'.

Source: Alfalfa House website.

Trust

A trust is an organisation that is responsible for managing assets on behalf of an individual or a group of individuals. Decisions and allocations of assets are determined by investment professionals. There is an element of risk for investors as the assets are managed not by the owners themselves but by a trustee appointed by the investors.

Government enterprise

Government enterprise A business set up by the government.

A **government enterprise** is essentially a business that acts for or on behalf of the government. Government enterprises have features of both public and private sector organisations. They generally have the purpose of executing government policies and, while this may be in the form of a community service, it may also involve commercial activity with the aim of making a profit – sometimes in competition with private sector organisations.

Australia Post is an example of a federal government enterprise, and Sydney Water is an example of a New South Wales Government enterprise.

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Video 2.1 Classification of business – legal structure

Some organisations that were originally government enterprises have now been **privatised**, and have become public companies. The Commonwealth Bank was originally a government enterprise, founded by the *Commonwealth Bank Act 1911* (Cth), but in the 1990s it was fully privatised.

Review 2.1

Comprehension

Answer these questions on paper or in the Interactive Textbook.

1. Describe two benefits that a transnational business brings to a new country. What effect do these types of business have on businesses originating from the domestic country?
2. Explain why a young investor would be better suited to investing in a public company than seeking to establish and run their own business.

2.2 Factors influencing choice of legal structure

Privatisation A process transferring the ownership of a government business to the private sector by issuing a prospectus and listing the business on the Australian Securities Exchange as a public company.

When a business is first established, the owner must decide on the appropriate form of legal structure for the business. The business owner must consider issues of responsibility and decision-making, debt management and regulatory controls.

When examining the available options for structuring a business as a legal organisation, the owner must consider three factors:

1. size
2. ownership
3. finance.

Size

In the earliest stages of the business, an entrepreneur will often start as a sole trader. The owner controls the day-to-day running of the business and is also responsible for ensuring that the financial obligations can be met. As the business enters the growth phase, investors

Source 2.10 The size of a business can determine many aspects of how the company is run.

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may be brought in to form a partnership and to provide additional funds and expertise. Given that the business is growing in size and more funds are involved, the owners may move to a private company structure, which protects investors through limited liability.

Shareholders may decide to relinquish part-ownership of the business and use the additional funds to repay debt or fund expansion activities. The business may move towards a public company structure, which allows easier access to funds.

Ownership

People enter business for many reasons. They may seek the freedom of being self-employed and enjoy the responsibility of making all the decisions. Others look to the satisfaction of providing a valued and much-needed service to the community.

Individuals who take on the responsibility for setting up and establishing a business may be best suited to a sole trader structure where the owner is not required to consult with other investors in the business. The owner would need to consider the impact that unlimited liability would have on the business and their own personal assets. In some cases, it may not be in the owner's best interests to change the business's legal structure as the business grows. By altering the legal structure of a business, the original owner is likely to relinquish their full control over the business.

Demutualisation The process of offering shares in a business to members. The organisation becomes a shareholder-based organisation rather than an organisation controlled by members.

Source 2.11 nib Health Insurance is an organisation that was once owned by its members. It has since been demutualised and is now a company on the Australian Securities Exchange.

Some individuals are able to work well with others. They recognise that a team of investors who utilise their individual strengths will assist in the success of the business. Individuals who work well with others may favour partnerships or private companies.

Some organisations, for practical reasons, cannot change their legal structure. Could you imagine your local leagues club or community theatre organisation being sold to a group of private investors, and profit rather than the service provided becoming its primary concern? Changing a company limited by guarantee to a public company would be highly unlikely and would be met by considerable resistance from its members. Despite this, some of these businesses have made this change. This process is known as **demutualisation.**

It involves an organisation offering shares to its members. The organisation becomes a shareholder-based organisation rather than an organisation controlled by members. nib Health Insurance and AMP are examples of demutualised organisations. They were once owned by their members. Although both these businesses did seek to manage their organisation's profitability, their primary concern was the provision of goods and services to their members. These types of businesses are now owned by shareholders with profit as the key goal.

Finance

Most businesses are established with a limited amount of capital. Some owners are unwilling to invest all their funds into the business in case it does not succeed. Given that sole traders also bear the responsibility of unlimited liability, the business's successful management of financial issues is crucial.

The growth of a business is often accompanied by an increase in demand for financial resources. The owners may need new investors in the firm.

Business Bite

AirTree is a venture capital fund with a mission to help game-changing Australian and Kiwi technology entrepreneurs achieve their vision. As one of the largest venture capital funds in the region with over $600 million under management, AirTree aims to back start-ups from the earliest moments in their first funding round, often pre-revenue, and has the firepower to continue supporting successful companies over multiple, subsequent rounds.

AirTree's 2014 and 2016 vintage funds are both performing in the top quartile of US venture capitals. They include early investments in break-out companies such as Canva, A Cloud Guru, Linktree, Athena, Go1, Secure Code Warrior, Prospa, Pet Circle, Brighte, Expert360, Joyous and Drone Deploy.

AirTree has five partners: Craig Blair, Daniel Petre, John Henderson, James Cameron and Helen Norton.

Source 2.12 Helen Norton, Craig Blair, John Henderson, James Cameron and Daniel Petre, the five partners of AirTree

This may be achieved by offering a partnership or, to provide increased protection, by initiating the development of a private company. Either of these options allows the business to acquire invested funds without additional debt. If the business is successful in expanding its operation, financial institutions may be more willing to lend it additional funds.

In recent years, many private companies have sought to expand by floating their business and offering shares in the company to the public. The move to a public company provides the business with access to a considerable amount of funds, which the original owners may decide either to keep or reinvest in the company's operation. There is, however, a high level of risk involved in this move.

Digital quiz
Please see the Interactive Textbook to access digital activities.

Source 2.13 Approaching a bank or financial institution is the traditional method of sourcing funds to start a business.

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Chapter summary

A business can be classified according to:
- its size
- its location
- its industry sector
- its legal structure.

The classification of a business according to its size is determined by the Australian Bureau of Statistics:
- large – an organisation with 200 or more employees
- medium – an organisation which employs between 20 and 199 employees
- small – an organisation with fewer than 20 employees
- micro – an organisation with a workforce of fewer than five employees.

A further way to classify businesses is on the basis of whether they are local, national or global. This method examines where the business is based and in which country its goods are manufactured.

When classifying a business according to industry sector, there are five classifications:
1. primary
2. secondary
3. tertiary
4. quaternary
5. quinary.

The legal structure of a business refers to how the ownership of the business is registered. There are seven main types of legal structure:
1. sole trader
2. partnership
3. private company
4. public company
5. company limited by guarantee
6. cooperative
7. trust.

In choosing an appropriate legal structure, the owner of the business must consider three key issues:
1. Size: As a business grows, it is likely it will move from either a sole trader or partnership to a company structure.
2. Ownership: By altering the legal structure of a business, the original owner is also likely to relinquish some of their control over the business.
3. Finance: Generally, smaller businesses may find it more difficult to access finance than their larger counterparts. Business growth is often accompanied by a greater demand for financial resources.

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End-of-chapter tasks

Chapter revision task

The following terms and definitions have been mixed up. Match each term with the correct definition.

1	Global business	A	A business that operates in many countries; its goods and services are produced and sold in a number of different countries
2	Transnational business	B	Businesses with the primary function of providing a service
3	Secondary industry	C	Businesses involved in the acquisition of raw materials, including natural resources
4	Primary industry	D	Tertiary sector businesses that provide information services to their customers
5	Tertiary industry	E	A business that has its ownership and production based in one country; the business exports its products to other countries
6	Quaternary sector	F	Tertiary sector businesses that provide services traditionally performed in the home
7	Quinary sector	G	Businesses that use raw materials as well as labour and capital equipment to create finished products

Multiple-choice questions

1 Which of the following describes a disadvantage to a business owner of being registered as a sole trader?

A The owner is easily able to access funds to finance the expansion of the business.

B The owner's personal assets can be sold in the event that the financial obligations of the business are not met.

C Decisions affecting the operation of the business are the responsibility of the owner.

D Management must consider the different perspectives of many shareholders.

2 How may a public company best be defined?

A A business that is listed on the Australian Securities Exchange and has ownership open to all members of the public

B A business that is owned and operated by government

C A business that is open for ownership by a select group of people

D A government business that is in the process of being sold to private investors

3 Antoinette earns an income from a business that is owned by many different shareholders with no restrictions on who can buy into the business. Which of the following describes the legal structure of the business and the type of income earned?

A Private company and dividend

B Public company and dividend

C Private company and profit

D Public company and profit

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4 Samir is employed by Arnott's to prepare and mix ingredients as part of the process of making biscuits. In which industry sector does Samir work?

A Primary
B Secondary
C Tertiary
D Quaternary

5 Each year a public company must release a document to its shareholders outlining the financial performance of the business over the past year. What is this report known as?

A Prospectus
B Annual report
C Financial accounts summary
D Shareholder report

6 Which of the following describes the key role of a government business enterprise?

A To achieve a profit for its shareholders
B To provide goods and services to the community
C To provide goods and services that other businesses cannot or are not willing to provide
D To achieve increased popularity for the government in the community

7 What is the name given to businesses that are registered as legal entities separate from their owners?

A Sole traders
B Unincorporated businesses
C Incorporated businesses
D Private companies

8 Paperlix is a medium-sized private company that specialises in the production of recycled paper. It is considering the possibility of becoming a public company. What would be an advantage of this?

A The business would move from being an unlimited liability company to a limited liability company.
B It would be able to access external funds for future growth and expansion strategies.
C Existing shareholders would remain responsible for the long-term and day-to-day operations of the business.
D The business would move from being an incorporated business entity to an unincorporated business entity.

9 Matnad is an Australian-based business seeking to expand its operations and sales across Europe. Which of the following is a financial benefit to the business by becoming a transnational corporation?

A The business is able to specialise its products to a particular market.
B The business is able to access low-cost labour to reduce its production costs.
C The business is able to develop different marketing strategies to appeal to different consumers.
D The business is able to employ people of different ethnicities and origins.

10 Through which organisation are shares in public companies traded?

A The Stock Exchange Association of Australia
B The Australian Market of Exchange
C The Australian Securities Exchange
D The Australian Stock Market

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Short-answer questions

1 Compare and contrast the legal structures of the following businesses: sole trader, partnership, private company and public company. Your response can be in table format and should focus on the following areas: number of owners, responsibility for decision-making, limited versus unlimited liability and business cessation.

2 Examine the impact of a business having limited liability versus non-limited liability.

3 Research a global business operating in Australia. Demonstrate how that global business contributes to the Australian economy through the areas of sourcing of supplies, employment of labour and production.

Extended-response question

SkipAlong Entertainment is owned and operated by Matty Gee. The business is registered as a sole trader and its main function is to perform to young children in entertainment venues across New South Wales. Matty Gee is seeking to expand his business.

Write a business report to the owner advising him of the advantages of expanding his business from a sole trader to a partnership, private company or public company. Explain how the choice of legal structure will impact on the owner's obligations to his creditors.

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3 Influences in the business environment

Chapter objectives

In this chapter, students will:

- identify and analyse the external influences in the business environment
- identify and analyse the internal influences in the business environment.

Key terms

- business plan
- common law
- communication
- creditors
- culture
- debt finance
- demographics
- deregulation
- e-commerce
- economic cycle
- economy
- employer associations
- equity finance
- exporting
- external stakeholders
- fiscal policy
- franchise
- free trade agreements
- goods and services tax (GST)
- goodwill
- gross domestic product (GDP)
- importing
- inflation
- intangible asset
- internal stakeholders
- microeconomic reform
- monetary policy
- monopoly
- negotiation
- non-core business functions
- objectives
- oligopoly
- opportunities
- outsourcing
- privatisation
- proactive
- quota
- recruitment
- Reserve Bank of Australia
- stakeholders
- target market
- tariff
- trade unions
- training
- unemployment

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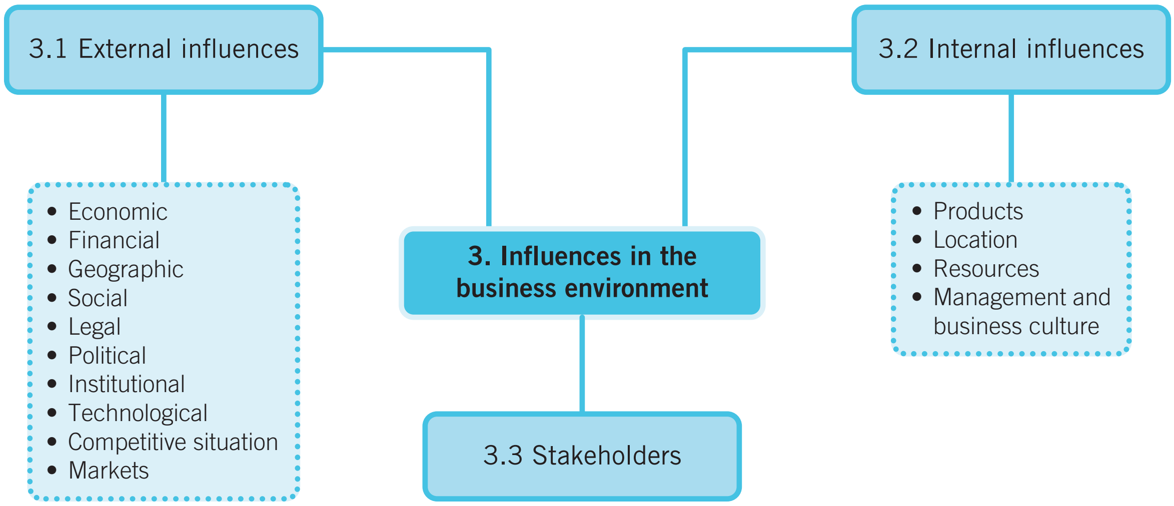
3.0 Introduction



Source 3.1 Influences in the business environment

A business cannot act alone: it is influenced by the **stakeholders** that make up the business environment. All businesses are constantly influenced by changes in the environment in which they are operating – change is inevitable. At times, businesses are able to control this change, but in other situations they have little or no influence.

3.1 External influences

External influences are the influences outside the control and operations of a business that can considerably influence both the day-to-day and long-term operations of the business.

External influences in the business environment include those related to the economy, finance, geography, society, the law, politics, technology, the competitive situation, markets and other related institutions.

Stakeholders People and/or organisations that are affected by the decisions or actions of a business.

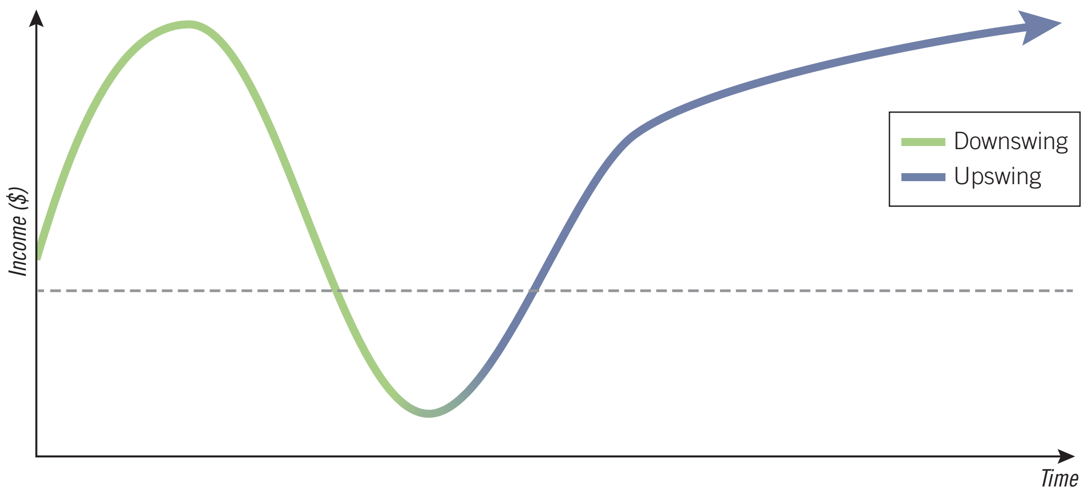
Economic cycle The fluctuation of consumer and business spending over a period of time.

Economic

The level of economic activity in an economy is determined primarily by the level of consumer and business spending. The **economic cycle** refers to the changes in consumer and business spending over a period of time. It influences:

- the level of employment and investment in an economy
- the profitability of business
- the amount of goods and services produced.

Digital quiz
Please see the Interactive Textbook to access digital activities.



Source 3.2 The economic cycle

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Source 3.3 The different parts of the economic cycle

Upswing	Boom	Downswing	Depression
Increased spending	High level of spending	Reduced spending	Low level of spending
Decreasing unemployment	High employment	Increasing unemployment	High unemployment
Increasing level of business investment	High level of business investment	Decreasing level of business investment	Low level of business investment
Increasing consumer demand	High level of imports	Decrease in sales	High level of unsold stock
Increased value of assets: rising prices	High level of asset sales: inflationary pressures	Slowing down of asset sales and price increases	**Gross domestic product (GDP)** at lowest levels: negative real growth
Often growth in housing and construction	Increasing interest rates	Drop in sales, especially in housing and luxuries	Decreasing interest rates
Increased business profit	High business expectations of higher profit	Loss of confidence	Profits at lowest levels/low expectations
Change in competition	Large numbers of new firms entering the market	Fewer firms entering the market; some business failures	Increasing number of business failures

Activity 3.1

Analysis and research

1. Compare Source 3.3 with the graph in Source 3.2 on the previous page.
2. Where would you place the current Australian economy on the graph in Source 3.2?
3. Briefly explain how the Australian Government is encouraging consumers to increase their expenditure in the economy.

Gross domestic product (GDP) The measure of the total value of all goods produced and services provided within a country's domestic economy in one year.

Economy A system where governments, businesses, consumers and other relevant organisations interact to satisfy the needs of society.

Unemployment A person is considered to be unemployed if they are not currently employed but are actively seeking work – either full-time or part-time.

An **economy** is a system where governments, businesses, consumers and other relevant organisations interact to satisfy the needs of society. Business has an extremely significant role in the economy. Business can be regarded as the engine that drives production, employment, price changes and therefore our standard of living.

Employment

Employment is an important foundation of any economy. If employees believe they have job security, they are likely to spend more of their income on consumer goods. This increased spending encourages business to employ more labour so it can produce more goods and services. An increase in consumer demand is often the main reason why more goods and services are provided. This is known as economic growth.

As well as job security, low levels of **unemployment** will usually result in increased consumer spending. This benefits business because increased revenue often results in greater profits.

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Source 3.4 Consumer spending can influence economic growth, in turn creating more jobs.

Inflation

The government needs to ensure this level of economic growth can be sustained and will not lead to economic problems, including **inflation**.

Inflation has an impact on the human resource function of business. Because inflation affects the purchasing power of money, it has an impact on confidence in the economy. Growth in consumer confidence in an economy is reflected in an increase in consumer spending. Businesses respond to the greater demand for goods by increasing their levels of output and production.

High levels of inflation have a negative impact on businesses. When prices rise, the cost of living increases. To compensate for this, employees will seek higher wages from their employers. Higher wages increase the costs of production. In response, businesses may need to reduce the size of their workforce, and the remaining employees may need to accept a greater workload.

Government policies

The Australian Commonwealth Government aims to achieve steady economic growth, low levels of unemployment and low inflation. The Commonwealth Government makes use of three key policies to influence the level of economic activity in Australia:

1. **fiscal policy**
2. **monetary policy**
3. **microeconomic reform.**

These policies also have a significant influence on business.

Fiscal policy refers to the use of taxation (revenue) and expenditure to influence the level of economic activity in Australia. This policy mainly operates through the Commonwealth Budget.

The government is a key provider of essential community services, and will often seek assistance from business in providing these services. Businesses are paid by the government to build roads, trains, hospitals and schools.

Fiscal policy also influences the level of taxation that businesses pay. As of 2021, the company tax rate is 25 per cent. A change to this taxation rate would have an immediate impact on the profitability of many businesses in Australia.

Government expenditure also provides disadvantaged people with a safety net. Individuals who are unable to work for a variety of reasons (such as illness, disability or the inability to find work) are provided with social security payments to ensure that they are able to maintain a basic standard of living.

Monetary policy refers to actions taken by the **Reserve Bank of Australia** (the federal government's bank) to control the level of interest rates in the Australian economy. As interest rates increase, consumers need to use more of their income to fund the higher interest charges on their mortgages. This reduces

Inflation The rate at which the cost of goods and services is rising, which affects the value of currency: as prices go up, the same amount of money will buy less.

Fiscal policy Government actions, such as the use of taxation (revenue) and expenditure, that are intended to influence the level of economic activity in Australia. Mainly operates through the Commonwealth Budget.

Monetary policy Actions taken by the Reserve Bank to influence the level of interest rates in the Australian economy.

Microeconomic reform Policies developed by the government to promote greater competition within a particular industry.

Reserve Bank of Australia The federal government's bank and the financial tool it uses to manipulate economic growth.

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Deregulation The government's removal of or reduction in controls and regulations on an industry or sector of the economy or market in order to achieve greater competition.

Debt finance Funds borrowed from a bank, an investor or another firm. It involves a contractual agreement that specifies the need to repay the principal as well as interest, and states the set period of time over which the debt must be repaid.

Equity finance Internal sources of finance – that is, finance provided by the owners, who can give the business start-up capital or can contribute cash by buying shares. It also refers to any net profit reinvested in the business.

the amount of money available to spend on consumer goods. We have already seen how a fall in consumer spending will adversely affect businesses. Many other consumers who do not have a mortgage will also decrease their expenditure on goods in response to increased interest rates. For instance, they may be discouraged by higher rates of interest applicable to credit cards.

Microeconomic reform describes policies developed by the government to promote greater competition within a particular industry. The aim of these policies is generally to provide consumers with greater choice and lower prices.

Financial

Deregulation of the Australian financial sector began in December 1983 when the Australian dollar was moved from a fixed to a floating exchange rate. This meant the value of the dollar was no longer fixed against the value of another currency (the US dollar, for example) but determined by the forces of supply and demand for currency on global markets. In effect, the previous systems of government control of credit, interest rates and the exchange rate were reduced. Deregulation allowed market forces of supply and demand to determine the price for finance. This also allowed international factors to have a greater influence on Australia's money market as foreign financial institutions entered the marketplace.

The two main sources of finance for business are **debt finance** and **equity finance**. Both of these are greatly influenced by the level of interest rates. As interest rates are the cost of borrowing money, increases in interest rate levels may reduce the amount of debt finance undertaken by a business. This is because it becomes more expensive to acquire and service the borrowed funds and requires a higher level of

Source 3.5 Interest rates can impact upon an individual's spending.

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profit to make finance worthwhile. The business must earn enough money to be able to make loan repayments. Equity finance tends to decrease as interest rates increase. This is because equity financing involves selling part of the business to new owners.

Generally, for Australian business, the globalisation of Australian financial markets has resulted in a more flexible, competitive and market-oriented approach to finance. Finance is now available from worldwide sources.

Geographic

Changes to the **demographics** of Australia's population have resulted in geographic changes to markets. Demographics covers particular features of the population, such as age, sex, income and cultural background.

Geographic influences on Australia include:

- its location in the Asia–Pacific region
- population shifts from rural to urban areas
- population shifts from inland to coastal regions
- the increasing average age of Australia's population
- population shifts to warmer locations, such as increased numbers of retired people moving to Queensland and the north coast of New South Wales
- variations in the number of refugees and skilled migrants accepted into Australia
- the rapid economic growth of nearby Asian countries
- the increased international standing of Australian cities as hosts for international sporting events
- cultural changes in a particular geographical area.

Demographics The study of particular features of the population, such as age, sex, income and cultural background.

Business Bite

McDonald's Punchbowl is located in Sydney's south-west. Over the past 10 years, the demographics of this part of Sydney have changed. The area is now represented with a strong Islamic population, meaning McDonald's needed to adjust to this geographic influence by altering where it sources its meats to cater to the guidelines for the preparation of halal food.

Manager Tony Favotto says once he located a source for the meat, the process was simple.

'Luckily, there's a company in Queensland that exports McDonald's halal meat to the Middle East and Asia, so we were able to obtain the meat to be halal. Once we could source a product to be halal, then we just had to make a couple of internal procedures, train our people, and then we started serving halal products.'

Source 3.6 The Punchbowl McDonald's is fully halal-compliant.

Mr Favotto says, while 10 per cent of the suburb is Muslim, 50 per cent of his customers now are Muslim.

Source: https://www.sbs.com.au/news/mcdonald-s-wins-multicultural-award.

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Social

Society expects businesses to contribute to the community's quality of life. Businesses can contribute to society by sponsoring sporting teams, making donations to worthy causes, assisting in community projects (such as local festivals) and allowing their facilities to be used by community groups. These activities often provide publicity for the businesses involved.

Businesses need to be aware of their community's needs, opinions and attitudes. They also need to respond to changes in their community groups' fashions, tastes and culture to ensure that the goods and/or services they provide meet the groups' needs. Increased consumer demand for healthier food choices has had a great influence on food businesses.

Society expects businesses to behave ethically and responsibly. Businesses need to have an awareness of environmental factors. Pressure from interest groups has caused changes in the way firms use and dispose of chemicals and use animals for testing. Interest groups have also exposed instances of businesses exploiting foreign workers and taking part in corrupt dealings. Each of these issues clearly relates to business ethics. If a business can fulfil society's expectations, it will benefit from increased demand for its products and greater profits.

Ethical Spotlight 3.1

Should a business show its support for specific issues in the community? ANZ is a major supporter of the LGBTIQ+ movement and has actively promoted its role in achieving equality across genders.

Business Bite

Known to be a leading employer for LGBTIQ+ inclusion, ANZ Bank's lasting support of LGBTIQ+ communities starts with their own internal employee network, Pride, as well as their Pride Policy that acknowledges the business's success depends on an 'engaged, diverse and inclusive workforce' that can fully engage with their colleagues and customers across all their markets.

ANZ further supports LGBTIQ+ communities through:

- their membership of ACON's Welcome Here Project that aims to support businesses to create and promote environments that are visibly welcoming and inclusive
- being a major sponsor of the annual Sydney Gay and Lesbian Mardi Gras
- creating resources such as *Your Guide to #LoveSpeech*, informing readers of appropriate language within the LGBTIQ+ community
- community grants to NPOs and charities assisting and supporting local LGBTIQ+ communities
- Hurt Blocker, an app that transforms hurtful words displayed in live text into fun-loving emojis.

Source 3.7 ANZ created the Hurt Blocker, which transforms hurtful words displayed in live text into fun-loving emojis.

Legal

In general, the aim of government regulation of business is to promote fair conduct. These regulations include those covering environmental and consumer protection, competition, occupational health and safety, and industrial relations. In Australia over recent years, laws have undergone many amendments through parliament and changes in the **common law** judicial system.

In many industries, regulations have been removed to enable firms to become more efficient and to reduce the number of restrictions hampering competition. This is evident in the airline industry and also in the banking sector. For instance, there has been a growth in the number of foreign banks (such as the Bank of China) in today's financial market.

At the same time, regulations have been extended by professional associations, such as Chartered Accountants Australia and New Zealand and the Law Society of New South Wales, through the establishment of codes of practice. These codes provide members with strict guidelines for acceptable professional behaviour.

Common law Based on custom or court decisions.

Business Bite

What does the term 'Baked Today' mean when a business is advertising bread?

In 2015, Coles Supermarkets was fined $2.5 million for making false statements in relation to the promotion of its baked bread products. According to the Australian Competition and Consumer Commission, Coles promoted its bread as 'Baked Today, Sold Today'. The reality, however, was very different. The bread was partially baked and frozen off-site by a supplier and then reheated at in-store bakeries within Coles supermarkets.

Political

Major political change can result from an election; this leads to business uncertainty or business confidence, depending on the winning party's policies. Political influences can affect competition in the market. Some examples are listed below:

- Governments undertake trade **negotiations** and enter into trade agreements, such as the China–Australia Free Trade Agreement, which came into force in December 2015. The Trans-Pacific Partnership, between 12 Pacific Rim countries, underwent seven years of negotiations before being signed in February 2016.
- The federal government, through its agency Austrade, provides assistance to Australian businesses trading overseas, especially in the area of finding markets for our exports.
- The Howard Liberal–National Party government introduced the **goods and services tax (GST)**, which replaced a number of other taxes (such as wholesale sales tax) and came into effect on 1 July 2000. The GST is a broad-based tax levy of 10 per cent on the supply of most goods and services consumed in Australia.
- Starting in July 2016, the federal government implemented a plan to progressively reduce the rate of tax paid by all companies to 25 per cent, with the intention of stimulating economic growth.
- The government can privatise its businesses. Examples are the Commonwealth Bank and Telstra. This has the benefit of having these businesses operating with the profit motive as their key goal.

Negotiation A process involving two or more parties attempting to reach agreement and/or resolve a problem or conflict through direct discussion. It may involve a neutral third person, such as a negotiator or mediator.

Goods and services tax (GST) A tax introduced by the federal government in 2000. It is a tax of 10 per cent on the cost of all inputs used in production.

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Privatisation A process transferring the ownership of a government business to the private sector by issuing a prospectus and listing the business on the Australian Securities Exchange as a public company.

Proactive Anticipating changes in the business environment and, in response, making adjustments to the business, ensuring that it can take advantage of opportunities and minimise threats.

Business plan A written document setting out the details of a business and its products, including its market and industry, as well as its goals and objectives and its strategies to achieve them. It is a complete analysis of the business.

Opportunities External environment factors of which a business could take advantage.

Privatisation is a process transferring the ownership of a government business to the private sector by issuing a prospectus and listing the business on the Australian Securities Exchange (ASX) as a public company.

Businesses need to be aware of these influences and respond **proactively** to any changes by adjusting their **business plans** to take advantage of **opportunities** generated by the changes.

Institutional

There are various external institutions that influence the business environment.

Activity 3.2
Comprehension

1. Describe the role of one regulatory body and examine how its role impacts the operations of business.
2. Explain the extent to which the Commonwealth Government influences the operations of a business.

Video 3.1 How GST works for small businesses

Environment Protection Authority

The Environment Protection Authority (EPA) is a New South Wales Government organisation that is part of the Department of Environment, Climate Change and Water. The department also includes the National Parks and Wildlife Service, Botanic Gardens Trust and Resource NSW, and is closely linked to the Sydney Catchment Authority. The main role of the EPA is to enforce New South Wales Government laws regarding protection of the environment.

Australian Taxation Office

The Australian Taxation Office (ATO) was established in 1911. Its primary role is to enforce and administer federal government taxation policies and laws. Taxation is a key issue in the operations of a business. All businesses must pay tax on the profits they earn. Employees of the business are subject to income tax and it is the responsibility of the employer to deduct this tax and then forward it, on the employees' behalf, to the ATO.

Source 3.8 All businesses must pay tax on the profits they earn.

The most profound change to Australia's taxation in recent years was the introduction of the goods and services tax (GST) in 2000. This is a tax paid by consumers on the purchase of many goods and services. Legislation requires that businesses include the GST component in the price shown to consumers.

Businesses that are registered as companies are also required to pay company tax. This is a flat rate of 25 per cent for all companies.

Australian Securities and Investments Commission

The Australian Securities and Investments Commission (ASIC) was established in 1991 by the federal government to regulate the financial conduct of companies under the *Corporations Act 2001* (Cth).

The primary role of ASIC is to monitor the operations of financial institutions, including banks, investment companies and stockbroking firms. ASIC requires private and public companies to release annual reports detailing the financial performance of the businesses over the past year.

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ASIC regulates the reporting of financial data by companies to their shareholders, seeking to ensure that a company's investors are provided with an honest, accurate record of the company's financial position. Should the directors of a company deliberately provide misleading information, ASIC has the right to prosecute those directors in a court of law.

The process by which a business is listed on the ASX is also regulated by ASIC. Each business must submit a prospectus to ASIC before potential investors are able to apply for shares in the firm.

Australian Competition and Consumer Commission

The Australian Competition and Consumer Commission (ACCC) was formed in 1995 and has as its primary role the administration and enforcement of the *Competition and Consumer Act 2010* (Cth), formerly the *Trade Practices Act 1974* (Cth), and the *Prices Surveillance Act 1983* (Cth). The ACCC attempts to regulate the level of competition within a range of industries. It aims to promote fair and ethical behaviour by businesses towards their competitors and allows businesses to lodge complaints against competitors regarding behaviour that they deem to be unfair and against the Act. The ACCC is also able to penalise businesses that engage in deceptive and misleading conduct and those that engage in price-fixing with their competitors. Price-fixing occurs when two or more business competitors conspire to set a high price within the market. This reduces the level of competition within the market.

NSW Fair Trading

NSW Fair Trading was established to protect the rights of consumers. It enforces laws passed by the Parliament of New South Wales in such areas as product safety, refunds, warranties, exchanges and the provision of faulty goods and inadequate services.

NSW Fair Trading also regulates the registration of business names and licensing applications. For example, individuals qualified to work within various trades industries (including building, plumbing and electrical) must obtain the relevant licence from the department before commencing operations.

While governments in Australia have developed a considerable legal framework by which the activities of businesses are regulated, non-government organisations also play an important role in the business environment. Non-government organisations are interest groups formed to protect and promote issues of concern to their members.

Trade unions

Trade unions are organisations that aim to protect and promote the interests, pay and working conditions of employees. Working conditions relate to the hours of work, training, health and safety, and equal opportunity. Unions assist employees with workplace disputes and wage negotiations. Examples of unions include the Liquor, Hospitality and Miscellaneous Workers' Union; the NSW Nurses and Midwives' Association; and the Shop, Distributive and Allied Employees' Association. The Australian Council of Trade Unions (ACTU) is the peak union group in Australia. On behalf of Australian employees, it lobbies the government for wage increases and improved working conditions.

Trade unions Organisations that aim to protect and promote the interests and working conditions of employees.

Source 3.9 The NSW Nurses and Midwives' Association, founded in 1931, represents the industrial interests of nurses and midwives employed in New South Wales, both in the public and private sectors.

Employer associations

Employer associations Organisations that aim to promote the interests of employers within the business environment.

Employer associations are organisations that aim to promote the interests of employers. They lobby governments to develop policies that benefit employers. These associations also consult with governments on key policy issues, such as trade and industry assistance schemes. Examples of employer associations are the Australian Federation of Employers and Industries, Business NSW and the National Farmers' Federation.

Australian Securities Exchange

The ASX is the organisation responsible for acting as a market where investors may buy and sell shares in public companies. The ASX has developed a series of rules for how businesses can be listed on the exchange and, by doing so, become public companies. It is the responsibility of public companies to advise the ASX about any factors that may cause a significant change to their share price and ensure that people who have access to confidential financial information do not use this knowledge for their own financial gain.

Consumer associations

Consumer associations are organisations that are developed to provide informative opinions to consumers on a wide range of issues, such as product quality and pricing. These organisations are independent and are not affiliated with profit-based businesses. Examples include the National Roads and Motorists' Association (NRMA) and the Australian Consumers' Association.

Business Bite

CHOICE® is one of the main independent consumer advocacy groups in Australia, with more than 160 000 members. Founded in 1959, CHOICE® is best known for its product reviews – about items ranging from laundry detergents and sports drinks to dishwashers and home security systems, as well as services such as health insurance and hotel booking websites. Originally these reviews were published in a print magazine, but now they are also available online to subscribers. CHOICE® pays full retail price for the products tested, with most of the testing done at its lab in Marrickville.

Source 3.10 Each year, CHOICE® names and shames the shonkiest products and companies that have taken advantage of Australian consumers.

CHOICE® also campaigns on behalf of Australian consumers, seeking to make changes in both industry and government policies. There is a particular focus on areas such as digital rights, misleading information around energy products, food labelling and the financial/banking area.

Outstanding products and services are recognised throughout the year and are identified as CHOICE® Recommended, while the Shonky Awards identify those businesses and products taking advantage of Australian consumers.

CHOICE® is completely independent: it does not accept advertising, nor does it receive government funding.

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Technological

Developments in technology result in increased efficiency and productivity. They create opportunities for the development of new products and innovations in existing products. Essentially, technological change should mean a wider variety of goods and services along with improved quality and cheaper prices, enabling consumers to achieve greater satisfaction of their needs and wants.

Source 3.11 Advancements in technology, such as computer-aided design, have changed work processes.

These changes may be in product design, production methods or even marketing concepts – for example, celebrities promoting their use of products via Instagram. Technological changes in **communication** and transport have made Australia a part of the world economy and a player in the global marketplace. Developments in computer-aided design (CAD) and manufacturing, email, data collection and storage, the internet, information technology, mobile phones and 3D printing have been made available to businesses and consumers alike. Increased awareness of what other countries and societies develop has resulted in changes to consumer demand, production methods, and government rules and regulations.

Businesses must take these changes into account. Not all technological changes are advantageous to businesses, and several may pose threats to their growth or even survival. Management must be aware of these changes and ensure that the business has a plan to deal with their impacts.

Effects of accelerating technology

Management needs to be aware of technological change and assess its application to the business. Not all technological developments need to be introduced by a business. Managers must assess the cost of the installation of the technology, its impact on production and the expected profitability generated by the change. Additional costs for staff **training**, time lost while changes are introduced, redundancy of some employees, environmental impacts and community perceptions of the action taken by the business all need to be taken into account.

This is an internal influence because the managers decide whether and how to use new technology in the business. Some technological changes may be simple to implement and result in decreased time delays in communication and decision-making processes, as well as reductions in cost. Examples of such innovations are email and video calling using Skype.

E-commerce, or electronic commerce, is the use of electronic communications to carry out business. These are online trade facilities that improve business-to-business (B2B) communications and offer savings in time and money. E-commerce has extended to business-to-consumer (B2C) use, and allows such services as banking, payment of accounts and the purchase of goods to take place. This is a growing area of business development.

Communication The exchange of information between people; includes talking, listening and understanding what is being said.

Training Any activities that are aimed at improving an employee's present and future performance in the workforce.

E-commerce Electronic commerce; the use of electronic communications (such as the internet) to carry out business.

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Business Bite

Online shopping is the fastest growing source of revenue for businesses in Australia. More than 80 per cent of Australians use online shopping and 1 in 10 items sold across Australia is sold through an online transaction. This is expected to grow significantly as Australian retail stores respond to technology-savvy consumers.

Source 3.12 Nationally, online shopping growth for December 2020 was up 34.9 per cent (YOY). Queensland, New South Wales and South Australia led the way, all recording growth of 35 per cent or more.

Competitive situation

The competitive situation is influenced by the number of competitors and the ease with which a business can enter a particular market.

Number of competitors

Many businesses operate in a highly competitive business environment. This means that there are large numbers of businesses offering similar products to a select group of consumers. The more competitive the industry, the greater the pressure placed on a business to develop a competitive advantage over other businesses.

Oligopoly A market situation whereby there are only a limited number of suppliers to the market, meaning there is less pressure on businesses to offer low prices.

Monopoly A situation where there is only one firm in the marketplace.

Some businesses operate in an environment with few competitors. This is known as an **oligopoly**. In an oligopoly there are only a limited number of suppliers to the market, and so there is less pressure on businesses to offer low prices. There tends to be little differentiation between the products offered by businesses in an oligopoly. Examples of Australian oligopolies are Woolworths and Coles, which account for 85 per cent of the Australian grocery market.

Government businesses generally have a **monopoly** on the goods and services they provide to consumers. A monopoly exists in an environment where there is only one firm in the marketplace. Due to either high entry costs or government regulations, no other competitor can exist in the market. Sydney Water is the only organisation from which Sydney's residents are able to purchase their water supply.

Source 3.13 Prior to the introduction of streaming services, many Australians were limited to only free-to-air television and pay TV services such as Foxtel. Now consumers have a variety of on-demand services available to them at varying costs.

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Ethical Spotlight 3.2

Should government-owned businesses, such as Australia Post and Sydney Water, face competition despite these businesses providing goods and services that are regarded as needs by all members of the community?

Ease of entry

The idea of establishing a business can often be exciting, but in certain situations could also prove to be very unrealistic. Ease of entry refers to the ease with which a business can enter a particular market. Ease of entry is often dictated by two critical issues:

- *Cost of establishing the business:* The financial resources needed to establish a business are a significant influence on the ease with which the business may enter a particular market. While some businesses may not require significant funds to start operating, other businesses need considerable amounts of money to establish. When the Daily Mail Group wanted to establish a radio station on the FM band in Sydney, it cost over $150 million to buy the licence. This cost had to be met even before the owners hired the business premises or contracted radio presenters.
- *Access to materials:* When a business is first established, it must be able to access its inputs easily. When Richard Branson first established Virgin Blue in Australia in 2000, there was no terminal space in either the Sydney or Melbourne domestic airports. Clients were required to check in and wait in demountable style buildings. Meanwhile, its competitors (such as Qantas) were able to offer clients access to lounges with facsimile and internet access, refreshments and shower facilities.

Markets

Prior to the 1980s, many Australian businesses operated in their own domestic marketplace. The government's trade protection policies (such as **tariffs** and **quotas**) and controls of the financial sector, as well as fairly stable political and economic systems, created a barrier against overseas businesses and influences.

Deregulation (the removal of certain government controls) of the financial sector in the 1980s, deregulation of the labour market in the 1990s, Australia's movements towards **free trade agreements** and rapid improvements in transport and communications systems have resulted in the world becoming a smaller place. Australian firms increasingly are interacting with foreign organisations, and Australia has become an active part of the global marketplace. A greater variety of goods and services is available from **imports**, and Australian products are **exported** to many other nations. Many businesses now operate in an international market for both their sales and suppliers, resulting in an integrated economic system on a global scale.

These changes have put massive pressure on Australian firms to become increasingly competitive. In many industries, producing quality, competitively priced products has required a significant increase in productivity of machinery and labour, and a substantial reduction in costs. The methods introduced have resulted in downsizing – that is, the scaling down of operations, such as reducing the number of staff.

Many businesses have focused on their prime function or core activity and begun to outsource several support service functions to other businesses. **Outsourcing** occurs when a firm makes a commercial arrangement with another firm to provide a support service that it originally would have undertaken itself. Commonly outsourced functions are cleaning, security and advertising.

Tariff A tax on imported goods that earns revenue for the government and increases the price of the import, making it less attractive to buy when compared with locally made alternatives.

Quota A limit on the quantity of a product that can be imported. It is a trade barrier that reduces the competition faced by a domestic producer.

Free trade agreements Agreements that allow the export and import of goods and services between member countries to proceed without restrictions.

Importing The purchase of goods or services from other countries for use in the domestic sector. Imported goods or services are called imports.

Exporting The sale of goods or services to other countries. Goods must be transported to the country where they will be sold, but services do not need to be transported. Exported goods or services are called exports.

Outsourcing A firm making a commercial arrangement for another firm to perform one of the support services that it once performed itself – for example, advertising.

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Consumer markets in Australia have also changed. For instance:

- The average age of the population has increased.
- The birth rate has decreased.
- Life expectancy has increased.
- A greater proportion of the population is over 45 years of age.
- There are more single-parent families.
- There are fewer marriages and more divorces.
- Our society is far more multicultural.

Digital quiz Please see the Interactive Textbook to access digital activities.

These factors have all had an impact on consumer tastes and individual preferences for goods.

3.2 Internal influences

The business environment is also influenced by factors from within the business itself. Internal changes occur because the business wants to develop new and improved ways of doing things.

Target market The focus of the firm's marketing strategy. It will include existing as well as potential customers.

Products

Different businesses produce different types of goods and services to cater for the many types of customers within the commercial environment. The way a business acquires, stores and distributes its products will depend on the nature of the goods or services it offers.

Goods

A business must consider the following issues when its key selling function is a product:

- How will the business produce the product?
- How far is the business located from its suppliers?
- Does the business require storage facilities for its supplies?
- What are the most cost-effective methods of maintaining the quality of unused stock?
- How far is the manufacturing plant from the stores in which the business will sell the product to the consumer?
- How could technology improve the sales process?

Services

Services generally operate closer to their customer base. Providers of services should consider the following influences:

- How far is the business located from its main customer group?
- What training and development must be provided to staff to ensure that they are kept updated with the latest issues within their area of service?

Location

The decision about location will depend on the following factors:

- whether high visibility is required to attract passing customers
- the cost of renting or leasing the factory premises or shop
- where suppliers are located
- the location of business support services.

The most appropriate location for a retailer or service business (such as a hairdresser, tax adviser or travel agent) will be where its **target market** lives, works and shops – for example:

- a main street
- the central business district
- a suburban shopping centre with trade from the local area
- a regional multi-store shopping centre, such as a Westfield shopping centre.

Businesses may also need to consider the demographic factors of their target market. Exclusive fashion retailers will need to locate in high-income areas. They are unlikely to succeed in a low-income area as their prices will be too expensive for the consumers who shop there.

Large retailers of consumer goods (such as electrical goods, white goods, furniture and gardening supplies) may locate in new shopping estates in outer suburban areas. These retailers require ample space to display stock, extensive parking facilities and a close proximity to residential areas.

Wholesalers do not need passing trade because they make deliveries to their buyers or sell directly to tradespeople. Yet they need to be located next to main roads and railways to reduce transport costs and time. When making the decision about where to locate, wholesalers will also need to consider their location relative to manufacturers and retailers.

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Source 3.14 Warehouses don't need regular retail traffic.

Manufacturers will be strongly influenced by the need to reduce costs when locating their business. These costs are associated with production and distribution. They include:

- availability and cost of obtaining inputs, such as raw materials
- distance to markets and its effect on transport costs
- transport facilities, such as roads, the railway, ports and airports
- access to power and water
- space to expand in the future.

Other geographic factors, such as climate, will have a strong influence on location. For instance, farmers will need to locate where the conditions are most suitable for the crops they intend to grow.

Visibility

Retailers need to have high visibility to attract new customers with their signs and window displays. Some retailers rely on passing trade – that is, rather than making a planned trip to purchase, customers will stop and shop on impulse. Often a sale will occur because the consumer was passing the shop and was attracted to enter and browse. Shops will want to be located where there is the most passing trade or traffic – that is, where most people walk or drive past. Street corners are the most sought-after locations because traffic approaches from a number of directions. Prime spots at the entrance of shopping centres are also highly sought after, as all shoppers must pass by as they enter and leave the centre. However, the most ideal locations are often the most expensive.

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Business Bite

One of the world's most expensive shopping areas is located in Pitt Street, Sydney. Pitt Street Mall is the seventh most expensive area in the world to rent store space. This is because of the limited number of spaces available and the significant number of consumers who visit the area each day. The costs associated with renting a store in this mall act as a barrier for small businesses in establishing their business in a very strong and highly visible area.

Source 3.15 Despite being only about 200 metres long, Pitt Street Mall is Australia's busiest and most cosmopolitan shopping precinct.

Proximity to competition

Some businesses are better positioned near their competitors. Because many businesses of the same type are located close together, more potential customers will be attracted to the area. Fast-food outlets, car dealerships and clothing shops often use this location strategy.

Customers wish to shop around and compare prices between different outlets. Competition lowers prices and provides more choice. Over time, certain locations become known as the place to purchase a particular item. This attracts additional competitors that wish to tap into the large number of potential customers who visit the area.

Non-core business functions
The activities of a business that are not directly related to its main activity but need to be performed, such as security and IT support.

Proximity to support services

Support services are services that are provided by other businesses to help a firm perform its core function. They are the services that the firm will pay other businesses to provide. A firm will use other businesses for:

- deliveries – sending parcels from one store to another or sending orders to a customer using a courier company
- copying and printing – organising for leaflets to be delivered to the local area to promote the firm in the local community
- legal advice
- catering – delivering snacks, refreshments or lunch
- IT (information technology) support and computer repairs – arranging for technicians to be close by and able to attend to problems very quickly
- maintenance – performing regular maintenance and providing a repair service the same day a problem occurs
- cleaning – nightly cleaning of the office or factory to comply with occupational health and safety requirements
- security – providing security guards to patrol the business each evening and be on call 24 hours a day
- infrastructure – providing transport, power supply and telecommunications services
- banking and postal services.

In this way, a firm is outsourcing its **non-core business functions** because it is actually cheaper to employ staff or use other companies to perform these services as they are needed. Other firms will be subcontracted to provide these services to the business. Proximity to necessary support services may be an influencing factor when choosing a business location.

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Resources

Resources are essential to the success of the business. Businesses require many resources to operate their business and provide goods and services to their customers. Examples include financial resources, input resources and staff resources.

Financial resources

Financial resources are the funds required by a business to access other resources and then produce and sell its goods and services. This allows the business to achieve its financial goal of profitability. Financial resources may be accessed from existing owners, new owners or funds borrowed from a financial institution such as a bank.

Input resources

Input resources are those goods and services that combine to produce a finished good or service that can then be sold to consumers. Examples include machinery, raw materials and labour. The cost of inputs is a key consideration for businesses. Australian wage rates are five times those of an employee in China; as a result, many firms are now looking at moving production offshore or integrating the greater use of technology across their operations.

Staff resources

Staff resources are considered to be the most important part of any business. They are commonly referred to as employees or human resources. Employees are responsible for providing the human effort that transforms inputs into a finished good or service. They use expertise, skill and knowledge to perform this function.

Costs

One of the first questions an entrepreneur will have when starting a new business will concern costs: how much money will be needed to start the business?

Establishment costs will depend on the type of business. An entrepreneur must budget for:

- costs of obtaining premises through leasing or purchasing
- costs of obtaining inputs and inventory
- costs of employing staff, including **recruitment**
- marketing costs
- utilities, such as electricity and water
- the cost of interest on finance if it is borrowed.

Obtaining a location will represent a significant cost. The entrepreneur must decide to either lease or buy the premises.

Leasing premises and assets, such as equipment, will free up capital to purchase stock and other supplies. By reducing the outflow of cash, finance is available to help the business survive the difficult establishment phase.

Buying premises, such as a shop or a factory site, requires a huge outlay of finance. The advantage is that the owner is not restricted by a lease contract and is free to change the building as desired. If the business fails, the assets can be sold to repay **creditors**.

If the entrepreneur chooses to purchase an existing business, the additional cost of **goodwill** will need to be considered. Goodwill is an **intangible asset** that is included in the cost price of a business above the value of its assets.

If an entrepreneur chooses to purchase a **franchise** system, the cost may be much greater than starting a business from scratch. A franchise system may cost hundreds of thousands of dollars; the advantage is that a franchise is a proven business model.

Recruitment The stage in the human resource cycle that involves identifying staffing needs, seeking applications and selecting new employees.

Creditors The businesses, financial institutions and individuals to which a business owes money.

Goodwill An intangible asset valued according to the image or reputation a business has acquired over time.

Intangible asset An asset that does not physically exist and therefore is not written on a business's balance sheet; however, it is of value because the business can earn revenue from the asset. Intangible assets include a business's good reputation, trademark, design and brand name.

Franchise An agreement where an existing business sells the legal right to another entrepreneur or business to use its well-known product and its trade name, methods and procedures.

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Source 3.16 Purchasing a franchise such as Subway may be less risky than starting your own sandwich shop.

Activity 3.3
Research

Choose a local business and investigate the cost of establishing the business. Your research should include the rent, cost of equipment, access to suppliers and initial marketing costs. Compare these costs with purchasing an existing business.

Management and business culture

All successful businesses are able to translate their values and beliefs into actions. Corporate **culture** refers to the culture within an organisation. It relates to the values and beliefs within a business and directly impacts upon the relationship between management and employees. An effective corporate culture is one that is believed, demonstrated and acted upon by management and employees. In essence, it becomes the way staff perform their work.

Culture The informal, unwritten rules and procedures followed in a business – a business's way of doing things. For example, a business may have a generally accepted dress code of smart casual.

Objectives A detailed set of targets that a business wants to achieve by a stated time. Objectives can be written for the marketing, human resources, finance and operations departments of a business and are found at the start of the business plan.

Some companies encourage employees to be more responsible and act and think like owners. They also encourage teamwork and the formation of teams, as a strong culture is one in which they work together effectively, share the same values and make decisions to meet the organisation's primary goals and **objectives.**

Source 3.17 There has been an increasing push for diverse representation in business, which can have a positive impact on company culture and external perceptions.

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Business Bite

Key elements of Qantas's corporate culture:

Our People – Our commitment to people, culture and leadership.

- Everyone has the right to return home safely.
- Customers determine our success.
- Being a fit, agile and diverse organisation drives innovation and simplicity.
- Working together in an inclusive manner always delivers the optimal group outcome.
- Each employee deserves respect, trust and good leadership.

Source: https://www.qantas.com/au/en/qantas-group/acting-responsibly/our-people.html.

Digital quiz Please see the Interactive Textbook to access digital activities.

3.3 Stakeholders

Businesses are an essential part of our community, so the decisions made by management and owners impact on many other stakeholders. Stakeholders are people and/or organisations affected by the decisions or actions of a business.

Employees are known as **internal stakeholders**, as they exist within the business. However, as Source 3.18 shows, there are also many **external stakeholders**. Customers, for example, are affected when a business decides to release a new range of products.

Depending on the success of the new products, competitors may alter their marketing strategies. The introduction of the Salads Plus menu at McDonald's has provided customers with the opportunity to purchase McDonald's food while adopting a more health-conscious approach to fast-food meals. This has had a positive impact on earnings and has attracted more customers and suppliers. Domino's, Hungry Jack's and KFC have responded to the considerable success of their competitor's strategy by releasing their own healthier food options.

When a business decides to expand into areas that may not promote positive environmental standards, conservation groups will express concerns about the negative environmental impact that the decision will have. Other groups, including employees and shareholders, may support the business's decision if they believe it will benefit them. It is important that the business closely identifies how each of its stakeholders will be affected by its actions and then makes careful decisions based on these considerations.

It is inevitable that a business's chosen course of action will cause some conflict among its stakeholders because not all stakeholders will have the same priorities.

Internal stakeholders Employees and others who work in a business.

External stakeholders Organisations and people outside the business who are affected by the decisions or actions of a business.

Source 3.18 Stakeholders in business

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Activity 3.4
Comprehension

1 Define the term 'stakeholder' and outline how the goals of two stakeholders can conflict within a business.
2 Choose a business operating in Australia and construct a mind map that reflects the relationship the business has with the following stakeholders:
   - employees
   - owners
   - environment
   - suppliers
   - creditors.

Chapter summary

A number of internal and external influences impact the operations, success and profitability of a business.

The economic cycle refers to the changes in consumer and business spending over a period of time. It influences:
- the level of employment and investment in an economy
- the profitability of business
- the amount of goods and services produced.

The Australian Government makes use of three key policies to influence the level of economic activity in Australia:
1 fiscal policy
2 monetary policy
3 microeconomic reform.

Fiscal policy is government actions, such as the use of taxation (revenue) and expenditure, that are intended to influence the level of economic activity in Australia. It mainly operates through the Commonwealth Budget.

Monetary policy is actions taken by the Reserve Bank to control the level of interest rates in the Australian economy.

Microeconomic reforms are the policies developed by the government to promote greater competition within a particular industry.

Generally, for Australian business, the globalisation of Australian financial markets has resulted in a more flexible, competitive and market-oriented approach to finance. Finance is now available from worldwide sources.

Businesses need to be aware of their community's needs, opinions and attitudes. They also need to respond to changes in their community groups' fashions, tastes and culture to ensure that the goods and/or services they provide meet the groups' needs.

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Stakeholders are people and/or organisations who are affected by the decisions or actions of a business.

Geographic influences on Australia include:
- its location in the Asia–Pacific region
- population shifts from rural to urban areas
- population shifts from inland to coastal regions
- population shifts to warmer locations
- the increased average age of the population
- variations in the number of refugees and skilled migrants accepted into Australia
- the rapid economic growth of nearby Asian countries
- the increased international standing of Australian cities as hosts for international sporting events.

In general, the aim of government regulation of business is to promote fair conduct. These regulations cover environmental and consumer protection, trade practices, occupational health and safety, and industrial relations.

Major political change can result from an election, leading to business uncertainty or business confidence, depending on the winning party's policies. Political influences can affect competition in the market.

The following federal and state government institutions may impact upon the manner in which businesses conduct their operations:
- Environment Protection Authority
- Australian Taxation Office
- Australian Securities and Investments Commission
- Australian Competition and Consumer Commission
- NSW Fair Trading.

Developments in technology result in increased efficiency and productivity. They create opportunities for the invention of new products and innovation of existing products. A competitive situation refers to the factors influencing the level of competition a business faces. This is determined by the number of competitors, access to materials and the costs of establishing the business.

Non-government organisations are interest groups formed to protect and promote issues of concern to their members:
- Trade unions are organisations that aim to protect and promote the interests and working conditions of employees.
- Employer associations are organisations that aim to promote the interests of employers.
- The Australian Securities Exchange is the organisation responsible for acting as a market in which investors may buy and sell shares in public companies.
- Consumer associations are organisations that are developed to provide informative opinions to consumers on a wide range of issues, such as product quality and pricing.

The changing nature of markets impacts the business through changes in consumer preferences, levels of competition and the degree of foreign competition.

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The decision about location will depend on the following factors:

- whether high visibility is required to attract passing customers
- the cost of renting or leasing the factory premises or shop
- where suppliers are located
- the location of business support services.

One of the first questions an entrepreneur will ask when starting a new business will concern costs. How much money will be needed to start the business? Establishment costs will depend on the type of business.

Corporate culture refers to the culture within an organisation. It relates to the values and beliefs within a business and directly impacts the relationship between management and employees.

End-of-chapter tasks

Chapter revision task

Rewrite the following paragraph using the words listed in the box to fill in the blanks.

customers	priorities	environmental	unions	affected
community	shareholders	conservation	employees	

Stakeholders

Stakeholders are people or groups who are ________ by the actions of a business. Not all stakeholders will have the same ________ and the business will need to balance them all when making plans. The main internal stakeholders for a business are the ________. Other stakeholders include ________, who normally have a keen interest in the business's profitability, and ________ who focus on how the organisation is treating its staff. The existing ________ of a business will be affected by changes to its products or services. Members of the ________ in which the business operates are also stakeholders, and ________ groups will express concerns if the business is planning activities with a negative ________ impact.

Multiple-choice questions

1 Which of the following situations best justifies the presence of a monopoly?

A One business operating in an industry with high prices and limited product range

B The private sector unwilling to provide the good or service, forcing the government to intervene in the market

C The government seeking to achieve a profit from its own business ventures

D The cost of entry is high, thereby restricting the number of competitors in the industry

2 Rohit and Gabriella operate a local pizza store. The business is experiencing higher levels of competition. Which of the following is a benefit to consumers of increased competition in the market?

A Increased prices and decreased product choice

B Decreased costs of production and reduced workforce size

C Lowered prices and increased product choice

D Increased production and reduced product innovation

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3 An economy experiencing reduced economic growth would be characterised by:

A increased consumer confidence and lower levels of employment.
B lower levels of unemployment and increased consumer spending.
C increased consumer spending and decreased levels of business production.
D decreased levels of business production and increased consumer confidence.

4 Which of the following reflects how a culturally diverse population can impact on human resource management within a business?

A The diverse range of goods and services produced by business
B The diverse range of cultures represented through each workforce
C Increased migration levels in the area of skilled professionals
D The increased presence of foreign business in the domestic business environment

5 Which of the following are examples of local government regulations that impact on business activities?

A Zoning and health and building inspections
B Taxation and occupational health and safety
C Workplace wage negotiations and zoning
D Health and building inspections and taxation

6 The government decided to reduce income tax rates to encourage greater levels of consumer spending in an economy with the aim of reducing unemployment. Which government policy is this an example of?

A Fiscal policy
B Monetary policy
C Labour market policy
D Microeconomic reform

7 Increased foreign competition in the Australian business environment has forced many Australian businesses to do which of the following?

A Reduce the size of their workforce as a means of reducing costs to remain competitive
B Increase the quantity of imported goods in the transformation process
C Expand into new markets
D Seek government assistance to remain financially viable

8 Sienna and Hannah operate a business that has been advertising low prices to encourage consumers to visit the store. Once in the store, consumers are encouraged to switch to higher priced items. Which government authority is responsible for ensuring this matter is dealt with?

A Australian Competition and Consumer Commission
B NSW Fair Trading
C Environment Protection Authority
D Australian Securities and Investments Commission

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9 What is the role of the Australian Securities Exchange?

A To ensure that public companies abide by government regulations with relation to their reporting of financial performance
B To act as a market for the buying and selling of private company shares
C To act as a market for the buying and selling of all types of business
D To act as a market for the buying and selling of public company shares

10 Oliver and Jessica are two entrepreneurs who are seeking to enter the highly competitive coffee market. Which of the following are external stakeholders that Oliver and Jessica must consider when establishing their business?

A Employees and society
B Government organisations and suppliers
C Customers and management
D Shareholders and employees

Short-answer questions

1 Define the term ‘economic cycle’.

2 Explain how a downturn in economic activity can adversely impact business activity.

3 Compare and contrast the roles of two different government organisations that influence the activities of businesses in Australia. To what extent do their roles extend to monitoring the ethical behaviour of businesses?

Extended-response question

Amelia and Ben are establishing a new business. Due to recent changes, they must now reconsider the location of their store and the types of products sold to its customer base. Write a report to the owners of the business, analysing how three different influences impact upon a business, and support your response with the information provided.

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4 Business growth and decline

Chapter objectives

In this chapter, students will:

- identify and investigate the stages of the business life cycle
- analyse how businesses manage the challenges at the different stages of the business life cycle
- investigate the factors that can contribute to the decline of a business
- explain voluntary and involuntary cessation.

Key terms

- bankruptcy
- budget
- business life cycle
- cessation
- competitive advantage
- creditors
- decline
- insolvency
- involuntary cessation
- just-in-time method
- liquidation
- liquidity
- motivating
- outsourcing
- profit
- receivership
- renewal
- revenue
- steady state
- voluntary cessation

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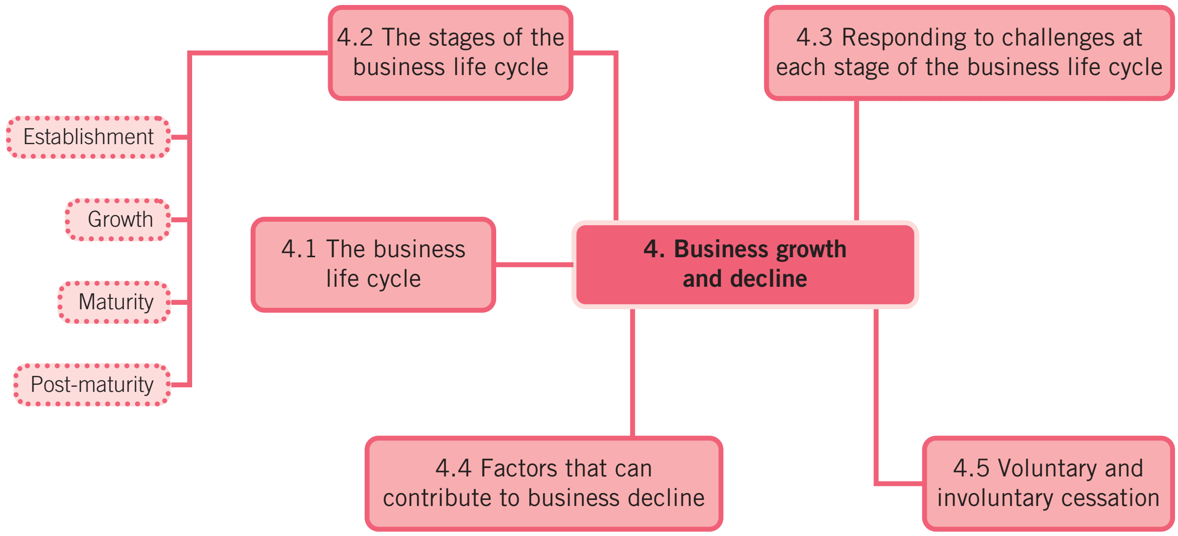
4.0 Introduction



Source 4.1 Business growth and decline

4.1 The business life cycle

Change is an important part of any business, and it is something all businesses will experience. A business will often go through different stages over the course of its existence. This is known as the **business life cycle**. There are four stages to the business life cycle: establishment, growth, maturity and post-maturity. During the post-maturity stage, the business will follow one of four different paths.

Business life cycle The different stages a business and/or its product will often go through over the course of its existence.

When looking at the business life cycle, there are some key points to remember:

- Sales data is often used to measure the business life cycle. There is a link in that the growth of product sales often increases business sales and profitability.
- The business life cycle can apply to a particular product that the business provides and not the business itself, as some businesses sell more than one product or brand.
- Not all businesses will experience all four stages in the cycle.

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4.2 The stages of the business life cycle

Establishment stage

The establishment stage of the business life cycle is when the business first enters the market. The owners must make decisions about the location of the business, the types of products that the business will sell, how to find motivated and appropriately trained staff and the most suitable legal structure for the business.

There are high costs associated with establishing a business. Money must be spent on acquiring premises for the business, fitting out the premises (such as installing shop fittings) and purchasing equipment, stock and raw materials. The business must pay these costs even before sales have started.

A key decision during the establishment stage is sourcing finance. Because of the risk in establishing a business, owners may not want to use all their own money. There are many lending institutions that assist businesses to obtain the funds necessary to finance the high costs of establishment. Some business owners may find it difficult to obtain these funds, either because of a poor history of running a previous business or the high-risk nature of the business that they want to establish.

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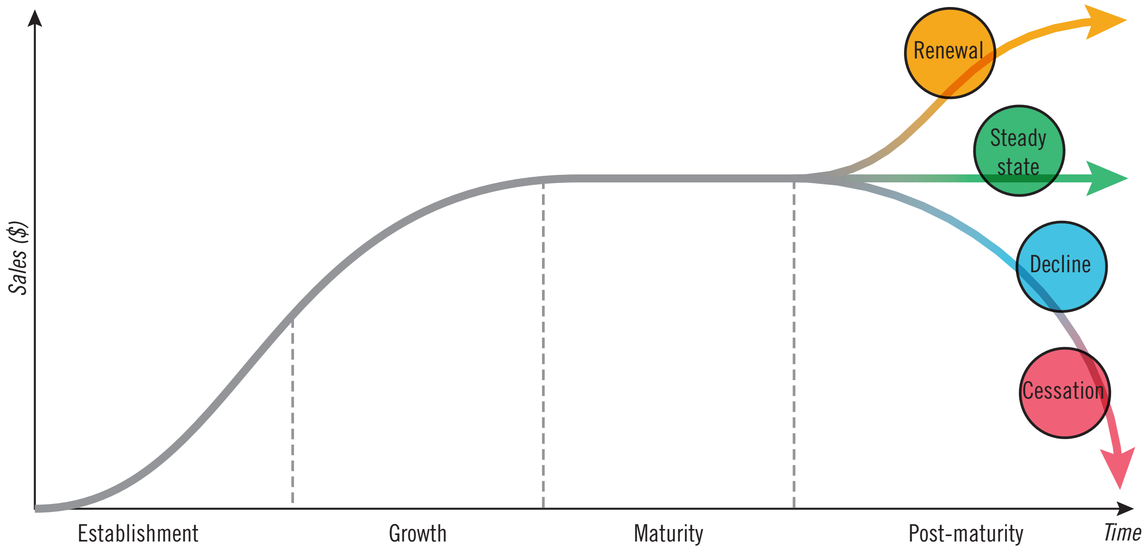

Source 4.2 The business life cycle

The establishment stage of the business is also characterised by a slow growth in sales. It can often take some time before potential customers are aware of the business and, as a result, the business may not earn sufficient **revenue** to cover all its costs. Marketing the business or product may also be restricted as a result of the limited financial resources available.

Growth stage

The growth stage of the business life cycle offers the business many exciting opportunities and presents it with new challenges. During this stage, the business is experiencing increased sales. More customers are aware of the product, so the business begins to gain increased revenue, **profit** and market share. Market share refers to the number of customers a business has compared with its competitors.

As the financial performance of the business continues to improve, the business must look at developing **budgets** to ensure greater organisation of financial issues such as cash flow to cover day-to-day expenses. This will help management control costs and stay on track to achieve its financial objectives. Credit policies with suppliers and customers will be examined to ensure that while the business is experiencing growth there is sufficient cash to fund the day-to-day operations of the business. This is referred to as **liquidity**. Liquidity is the ability of the business to fund its short-term expenses and pay its current liabilities (credit cards, money owing to suppliers) when they fall due. This includes the purchase of stock, wages, rent and advertising.

The growth stage of the business is also characterised by changes in staff. As the business begins to expand, the responsibilities of staff will begin to change, with management taking on more specialist roles. This would include such areas as operations, finance and marketing. To deal with this change, some businesses may introduce a human resource department, the main functions of which are the recruitment, training and development of a business's workforce. The challenge will be to recruit staff who have the right skills for the rapidly expanding business.

By now, the management of the business has a greater understanding of the business environment. The business is better able to deal with the needs of its customers and adhere to government regulations, and has an established relationship with its suppliers.

Revenue All funds flowing into the business; may include sales receipts and fees for services, rent, interest from investments and dividends from shares in other businesses.

Profit The difference between revenue earned and total expenses for the period.

Budget A plan based on numbers. It is a statement that sets out a schedule for achieving set outcomes, based on forecast figures or expectations of future operations.

Liquidity Indicates how much ready cash is available in a business. Current assets are listed in order of liquidity, which is how easily they can be turned into cash. Savings in the business's bank account are the most liquid as they are already cash.

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Source 4.3 Business growth may require an increase in staffing.

Another risk for a business, and reason for business failure, is expanding too quickly and losing control over the business. Owners/managers spend too much time working in the business, trying to keep up with the increased workload, and therefore don't have enough time to work on the business to ensure it stays on track. Sometimes businesses take on a project as part of expanding and fail to deliver.

Maturity stage

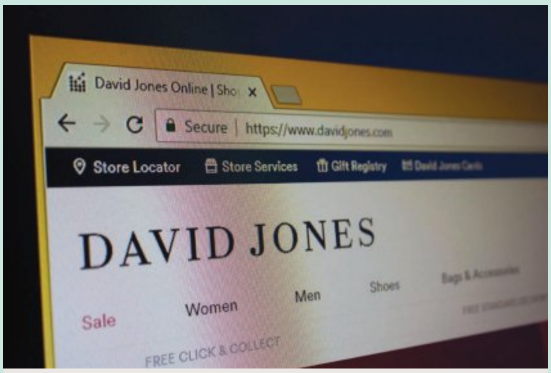
In the maturity stage of the business life cycle, the business's growth and market share begin to slow. The business faces increased competition from new entrants into the market, with consumers increasingly willing to purchase competitors' products. For some businesses, the level of market share achieved at this stage may be sufficient to provide investors with reasonable profits. As a result, management may not take the opportunity to develop new forms of product innovation. This could be detrimental to the business.

Post-maturity stage

The post-maturity stage is the final stage of the business life cycle. During this stage, key decisions will be made that ultimately will

Source 4.4 Kogan is an Australian-based business that has benefited from Australia's move towards online shopping.

Business Bite



Source 4.5 Both David Jones and Myer attempt to give their customers a seamless in-store and online experience.

Myer is one of Australia's most iconic retailers, yet over the past five years its management team has shifted the focus of the store to that of an online store. Myer online sales now account for $1 in every $5 spent at the store, with that number increasing each year.

As online shopping continues to grow by more than 10 per cent each year, Myer, along with its competitor David Jones, has had to redevelop its traditional sales store into one that is online and allows its customers to access goods and services at a time of their choice.

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affect the long-term survival of the business. By now the business is an established organisation within the market. Increased competition and changing consumer preferences may create the need for change.

During the post-maturity stage, the long-term future of the business will follow one of four paths: **steady state**, **renewal**, **decline** or **cessation**.

Steady state

Steady state refers to the path in the post-maturity stage of the business life cycle when the business maintains its position. Facing the challenges on this path is crucial, as management will not want the business to experience a path of decline. The business maintains its market share and has developed a group of loyal customers. Increased competition, however, could cause difficulties for the business.

Renewal

The renewal path will provide management with an opportunity to revitalise the business and/or its product range. On this path, the business again begins to experience growth in sales. Market share has increased once more and the profitability of the business is also improving. Most businesses will achieve renewal through the introduction of new goods and/or services, an extension of an existing product with new features or the makeover of an existing product combined with a new marketing campaign using different forms of advertising and changes to pricing strategies.

Decline

The decline path occurs when the business has been unsuccessful in addressing the various challenges it has faced in its earlier stages. The business has lost its **competitive advantage** and is characterised by falling sales and a decline in market share. The extent to which this decline occurs ultimately will determine the survival of the business.

Steady state The path in the post-maturity stage of the business life cycle when the business maintains its position.

Renewal The path in the post-maturity stage of the business life cycle when a business develops new marketing strategies or releases new products to help increase sales.

Decline The path in the post-maturity stage of the business life cycle when a business experiences falling sales and has been unsuccessful in developing new strategies.

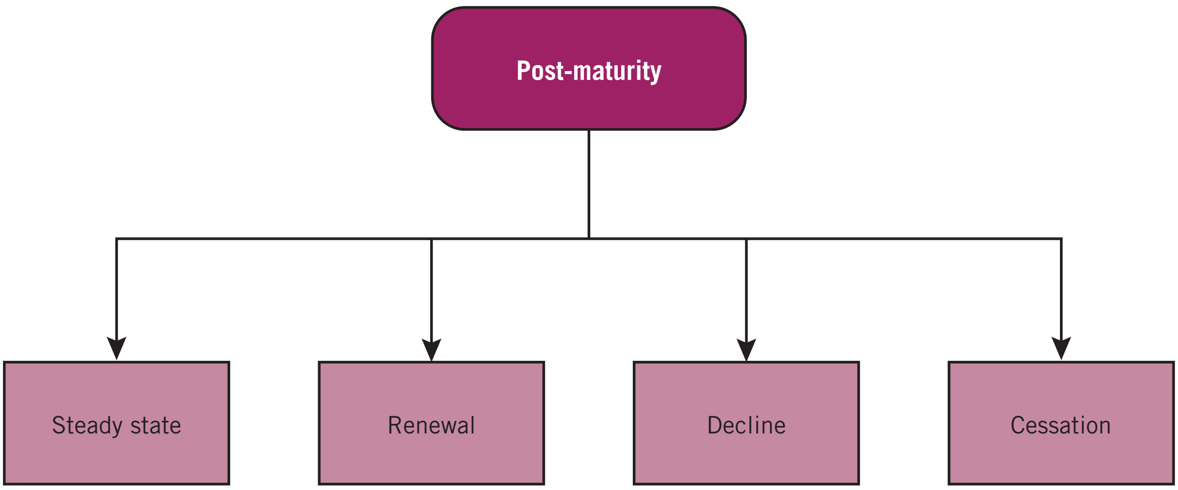
Cessation The path in the post-maturity stage of the business life cycle when the business closes. Cessation can be voluntary or involuntary.

Competitive advantage Those features of a product or business that provide it with an advantage over its competitors.

Cessation

Cessation refers to the closure of a business. The owner may decide to cease the operation of the business for a number of reasons. The closure of a business has many implications. Cessation is discussed in more detail later in this chapter (in Section 4.5 Voluntary and involuntary cessation).

Digital quiz
Please see the Interactive Textbook to access digital activities.



Source 4.6 The four paths of the post-maturity stage

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4.3 Responding to challenges at each stage of the business life cycle

Establishment stage

The challenges faced by a business in the establishment stage include:

- generating sufficient revenue to cover costs and provide a profit to the owner
- choosing a suitable location for the business, in close proximity to the potential customers of the business or its suppliers and support services
- developing appropriate marketing strategies to create an awareness of the business and its products among potential customers
- ensuring all government regulations are followed, including business registration, occupational health and safety, and taxation requirements.

Growth stage

Managers need to consider developing effective stock-control methods. As the business expands, managers and owners will need to determine the most appropriate method of controlling stock. They will need to ensure the business is not overstocked, as this presents the possibility that the excess stock will not sell. On the other hand, sufficient stock is necessary for the business to satisfy consumer demand. Some businesses may use the **just-in-time method**. This is a stock-control system whereby the business is able to access the stock just when it needs it. It reduces the need for warehouse space.

Just-in-time method A stock-control system whereby the business is able to access stock just when it needs it.

Outsourcing A firm making a commercial arrangement for another firm to perform one of the support services that it once performed itself – for example, advertising.

Motivating Driving an action using incentives.

The management and organisation of support services within the business present further challenges for a business during the growth stage. As the business expands, managers may decide to outsource specific functions. For example, a business may decide to seek the services of other businesses to assist in handling some of its non-core activities. **Outsourcing** is the term used to describe this process. Examples of outsourced functions are marketing for a plastics manufacturing business or accounting and finance for an interior design business.

In each of these examples, outsourcing would allow the business to concentrate on its central activity and give other businesses the opportunity to provide assistance when necessary.

During the growth stage, management must examine opportunities in the business environment that will allow the business to sustain its growth. This may include forming partnerships with other businesses or taking over other companies. Another risk for a business and reason for business failure is expanding too quickly and losing control over the business.

Maturity stage

Challenges faced by a business during the maturity stage include:

- needing to develop strategies to maintain customer loyalty and interest in its product
- **motivating** employees and management so that tasks do not become routine and boring
- the need to develop new products or revitalise existing products
- ensuring the financial position of the firm at this stage is sufficient to cover short-term and long-term expenses and provide investors with a sufficient rate of return
- maintaining an active interest in the external environment of the business in order to be aware of changing consumer patterns, new production methods and competitors' marketing strategies
- new threats from competitors entering the market.

Post-maturity stage

The challenges for the business during the post-maturity stage are dependent on the path that its managers decide to follow. It is important that the business:

- is aware of its legal responsibilities in relation to its obligations to its creditors, suppliers and employees should it decide to close (see the section on cessation)
- motivates employees and creates a culture within the workplace where change is embraced
- maintains an active interest in the business environment to be aware of changing consumer patterns, new production methods and the marketing strategies of its competitors should it decide to enter the renewal path.

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Activity 4.1
Report

A new online seller of clothing for men and women has entered the Australian market. As a consultant for the business, develop a brief report outlining the challenges the business could experience during the establishment stage and how the business could respond during the growth stage.

Activity 4.2
Diagram

Create a diagram of the business life cycle for a new mobile phone company in Australia. Label the diagram with each stage of the life cycle. For each stage, suggest three characteristics of this business and challenges it would face.

Video 4.1
Case study

Case study: Business life cycle of Kmart Australia Limited

Kmart Australia Limited is a retail chain of affordable department stores throughout Australia. As of 2021, Kmart has 209 stores nationwide and is recognised as the market leader in the discount department store segment.

Establishment stage

Kmart Australia Limited was established in 1969 as a joint venture between G.J. Coles and Coy Limited (Coles) and the S.S. Kresge Company in the United States. Kmart Australia was designed as an adaptation of the US version of Kmart, which first opened in 1899 in Detroit, Michigan. The company engaged in an extensive planning process in preparation for the opening of its first store in Burwood East, Victoria. As Kmart was one of the first of its kind in the discount department store segment, heavy promotion was used to raise awareness among the local consumers.

The publicity generated a great 'buzz' within the community, with an estimated 40 000 customers passing through the checkouts on the first day of trading. Such was the hype among local Victorian customers that the doors had to be shut by management within the first hour due to concerns for patrons' safety. Over $97 000 (equivalent to $1.17 million in 2021) of sales revenue was earned on the first day of operation in Australia, which helped provide some needed cash flow.

Like any business in the establishment stage, Kmart Australia was subject to the external influences in the business environment, including competition from existing local department stores Myer and David Jones.

Growth stage

Throughout the 1970s and 1980s, Kmart Australia engaged in an aggressive expansion plan that included the establishment of new stores throughout Victoria and then across the rest of Australia.

Continued →

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During the growth stage, the management team of Kmart sought to consolidate its market share and brand awareness by investigating ways to offer value to customers. This led to the establishment of an extended range of products and services offered by the business, including Kmart Food, Kmart Garden Super Centre and Holly's Restaurant. Additionally, the growth stage presented the business with opportunities to develop relationships with a range of international suppliers and gave it a wide network from which new brands and product lines could be accessed. This meant that Kmart Australia could feature numerous established brands in its store that covered major electrical and home entertainment products, appliances and photo processing services.

Kmart Australia's early success was a result of high customer satisfaction due to its wide product range. High levels of customer awareness allowed Kmart to gain traction in the discount department store segment. This translated into growing sales and market share as the business experienced rapid growth in profitability. The business used the retained profits achieved in the growth stage to reinvest back to assist in improving operations, increasing promotion and the hiring of new staff.

Maturity stage

Like all businesses in the maturity stage, Kmart Australia continued to experience growing sales; however, the speed at which sales grew began to slow down and plateau. The maturity stage saw the continuation of Kmart's success with the establishment of close to 200 stores nationwide.

Source 4.7 The best locations also attract the strongest competitors.

Kmart Australia's success and strong market penetration in the discount department store segment attracted significant competition from rivals Target and Big W. Kmart's sustained profits saw significant investment from its major competitors who sought to gain large chunks of its market share.

As is the case with businesses in the maturity stage, high levels of competition require an evaluation of the marketing plan to ensure that it meets the needs of consumers. Businesses must innovate and develop

Continued →

a point of difference from their competitors. To ensure that Kmart responded to this competitive situation, the business pursued two major strategies. First, the business continued with its diversification plan by expanding its product offerings. This meant an expansion of departments and business units such as Kmart Tyre and Auto Service. Second, Kmart implemented an aggressive price penetration strategy with heavy discounting of products where competition from Big W and Target existed. In a bid to retain price-conscious consumers, Kmart regularly used catalogues and store signage to advertise sales and price reductions.

The maturity stage presented challenges for Kmart Australia in managing its large network of stores and departments. This resulted in large costs and increasing inefficiency, which impacted on the business's cash flow.

Post-maturity stage

Over the past 15 years, Kmart Australia had experienced mixed success in its quest to remain a market leader in the discount department store sector. Many customers perceived the brand as 'cheap' and 'outdated', while the growth in online retailers presented new challenges to the business. In 2010, the company's earnings were just under $200 million, prompting its new owner, Wesfarmers, to consider selling Kmart Australia.

Renewal stage

In a bid to renew the fortunes of the business, Wesfarmers installed a new chief executive officer (CEO), Guy Russo, to lead its 'Expect Change' strategy. This was designed to reinvigorate the brand and restore its position as a value-based retailer.

To achieve its renewal, the business evaluated all parts of its business and conducted significant market research. This helped the management team to gain a better understanding of what their consumers were seeking from the company. The business focused its resources on targeting females of the 'millennial' generation (20 to 35 years old). To do this, Russo and his team focused primarily on the fashion and homeware sections of the business, removing non-profitable departments that had been established in the maturity stage.

A new focus was placed on developing affordable yet stylish 'on trend' products, which allowed the business to pivot away from simply offering products at low prices to giving customers the best value for their money.

Kmart's reinvention as a 'lifestyle' brand also brought a significant change to how the business promoted its products to consumers. The advancement of technology provided the business with the opportunity to use social media advertising to connect with its female millennial market. Colourful catalogues were replaced with

Continued →

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Source 4.8 Kmart's Inspired Living Hub and Hack Workshops at Martin Place, Sydney, on 29 July 2016

images of slick home decor on major social media platforms. Kmart has developed a cult following on social media with a large and dedicated community of online followers who have created many groups sharing their Kmart interior design and fashion styling tips. *Luxeandlemonade* is a prominent Instagram account that promotes many Kmart products.

Sales since 2014 have grown exponentially, which has resulted in Kmart Australia's resurgence. In 2020, Kmart's total sales increased by 5.4 per cent, despite challenging retail conditions and rising costs. Recent research conducted by Roy Morgan indicated that one in five home product customers shopped at Kmart.

Source 4.9 Kmart Group operating results FY2016–2020

Key financial indicators

	Post AASB 16	Pre AASB 16				
For the year ended 30 June	**2020[1]**	**2020[1]**	**2019**	**2018[2]**	**2017**	**2016[3]**
Revenue ($m)	**9217**	9217	8713	8837	8528	8646
Earnings before tax ($m)	**410**	413	550	660	543	275
Capital employed (R12) ($m)	**2011**	1978	1872	2013	2253	3629
Return on capital employed (R12) (%)	**20.4**	20.9	29.4	32.8	24.1	7.6
Cash capital expenditure ($m)	**142**	142	207	293	225	292

[1] The 2020 earnings before tax for Kmart Group excludes pre-tax impairment of the Target brand name and other assests of $525 million and restructuring costs and provisions of $110 million, and includes $9 million of payroll remediation costs relating to Target.

[2] The 2018 earnings before tax for Kmart Group excludes the pre-tax non-cash impairment of $306 million for Target.

[3] The 2016 earnings before tax for Kmart Group includes $145 million of cash restructuring and provision costs to reset the Target business, but excludes the non-cash Target impairment of $1266 million.

Digital quiz
Please see the Interactive Textbook to access digital activities.

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4.4 Factors that can contribute to business decline

Lack of innovation and a failure to keep up with the changing needs of consumers can result in decreased sales. Falling profits may reduce the ability of the business to meet its financial obligations with financial institutions and other **creditors**.

A creditor is an organisation or individual to whom a business owes money. They are an external stakeholder of the business. Once a business has started on the decline path, continuing with the operations of the business may not be a viable option.

Creditors The businesses, financial institutions and individuals to which a business owes money.

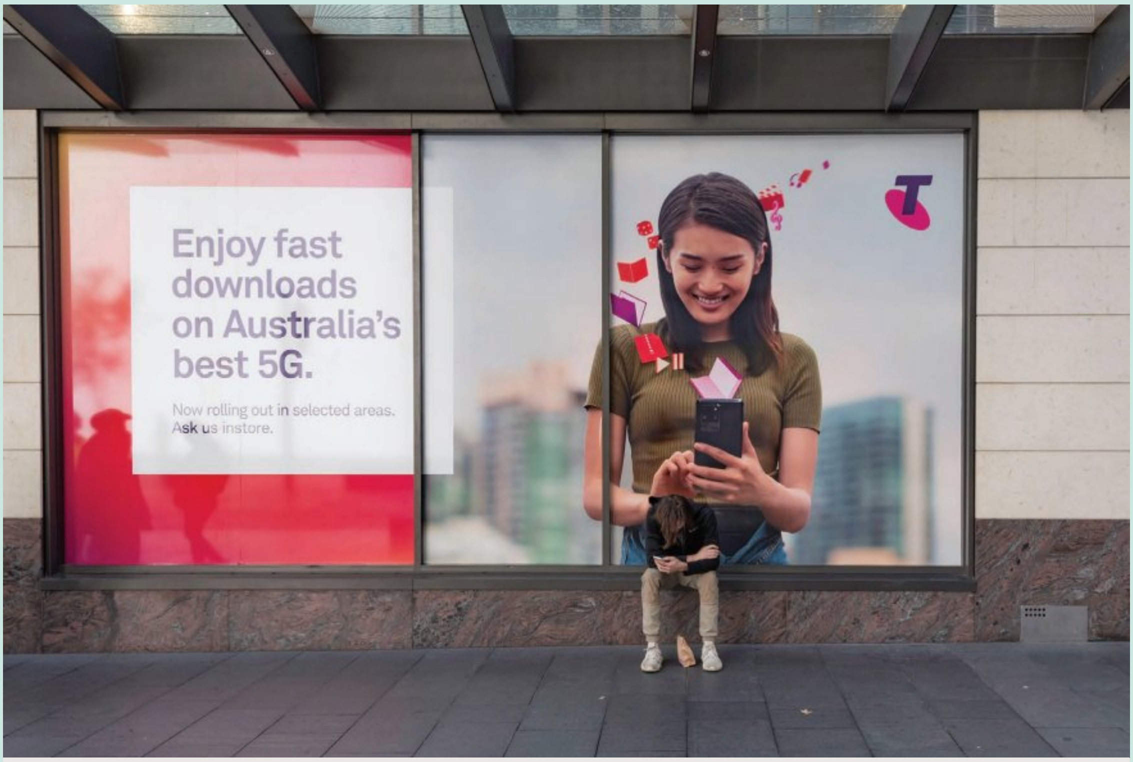
Other factors that may contribute to business decline include:

- inadequate leadership skills at the top
- the lack of a clear business plan
- poor cash management
- poor inventory management
- insufficient emphasis on the customer.

Digital quiz
Please see the Interactive Textbook to access digital activities.

Business Bite

Telstra is one of Australia's leading technology-based businesses. It started off as the supplier of fixed landline phones in Australian homes. Now, as smartphones dominate the market, fewer people have home phones and rely more on the internet to communicate. Telstra is now a data seller, providing internet access to smartphones, television streaming services and online videoconferencing and gaming. Its home phone market is now Telstra's smallest market. The business has had to enter a stage of renewal by focusing on data, as data has become one of the most used products across our daily lives.



Source 4.10 By mid-2021, Telstra's 5G service covered more than 75 per cent of Australians.

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4.5 Voluntary and involuntary cessation

Involuntary cessation Occurs when the closure of a business is forced on its owner.

Voluntary cessation Occurs when the owner of a business decides to cease its operations. The decision is not forced on the owner.

Insolvency When a business cannot pay all its liabilities, both current and non-current. A business that is insolvent will most likely fail because creditors will demand repayment and the business cannot afford to pay loans without selling assets.

The cessation of the business may be a voluntary decision made by the owner. Alternatively, the closure may be forced on the business by external interests. This is known as **involuntary cessation**.

Voluntary cessation

When the owner of a business decides to cease its operations, it is known as **voluntary cessation**. It is a decision taken by the owner and is not forced on the owner by other parties involved in the business. Reasons for voluntary cessation include:

- a loss of enthusiasm and ideas
- the decision to retire
- a party offering to purchase the business
- declining profits
- the desire to seek new challenges and move into a new business venture
- the need to rest from the often gruelling hours of work in the business.

Involuntary cessation

Involuntary cessation occurs when the closure of the business is forced on the owner. Reasons for involuntary cessation include:

- the death of the owner
- lack of demand for the product that is offered by the business
- unfavourable economic conditions, which discourage consumer spending
- increased competition within the marketplace, meaning that the business is unable to continue operating in competition with low-cost competitors
- the Supreme Court of New South Wales ordering that the assets of the business be sold to cover the unpaid debt of the business.

The most common cause of involuntary cessation is the inability of the business to repay its debt. Often creditors will take court action after repeated failed attempts to make the business repay the debt. A business that cannot repay its debt is **insolvent**.

Source 4.11 A business may close when its owner decides to end operations. In April 2020, cash-strapped Virgin Australia announced it had gone into voluntary administration, the largest airline to buckle under the strain of the COVID-19 outbreak.

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The cessation process

The nature of the cessation process will often depend on the legal structure of the business – that is, whether the business is registered as a sole trader, partnership, public company or private company.

If the business is registered as a sole trader or a partnership, the owners of the business hold responsibility for all its financial obligations. If the business is unable to repay its debt, creditors of the business will take action in the Supreme Court, requesting a court order for the assets of the business to be sold.

A business goes into **receivership** when an independent party (receiver) is appointed by the court to examine possible ways for the business to trade itself out of trouble. This could be selling the business to new owners, restructuring the organisation with a lower cost base or hiring a new management team. If no realistic and workable solutions are found, a business could face **liquidation**.

Liquidation occurs when the assets of the business are sold in order to recover outstanding debt. The receiver takes responsibility for the sale of assets and the recovery of debt. The proceeds raised from the sale will fund any debt the business owners have been unable to repay previously. If debts remain, the personal savings and assets of the owners may be used to repay this debt.

The owners of the business are considered **bankrupt** as they are unable to repay the debt themselves. The proceeds from the sale of these assets will be given to the creditors to cover the debt owed to them.

Public and private companies that are unable to meet their financial obligations also face the prospect of receivership and then, if necessary, liquidation. If liquidation occurs (that is, the assets are sold), once the creditors have been paid, shareholders in the company will receive the remaining funds. Unlike sole traders and partnerships, in the case of a public or private company the receiver is legally unable to request that the court order the sale of the personal assets of the owners (shareholders).

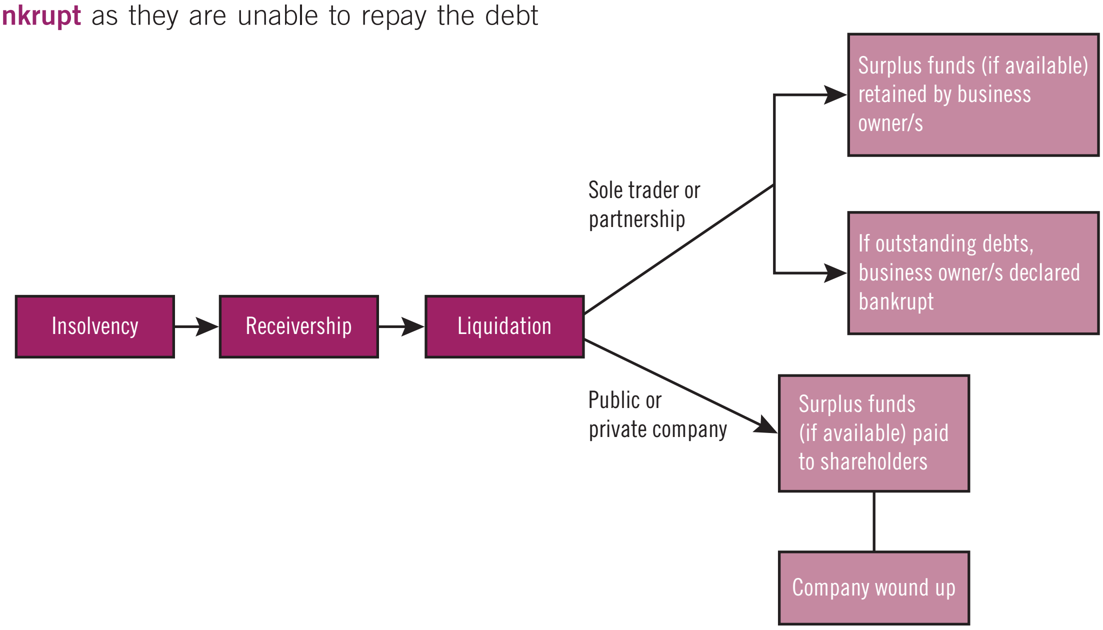
Receivership A situation whereby an independent manager (receiver) has been appointed by the court to administer a business that has become insolvent. A receiver can either trade the business out of financial trouble or liquidate its assets and close the business to recover outstanding debt.

Liquidation Occurs when all the assets of a business are sold to generate cash to pay liabilities and creditors.

Bankruptcy A legal declaration that a person or business has more liabilities than assets.

Ethical Spotlight 4.1

In 2020, Virgin Australia collapsed and the investments of its shareholders became worthless. To what extent should the managers of a business be responsible for the losses that investors incur?



Source 4.12 The process of winding up a business

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Review 4.1

Comprehension

Answer these questions on paper or in the Interactive Textbook.

1 Distinguish between two different factors that could lead to business decline.
2 Explain how creditors could seek their funds in the event that a business enters the stage of involuntary cessation. Refer to a hypothetical example of a business that has limited liability versus a business that has unlimited liability.

Chapter summary

A business and/or its product will go through different stages over the course of its existence. This is known as the business life cycle.

There are four stages of the business life cycle:

1 establishment
2 growth
3 maturity
4 post-maturity.

The establishment stage is where the business first enters the market. The owner must decide on the location of the business, the types of products the business will sell, how to find motivated, appropriately trained staff and the most suitable legal structure.

The growth stage is characterised by increasing sales and revenue for the business. Customers are now aware of the business and/or product, and the business begins to increase its market share.

During the maturity stage, business growth and market share begin to slow. The business is faced with increased competition from new entrants.

The post-maturity stage is the final stage of the business life cycle. There are four very different paths in the post-maturity stage: steady state, decline, renewal and cessation.

Cessation refers to the closure of a business.

Voluntary cessation occurs when the owner of a business decides to cease the operations of the business.

Involuntary cessation occurs when the closure of the business is forced on the owner. The most common cause of involuntary cessation is the inability of the business to repay its debts.

Bankruptcy occurs when a sole trader or business partnership is unable to repay the financial obligations (debts) of the business.

A business will go into liquidation when an independent party is appointed by the court to sell the assets of the business so as to recover all outstanding debt owing to the business's creditors.

A creditor is an individual or organisation to which the business owes money.

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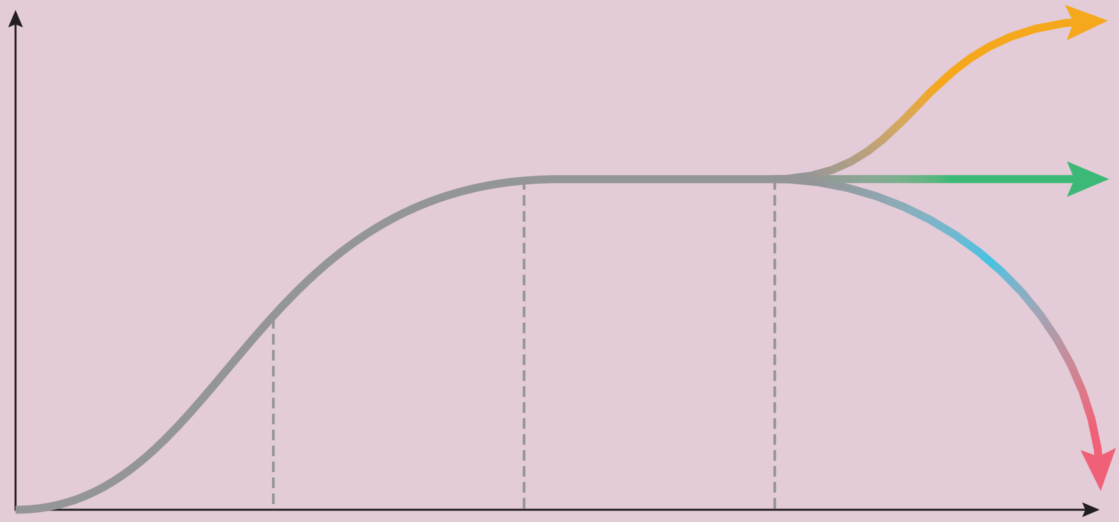
End-of-chapter tasks

Chapter revision task

Reproduce a larger copy of this diagram and complete it by using the terms listed in the box below. Write each term in the correct place in the diagram.

Sales	Establishment	Growth	Maturity	Post-maturity
Steady state	Decline	Cessation	Time	Renewal



Multiple-choice questions

1 What are the four key stages of the business life cycle, in the correct order?

- A Maturity, post-maturity, establishment, growth
- B Growth, maturity, post-maturity, establishment
- C Establishment, growth, maturity, post-maturity
- D Post-maturity, establishment, growth, maturity

2 Luka has developed an online car sales business. The business is seeking to attract a greater customer base, although Luka has been challenged by high start-up costs. Which stage of the product life cycle is the business in?

- A Post-maturity
- B Growth
- C Establishment
- D Maturity

3 What are the four paths of the post-maturity stage of the business life cycle?

- A Establishment, growth, maturity, decline
- B Steady state, decline, renewal, cessation
- C Establishment, growth, renewal, cessation
- D Steady state, decline, renewal, maturity

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4 Zero Plus is an Australian soft drink manufacturer. It has recently entered the renewal stage of the product life cycle. Which is a characteristic of the business during this stage?

A The development of a new location for the business
B The launch of a new logo and brand for the product
C The increased number of staff employed by the business
D The decision of the business to cease operations

5 Which statement best describes a reason for the voluntary cessation of a business?

A The appointment of a trustee to sell the assets of the business
B The inability of the business to meet its financial obligations
C An offer made by another party to purchase the business
D Lack of demand for the product, forcing the owner to close the business

6 Aldon Supermarkets has begun to experience a slowdown in sales and market share. Increasing competition is also posing a considerable threat to the supermarket group. Aldon Supermarkets is currently in which stage of the business life cycle?

A Establishment
B Growth
C Maturity
D Post-maturity

7 Cherton Design Services Pty Ltd has been unable to fulfil its financial obligations to its creditors. What is an impact of this?

A The business could enter voluntary cessation and be declared bankrupt.
B The business could enter voluntary cessation and be declared insolvent.
C The business could enter involuntary cessation and be declared bankrupt.
D The business could enter involuntary cessation and be declared insolvent.

8 If a sole trader is unable to repay the financial obligations of their business, what may the court order?

A That the assets of the business be seized and sold
B That the sole trader's personal assets be sold
C That both the assets of the business and the personal assets of the owner be sold, depending on the level of debt owing to creditors
D That the owner not be required to meet his or her financial obligations to the business's creditors

9 Increased competition in the marketplace has caused a business to engage in heavy discounting. This discounting could lead to the business experiencing which of the following?

A Involuntary cessation, as the owners are unable to continue operating against low-cost competitors
B Involuntary cessation, due to a lack of enthusiasm by the owners
C Voluntary cessation, with the owner deciding to rest from the gruelling hours of work
D Voluntary cessation, due to lack of skills

10 Which of the following describes the legal obligation of a debtor to a creditor?

A To pay the correct wage to all staff
B To repay all debt
C To supply products of a good quality
D To offer warranties on all products

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Short-answer questions

1 Identify and describe the four stages of the business life cycle.

2 Distinguish between a creditor and a debtor.

3 Describe the role of finance in business cessation. To what extent does it influence the manner in which a business ceases its operations?

Extended-response question

Over the past 10 years, Sam and Helen have established a reputation for providing quality leather goods. Increased competition and pressure from low-cost imports have seen sales of their products fall. They have also failed to keep pace with changing consumer tastes and preferences.

Write a business report to the owners of the business, describing the stages of the business life cycle and the challenges that the owners have most likely faced. Identify strategies for the business to enter a path of renewal.

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TOPIC 2
Business management

40% of indicative time

Principal focus

This topic focuses on the attributes of business managers and what responsibilities they have.

Introduction

Video 5.0 Introducing Topic 2 Business management

Business management examines the roles and responsibilities of management within a changing business environment. Managers must be able to plan, organise and lead while anticipating opportunities and threats. Increased competition, changing technologies and stronger international pressures have all impacted the operations of businesses. The interests of different stakeholders and the wider community must be considered when managing a business. Businesses are judged according to the ethical behaviour of their leaders.

The role of managers is important for business success. Managers must use a variety of skills to balance the goals of the business with the interests and concerns of stakeholders within the organisation's changing environment. Different approaches to management can be used. An effective manager will use the most appropriate approach and will need to be flexible and able to adapt to the changing business environment.

The management process is concerned with coordinating the resources of operations, marketing, finance and human resources in the most efficient manner. These key business functions are integrated, and an effective manager will consider the entire business as an interconnected system when making decisions. Even small decisions can affect all the key business functions.

The process of being able to successfully manage a business through change is crucial if the organisation is to remain competitive and respond effectively to the changing influences of its environment. Models and theories of management have been developed to guide managers through change.

Outcomes

Students will:

- explain what businesses are influenced by, both internally and externally
- assess the processes that are crucial to business functions, and how they are dependent on each other
- examine how theories and strategies of management are applied
- analyse internal and external stakeholders, and the responsibilities business has to them
- plan and conduct investigations into issues affecting modern business
- evaluate information about real and potential situations affecting businesses
- communicate, using effective formats, details of business information and issues
- apply appropriate mathematical concepts to a study of business situations.

Content

Students will learn about the nature, approaches, process and change management aspects of business management, through examination of current business issues, and investigation of real and potential business situations.

By the end of this topic

Students will have learned to:

- discuss how stakeholders' opposing interests can be reconciled through different strategies
- compare and contrast management approaches
- explain how recommended management practices can help businesses
- identify what qualities are found in managers with high ethical and personal standards
- analyse methods small to medium enterprises (SMEs) can use to coordinate critical functions of their business
- examine cash flow management for effectiveness
- assess how a business's financial performance is supported by income statements and balance sheets
- explain how change is managed effectively within an SME.

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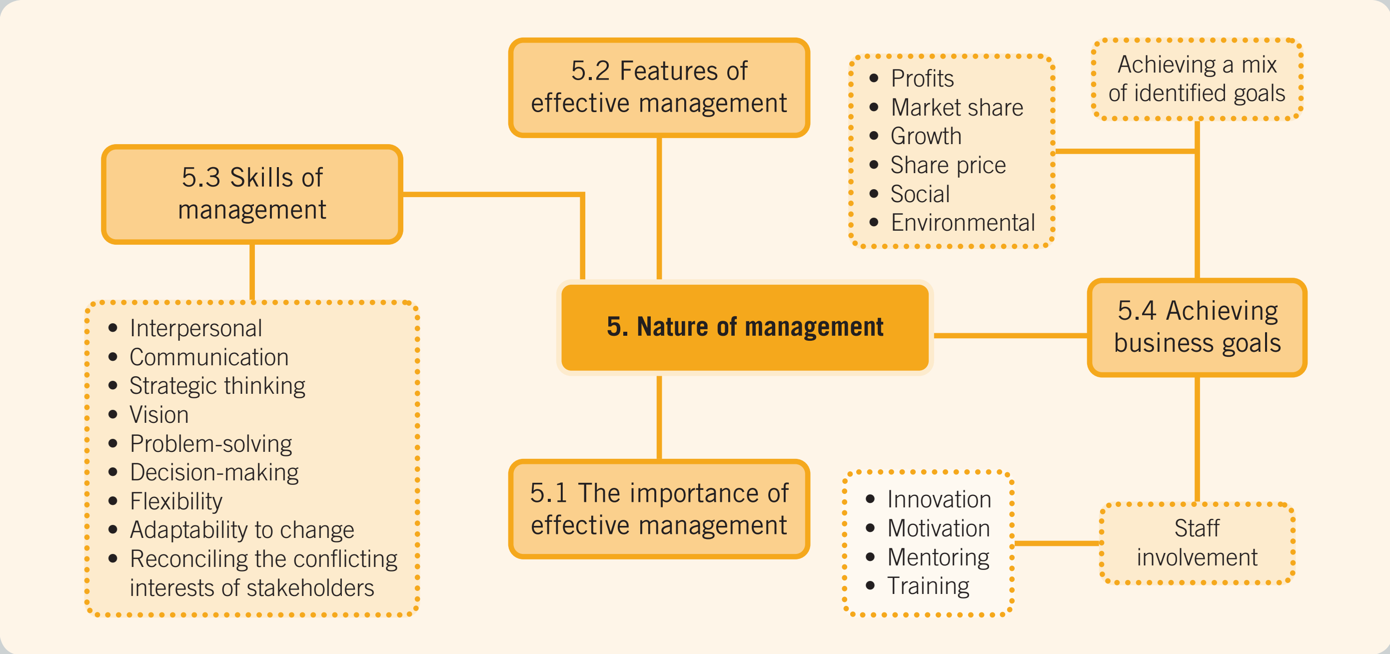
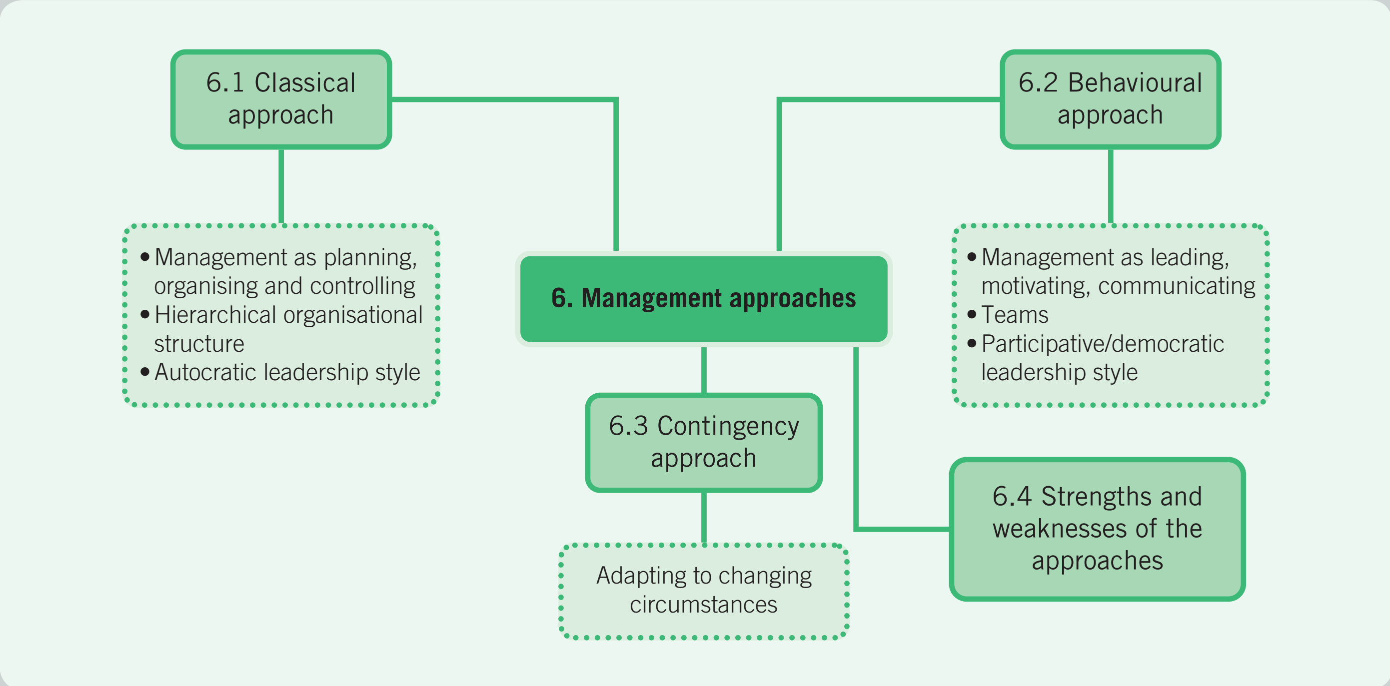
Business management





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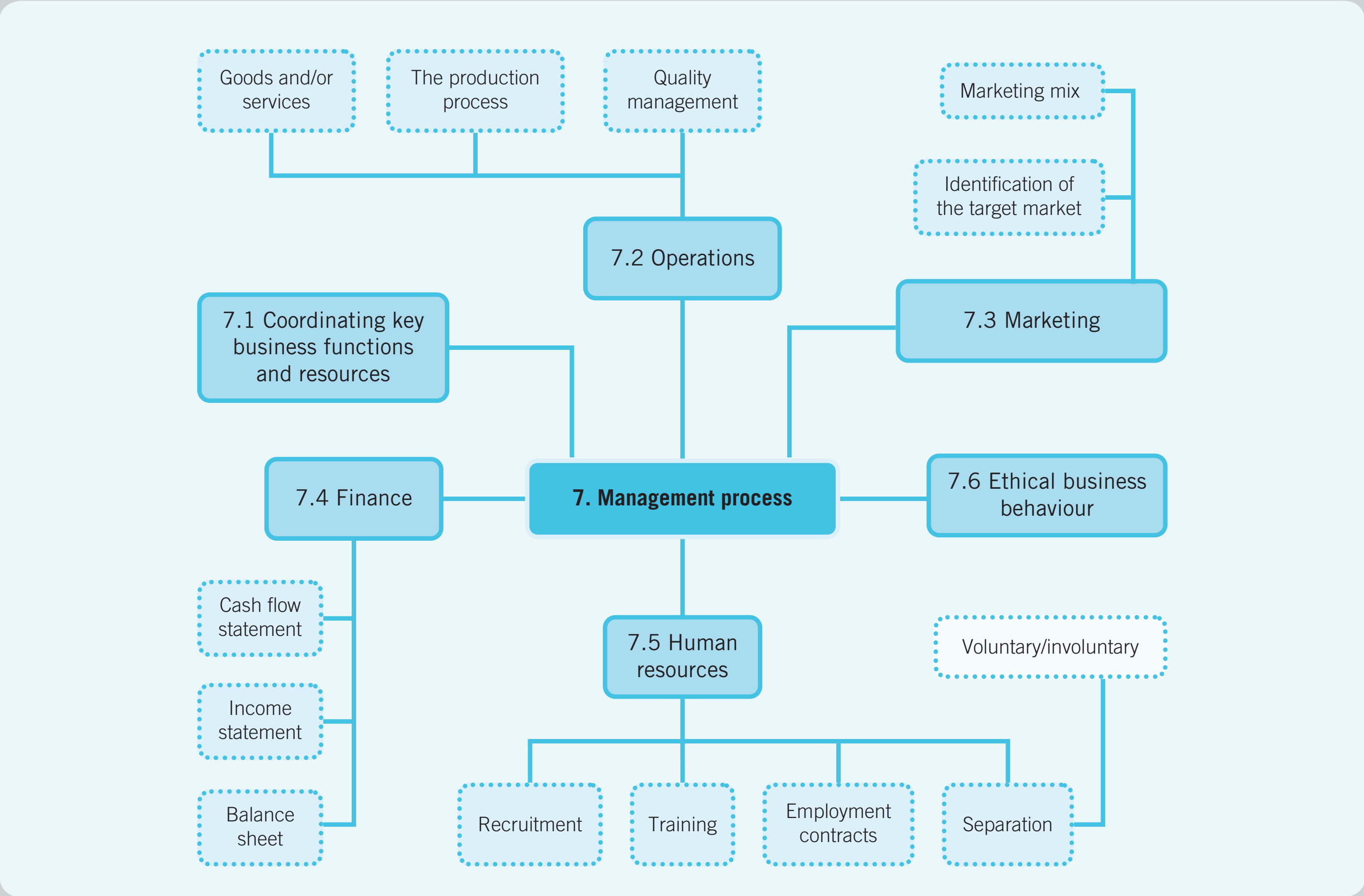

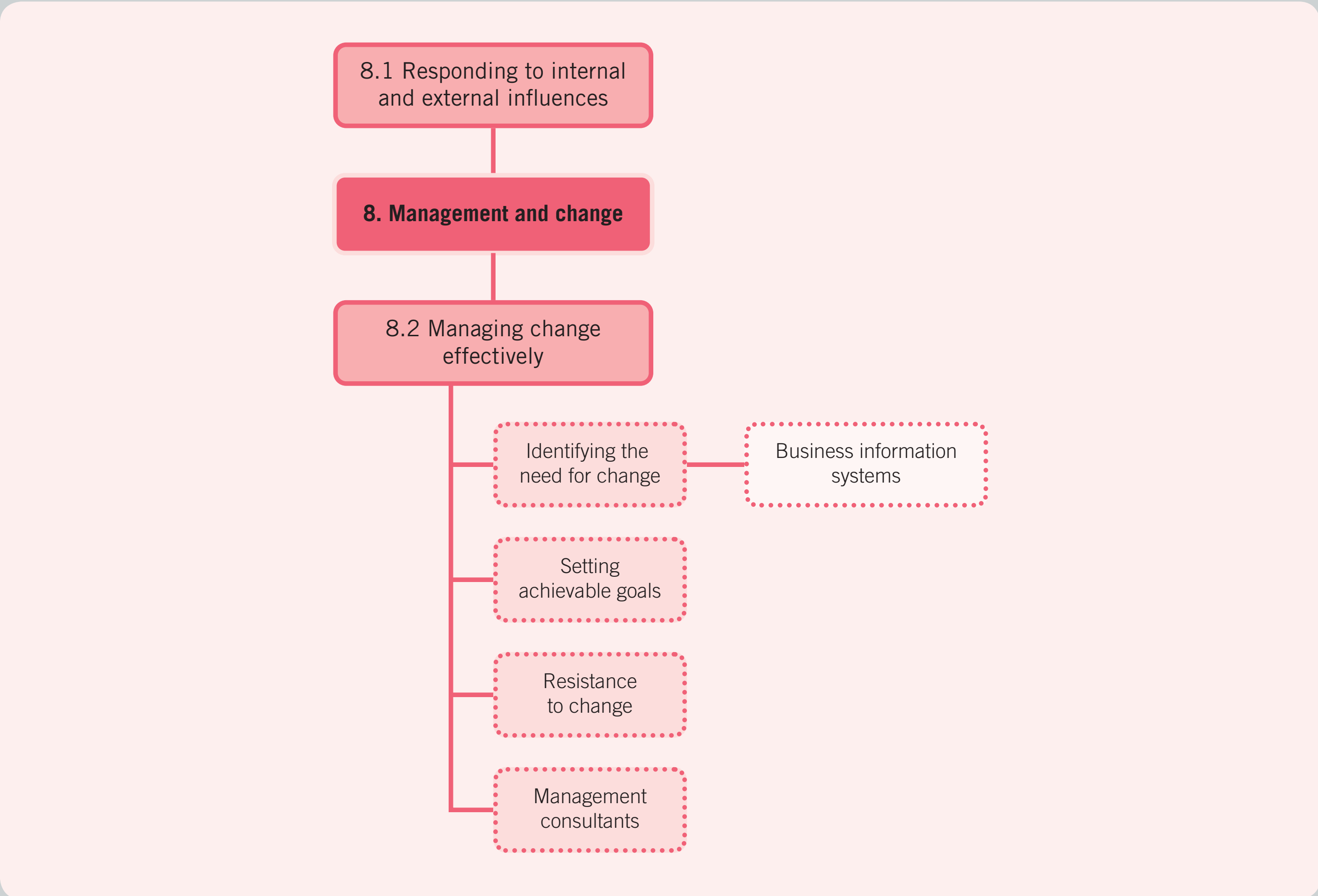

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5 Nature of management

Chapter objectives

In this chapter, students will:

- identify the features of effective management
- analyse the specific skills for effective management
- explain and evaluate what is involved in achieving business goals.

Key terms

- accountable
- autocratic
- controlling
- effective management
- efficiency
- goals
- hierarchical structure
- income statement
- innovation
- interdependence
- interpersonal skills
- leading
- mentor
- mentoring
- monitoring
- multiskilling
- objectives
- organising
- outputs
- participative
- planning
- proactive
- productivity
- social goals
- strategic planning
- training
- vision

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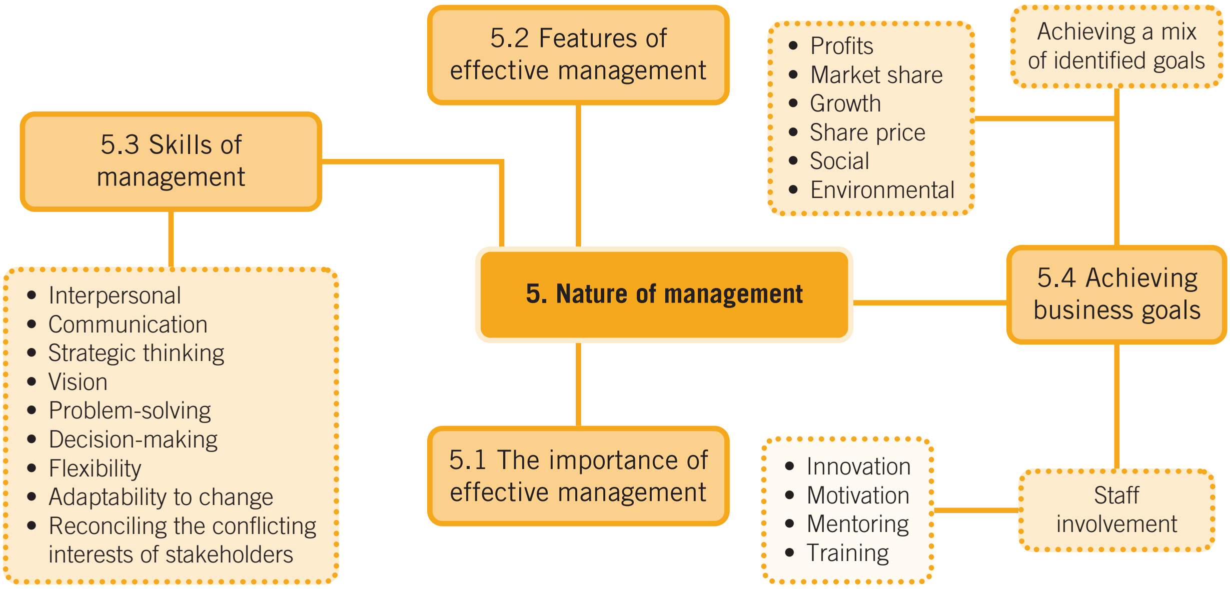
5.0 Introduction



Source 5.1 Nature of management

Effective management is vital to the success of a business. An effective manager ensures that the business achieves its goals. Management has four functions: to make plans, to organise resources, to lead staff and to ensure success through a process of control. To perform these functions, management needs to use a range of skills, including communication skills and strategic thinking skills.

Management needs to have **vision** as well as an understanding of how the different parts of the business fit together. These parts are the key business functions of operations, marketing, finance and human resources. In a large business, the key business functions will be managed separately, yet they are strongly **interdependent**. A decision made for one key function can affect the others. The management team is often separated from the owners, with experts hired by the owners to run the business. These managers are instructed to steer the business in a direction that will successfully achieve the goals and objectives set for each key business function.

Managers need to make the best use of the resources available to the business to achieve the most efficient outcomes, make savings and maximise profit. Resources include raw materials, equipment, employees and finance. Managers are also **accountable** for their actions. They will take risks in their decision-making and, if successful, will be rewarded.

Management also needs to acknowledge its responsibility to all the stakeholders in the business – both internal and external. This is because a business that does not act in a responsible manner may lose its reputation and brand value. How potential customers perceive the business is a key factor in achieving success.

The four basic functions of managers are **planning**, **organising**, **leading** and **controlling** (see Source 5.2 on the next page). These functions are performed in a continuous cycle, with adjustments during each phase to enable the business to remain up to date and to perform at its highest possible level.

Effective management Management that achieves the goals and objectives of the business by making the right decisions at the right time.

Vision The ability to forecast market trends and develop long-term goals. Entrepreneurs need to have vision.

Interdependence Reliance or dependence on other people or functions to perform their tasks and roles.

Accountable Managers are responsible, or accountable, for completing specific duties. They must also report to their superiors regarding their progress and/or achievements in their areas of responsibility.

Planning Setting up strategic, tactical and operational plans and establishing goals and objectives.

Organising Turning plans into reality by deciding what resources to use and how to use them.

Leading Setting standards to work towards and motivating employees to work hard to reach their potential and to achieve the business's goals.

Controlling Monitoring and evaluating performance so that, if necessary, adjustments can be made to plans and procedures to achieve objectives.

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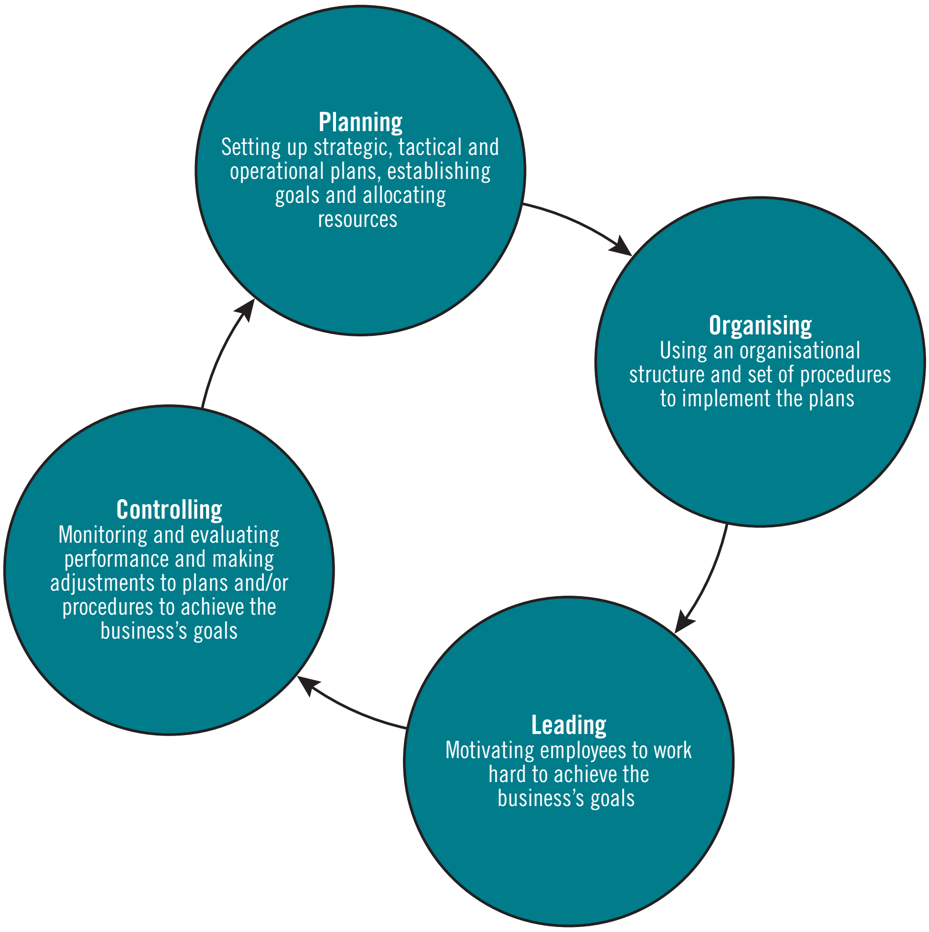

Source 5.2 The functions of management

Digital quiz Please see the Interactive Textbook to access digital activities.

5.1 The importance of effective management

Goals Targets to work towards in the longer term; the overall accomplishments that an organisation plans to achieve. Goals are realistic, achievable and measurable.

Objectives A detailed set of targets that a business wants to achieve by a stated time. Objectives can be written for the marketing, human resources, finance and operations departments of a business and are found at the start of the business plan.

Efficiency Achieving maximum output with the minimum level of inputs. It involves achieving an objective without wasting resources and while keeping costs as low as possible.

Productivity A measure of how efficiently products are produced – usually measured as output per labour hour.

Outputs The goods and/or services produced using various inputs.

Effective management achieves business **goals** by making the right decisions at the right time. These goals will concern:

- profitability
- sales and market share
- growth of the business
- share value
- community involvement
- environmental sustainability.

Effective management means that the business is successful in achieving its goals and **objectives**. Objectives are more detailed, short term and specific than goals. Managers also aim to achieve these in the most efficient manner.

Efficiency comes from management decisions that minimise expenses, waste and the costs of operating the business. A manager focused on efficiency will make sure that the business does not waste raw materials, time or money. An increase in efficiency will increase the level of **productivity**, making it easier for the business to be more profitable because costs are lowered. The business is thus able to produce more **outputs** with the same inputs.

Productivity is a measure of how efficiently goods and services are produced.

$$\text{Productivity} = \frac{\text{Output}}{\text{Input}}$$

Outputs refers to the goods and/or services produced by a firm using inputs. The inputs may include any of the resources (such as materials, facilities and equipment) available to the firm.

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It may be easier to think what would occur if an ineffective manager were running the business. They would not:

- anticipate changes in the market
- be flexible or adapt to changes in the business environment
- develop well-considered short-term objectives or strategic goals
- organise resources in an efficient way
- have good relationships with employees, owners or other managers
- have control over the business.

If this were the case, the business would end up in the post-maturity, decline phase of the business life cycle, face bankruptcy and eventually cease to operate.

Source 5.3 A good manager ensures the business achieves its financial goals.

Business Bite

Source 5.4 Erin Phillips during the AFLW pre-season match between the Adelaide Crows and the GWS Giants at Norwood Oval, Adelaide, on 17 January 2021

An effective leader, who inspires a team, can be the difference between winning and losing. Regardless of the football code, the team captain must demonstrate many of the same necessary skills and qualities for success as business leaders.

After a successful career in professional basketball in the United States and Poland, at the Olympics, and in world championships, Erin Phillips decided to switch to Women's AFL by joining the Adelaide Crows in 2017. She is a lead-by-example style of captain who inspires her peers with a culture of hard work and professionalism. She has twice won Best and Fairest in the AFLW. Her captaincy role means that she works with other managers, such as the playing coach, the head of fitness and the media manager.

On the field, Erin is a key decision-maker in her position of midfielder. She must be able to read the changing play and be flexible to make quick decisions about how her side will attack or defend. Erin must have good communication skills to quickly organise her team-mates for each passage of play.

She has also been a leader in her role as assistant coach for the Dallas Wings women's basketball team, which gives her the opportunity to further develop her leadership skills and abilities. Erin credits her father, himself a revered player and leader, with teaching her many of the qualities required for effective team leadership.

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Review 5.1

Comprehension and discussion

Answer these questions on paper or in the Interactive Textbook.

1 Outline two functions of management.
2 Explain the relationship between efficiency and effectiveness.
3 Assess why managers need to consider the impact of their decisions on the environment.
4 Explain how a manager can improve productivity in a business.
5 How can stakeholders determine the effectiveness of a manager?

5.2 Features of effective management

What qualities, skills and abilities does a manager need to possess in order to perform their role effectively and help the business achieve its goals and objectives? An effective manager is one who:

- is good at planning, considering how short-term objectives fit with long-term goals
- makes decisions to organise raw materials, staff and inputs in the most efficient and productive combination
- motivates staff using the most appropriate style of leadership
- controls the business and takes corrective action if it deviates from the business plan
- manages information to make good decisions
- has a range of skills and knows how to use them at the right time
- communicates clearly.

Planning

Managers need to acquire information not only from within the business – its internal environment – but also from the external environment. The business needs to keep up to date with such matters as changing trends in consumer tastes, technological innovations and legal reforms, as well as the general state of the economy. These changes may affect a business's ability to be competitive and financially successful.

Management needs to monitor the external environment, over which it has no control, in order to discover opportunities and identify threats that could affect the business. Some decisions may involve changing the business's long-term goals, such as the development of new products, expansion into a new market or a merger with a competitor or another business. When planning, managers will use cost–benefit analysis tools to choose the best option.

Source 5.5 A manager needs to monitor the external environment, such as the economy.

Organising

Managers are responsible for making decisions that will steer the firm on a path to success. This function involves turning business plans into reality. Managers may have several options that they can consider to solve problems or to take advantage of new opportunities. Making effective decisions involves choosing between several alternative plans with the aim of achieving a specific outcome for the business.

Organising will require good decision-making skills. Decisions will concern:

- determining what activities and tasks need to be done
- allocating staff to tasks and delegating decision-making power to others
- deciding how tasks will be done, which usually involves the participation of others in the decision-making process.

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Ultimately, effective management will achieve synergy of the key business functions. The outcome from the combination of operations, marketing, finance and human resources will be greater than if these functions worked individually and their results were then added together. This is achieved through efficiency gains from the optimal combination of resources as organised by managers.

Leading

A boss may say 'Go!', but leaders say 'Let's go!' Management needs to actively involve employees in the entire operations of the business to enable them to work together as a single unit focused on achieving the goals of the business. The role of management is much like that of a team captain. A leader guides and inspires others to reach their potential.

Leaders need to be able to communicate effectively to all employees at every level of the organisation – for example, liaise with managers of departments as well as employees on the factory floor and support staff. If leaders want people to listen to them, they need to command respect for themselves and their position. They also need to foster employees' loyalty to the business. Leading involves setting standards to work towards, establishing objectives to be achieved, and encouraging and providing motivation to employees to achieve their potential.

Controlling

Another feature of effective management is controlling the business. To control means to ensure that the business achieves its goals and objectives. Actual key performance indicators (KPIs) will be compared against forecasts. All deviations or differences from the expected or planned results need to be analysed. When analysing, managers will investigate why actual results did not turn out as planned. Adjustments will be made to the process to better achieve the desired outcome. The control process develops standards, measures performance and makes comparisons to see whether corrective action needs to be taken.

Such controls include:

- *Input controls:* These controls, also known as feed-forward controls, are set up before production takes place to prevent problems occurring during operations. They ensure that the correct number of inputs and appropriate standards of quality are in place.
- *Concurrent controls:* These are used while work is in progress – that is, while production is actually taking place. The use of concurrent controls requires direct supervision of the production process, and progress is compared with established standards. This allows corrective action to be put into place, if required, before the rest of the process is completed.
- *Feedback controls:* These controls, which are also known as final output controls, involve checking the final product to see how it measures up to the planned final product – that is, determining how the actual result compares with the planned result.

Information management

An effective manager needs to be aware of what is happening in all parts of the business. This is to determine whether the business as a whole is working according to its plans and is on the path to achieving its objectives and goals. Therefore, having access to information and effective communication with other managers, employees and their departments is crucial to the achievement of the business goals.

Source 5.6 Management needs to receive, collate and analyse information.

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This feature of effective management involves receiving, collating and analysing information. It also involves providing this information to appropriate people to assist in further decision-making. It may be recognised that adjustments are needed or there are problems that need to be solved. Managers will also need to inform employees about whether their performance is satisfactory and how it can be improved.

Information management and data analysis have become more accessible and important for decision-making. Sophisticated information technology (IT) is able to collect and analyse data for all aspects of operations, and the business, in real time. 'Big data' is being used extensively by managers to find efficiencies and competitive advantage.

Managers also disseminate (give out) information where required. This can be through internal reports, meetings, emails or a noticeboard.

Review 5.2

Comprehension and discussion

Answer these questions on paper or in the Interactive Textbook.

1. Outline the two features of effective management.
2. Briefly explain why the organising function of managers cannot occur before planning.
3. How does effective leadership help a business achieve its objectives and goals?
4. 'An effective manager always has control.' Discuss this statement.

5.3 Skills of management

Managers need particular skills to carry out their roles effectively. The skills needed by management have evolved over time. There has been a shift from an **autocratic** (or authoritarian) style of management with a rigid, **hierarchical structure** to a more people-oriented, **participative** and collaborative style of leadership.

Effective managers need a variety of skills, including strategic thinking and vision for better planning, problem-solving, decision-making and the flexibility to manage change. Communication skills are essential because the role of modern management is based on effective communication, resolving conflict and a teamwork approach. Management involves getting a job done by working with other people.

It is a skill in itself for a manager to be able to recognise their own strengths and weaknesses, and use the right skill at the right time. For example, changes in the internal environment may include staff issues, such as new wage demands. This situation will require **interpersonal skills** to negotiate between owners and employees in order to achieve a fair outcome. The range of skills required is covered in the next section.

The skills of management are listed in Source 5.8. Using all these skills will enable an effective style of management. A good manager is approachable, can communicate clearly, encourages teamwork, acts in an ethical manner, rewards effort and application, gains the loyalty of employees and develops a cooperative and safe working environment.

Autocratic An autocratic manager dominates the decision-making process.

Hierarchical structure The number of levels of managers and decision-makers in a business. Each level has a clear role and implements decisions made by the the level above.

Participative Including employees in the decision-making process.

Interpersonal skills The ability to communicate and deal with different types of people effectively.

Business Bite

Elon Musk, co-founder of PayPal and currently the CEO of Tesla and SpaceX, is an internationally recognised entrepreneur and visionary. He wants to establish a colony on Mars by 2040. In 2021, he became the richest person in the world based on the rising share value of his companies. He has a unique approach to management, termed 'creative leadership'. A creative

Continued →

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Source 5.7 Elon Musk received the 2020 Axel Springer Award, which 'honors outstanding personalities who are innovative in an extraordinary way, who create and change markets and who shape culture while at the same time shouldering their social responsibility'.

leader is more like a coach than a commander, facilitating managers to achieve the business's goals. A key skill is communication. Leaders must listen more than they speak. Creativity and demanding high standards must be balanced with reflection and humility.

However, Elon Musk's own management style does not always reflect this. Like Apple's Steve Jobs, Elon involves himself in all aspects of his company's operations, including design, production and marketing. However, he describes his approach as a 'nano-manager', an extreme form of a micromanager. This can create a very demanding work environment in which employees perceive a lack of trust and freedom to perform their role. Therefore, perhaps Elon Musk is a better visionary than leader. He inspires others but lacks some of the skills and qualities necessary for day-to-day management.

Source 5.8 Skills of management: A brief overview

Interpersonal skills	Communication skills	Strategic thinking
Motivating and inspiring	Listening and hearing	Thinking of the long term
Showing trust and providing support	Understanding	Taking a holistic view – considering the big picture
Encouraging a team effort	Delivering information clearly	Acknowledging the interdependence of departments
Setting vision for the common goal	Being open to discussion	Identifying the common goal
Delegating	Communicating goals to others	Being flexible and adaptable
Problem-solving and decision-making	Identifying problems	Having the ability to change
Having awareness of market trends	Identifying possible solutions	Being prepared to take a risk
Reconciling conflict	Choosing the solutions that are best for the organisation	Making adjustments to plans
Understanding each team member's role	Informing staff of decisions taken	Being aware of changes in the internal and external environments
Acknowledging employees' efforts	Monitoring results	Being proactive
Negotiating and mediating	Giving feedback	Understanding market trends

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Interpersonal and communication skills

Interpersonal and communication skills are also referred to as people skills. These are needed in order to listen to, communicate with and understand others. An effective manager is one who can adjust their manner and style of communicating to suit different types of people and employees at different levels in the hierarchy of the business. For example, some employees may prefer to be given simple, clear directions while others like to discuss issues.

As people are among the most important resources a business has to achieve an advantage over its competitors, it is crucial that management is able to motivate and guide its employees to reach their full potential. This provides the business with maximum labour input. Managers also need to realise that their employees are able to offer new ideas, suggestions and knowledge. This provides the business with fresh approaches to achieving objectives and helps employees feel valued by the business. Therefore, involving employees in decision-making and working collaboratively will benefit the business.

Business Bite

James Manktelow, the founder and CEO of MindTools, together with Julian Birkinshaw from the London Business School, has been researching the most critical skills and qualities the modern manager requires. From a survey of over 15 000 managers, the researchers were able to create a list of the top 10 core management capabilities. These are, in order, the ability to:

1. Develop good working relationships with people at all levels in the organisation.
2. Prioritise tasks effectively. This is particularly relevant with the added challenges created by the COVID-19 pandemic.
3. Consider many factors when making decisions – financial, social and ethical – and using a formal process for decision-making.
4. Use good communication through being clear, concise and courteous.
5. Show empathy for stakeholders, understanding of their needs and motives, and stakeholder engagement.
6. Run meetings and manage group dynamics effectively to bring people together to solve problems.
7. Use innovative thinking to solve customers' problems and exceed their expectations.
8. Show empathy for customers' pains and an ability to develop long-term positive relationships.
9. Build trust and respect within a team.
10. Use emotional intelligence.

However, managers cannot limit themselves to these 10 core management capabilities and must have ready access to approximately 100 different skills in their management toolbox.

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Source 5.9 Managers need to view their role as part of a larger system.

Listening skills – especially hearing what is actually said and providing feedback to employees – have become increasingly important. Improved **training**, **multiskilling**, wider dissemination (spread) of information to staff and delegation of authority have allowed employees to become an integral part of the management process.

Strategic thinking

The strategic direction of a business is its long-term plans. Senior managers decide the path **strategic planning** will take. In order to develop this plan and achieve success, managers need to be able to see the business as a whole. This means they need to understand all the individual functions of marketing, operations, finance and human resources – and their role as parts of a larger system.

These four key functions are interdependent, working together and relying on each other to achieve the business's goals.

Managers need to recognise how decisions in one function will affect others due to their reliance on each other. Decisions therefore need to be made to benefit the business as a whole, not just one section of it.

Managers also need to be able to see where their business fits within the market and the changes happening to the business environment. In making decisions, they will need to consider how the business will maintain its competitive advantage in the long term.

Training Any activities that are aimed at improving an employee's present and future performance in the workforce.

Multiskilling Acquiring additional skills, usually through training.

Strategic planning Long-term planning for a business as a whole developed by senior management.

Vision

When senior managers develop the business's strategic plan, they identify the long-term goals that they want their business to achieve. These goals are set well into the future – often 10 to 15 years. The vision is supported by goals and short-term objectives.

To be able to meet these goals, managers need to have a clear idea about where their business is headed and the place, or position in the market, they feel the business will have in the future. This vision will need to be communicated to all employees so they understand what decisions are being made and why.

Video 5.1 Vision, mission and business goals

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Source 5.10 By setting goals, managers will know what direction their business is headed towards.

Problem-solving and decision-making

Problem-solving involves a broad range of activities that are directed at finding solutions. In order to begin a problem-solving process, managers first need to identify the nature of the problem.

Monitoring Checking and recording the performance of a business.

There may be several ways to reach a solution as well as several possible alternatives to manage a business problem. Management must assess and choose the most appropriate strategy for the business. This will be implemented and the results **monitored.**

For most businesses, problems develop on a daily basis – some of them more serious than others. Managers need to determine which problems need immediate attention and which can wait. Prioritising is therefore another key skill.

The movement towards flatter organisational structures has seen a trend towards increased worker participation in problem-solving and involvement through teamwork. More effective solutions can be found and implemented using this approach.

Generally, senior managers make decisions that involve the business as a whole and guide it towards achieving the overall goals. Middle managers are involved with more specific, functional decisions at the departmental level.

Source 5.11 Businesses need to adapt to changes – both internal and external – in order to do well.

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Flexibility and adaptability to change

Strategic plans are developed after consideration of the present-day internal and external business environment. However, the business environment is changing constantly and therefore managers must anticipate what changes may occur. For example, a new competitor may enter the market or the economy may experience an unexpected downturn and recession. Managers base their planning decisions on their experience, data and market forecasts.

Unfortunately, these forecasts may not always come true. Plans are difficult to set and involve a degree of risk-taking. As situations change, managers may need to adjust their plans. They need to remain flexible and adapt their business to the changing internal and external environments.

Successful managers are **proactive** by anticipating changes in the business environment and, in response, making adjustments to plans to ensure that the business can take advantage of opportunities and minimise threats. For example, they may incorporate new technology into products to maintain a competitive advantage.

Reconciling the conflicting interests of stakeholders

All stakeholders in a business have their own reasons for having an interest in the business. They have different ideas about the benefits that they hope to achieve from this relationship. In some cases, the benefit may be to minimise the potentially damaging effects of the business. For example, the local community will wish to avoid pollution in the local area.

As people have different priorities in their lives, what one stakeholder hopes to achieve may conflict with the desires of other groups. Shareholders may want the business to be more profitable so that their dividends are higher. Employees, on the other hand, may want higher benefits (such as increased pay), which will add to costs and therefore reduce profits. The government wants businesses to pay the correct tax and obey laws.

Management will need to develop solutions to conflicts of interest. For example, it could devise a way to give employees benefits without affecting profit levels too greatly – for example, offering an employee discount card and giving employees shares in the business, making them part-owners. Involving employees in decision-making and consulting the community may also help to develop business strategies that prevent conflict.

Proactive Anticipating changes in the business environment and, in response, making adjustments to the business, ensuring that it can take advantage of opportunities and minimise threats.

The challenge for management is to resolve conflicts between stakeholders and apply the most appropriate solution.

Review 5.3

Comprehension and discussion

Answer these questions on paper or in the Interactive Textbook.

1. Identify three critical skills of management.
2. Explain why managers require a range of skills in order to be effective.
3. What is delegation?
4. Assess the importance of interpersonal skills for managers.

Activity 5.1

1. Describe a situation where interpersonal and problem-solving skills are required.
2. ‘Owners of small businesses can spend too much time working in their business rather than on their business.’ Discuss this statement.

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5.4 Achieving business goals

Every business strives to achieve a shared set of goals by which it measures its success.

Profits

The principal reason business enterprises exist is to make a profit and provide a return to the owners as a reward for their entrepreneurship. The owners may be the managers in the case of small businesses and small to medium enterprises (SMEs) or shareholders in the case of public companies. Exceptions to the profit motive are businesses that are not-for-profit organisations such as charities, or associations such as Oxfam Australia and CARE Australia.

The **income statement** or revenue statement is used to determine how profitable the business is. Ultimately, the owners of the business will wish to know that the returns offered by the business are better than any safer alternative investment. In order for a business to maximise profit, management must implement strategies that maximise revenue and minimise costs.

Income statement A summary of all revenues generated and expenses incurred by a business over a specific period of time, such as a financial year. It is completed to work out the business's profitability and efficiency. Also known as a profit and loss or revenue statement.

Market share

Market share is a marketing objective related to sales volume. Market share is the percentage of total sales a business has compared with its competitors in a particular market. A business that can increase market share will have increased sales and revenue, and therefore profit. A manager may decide to sacrifice profit in the short term to quickly gain market share from competitors through low prices.

Source 5.12 Growth in business can be achieved through new partnerships and joint ventures.

Growth

Growth may be related to profitability because as a business grows it can increase its profitability. Growth can be achieved in a variety of areas:

- increasing the capacity or size of the business by expanding or moving to a larger office or factory
- horizontally integrating by merging with or taking over competitors
- vertically integrating by taking over businesses that are the suppliers or businesses it currently supplies
- diversifying by acquiring other businesses
- exporting products or investing in overseas operations
- increasing the value of assets in the business
- opening more outlets, offices or franchises.

Many businesses achieve greater financial security and longevity through a growth strategy.

Share price

All companies have shareholders as their owners, and improving the value of their shares is very important. The price of a share in financial markets is an indication of the total value of the business.

Maintaining a high share price makes a business less vulnerable to corporate raiding or a hostile takeover. This is where another business is able to purchase a controlling share of the business and effectively assume control over the business. The new owners may choose to take the business in a new direction, sell unproductive parts of the business or even close the business down after selling all its assets. A business can sustain its share price by being well managed, earning consistent profits, keeping debt levels under control and providing worthwhile returns to shareholders as dividend payments.

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Social goals

Businesses have a responsibility to people and society in general, as their activities can have an impact on quality of life. A positive perception by customers and the community can significantly influence business success. Examples of **social goals** include:

- improving the quality of working life of employees – for example, through family-friendly working conditions
- supporting cultural diversity by encouraging greater understanding of cultural differences in the workplace
- promoting human rights and equal opportunities – for instance, through programs to support women in managerial positions
- supporting charities and community-based organisations with donations, or providing managerial expertise to assist not-for-profit businesses to achieve their goals.

Source 5.13 Some businesses will align themselves with charities in order to create a positive perception within the community.

Business leaders recognise that there is interdependence between society and business. Businesses produce goods and services for society and society provides labour and inputs while consuming the outputs of businesses. A business that acts in a socially responsible manner will receive long-term support from society. This will aid in achieving market share and profits.

Environmental goals

Social goals Goals relating to the role of a business in the community in which it operates.

Many businesses are now including specific environmental goals in their business plans, and reporting on their achievement of sustainability targets. An ecologically sustainable business uses production methods that do not limit the ability of future generations to satisfy their needs and wants. These businesses aim to reduce their 'carbon footprint'. 'Eco-friendly' and 'green awareness' are common terms used in the marketing of environmentally responsible businesses.

A business that incorporates ecologically sustainable practices such as recycling may promote this as part of its marketing plan in order to improve the reputation of the business. Owners may have a strong social conscience and will genuinely pursue environmentally sustainable goals at the expense of some profitability.

Achieving a mix of goals

A business cannot have one specific goal and not consider others. Goals are interdependent so, by focusing on achieving a mix of goals, the overall success of the business is more likely.

Strategies implemented to achieve a goal such as increased market share will support improved profitability. So too will human resource strategies that improve the skills and productivity of employees. Social and ecological goals will support a business's reputation and therefore its marketing goal of increased sales. This mix of goals reflects the interdependence between the key business functions.

Other businesses will still wish to achieve a mix of goals; however, the emphasis may be not so much on profit. Many entrepreneurs want to enjoy their work and see their business ideas develop and grow rather than merely being totally profit-driven.

Managers of not-for-profit businesses may pursue brand awareness as their goal, while other organisations may wish to contribute to the community while still recognising that it is necessary to earn an income to pay for their activities.

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Staff involvement

Many businesses follow an approach to management that includes employees in achieving business goals. Participative styles of management involve staff in decision-making and give them a feeling of inclusiveness and value to the business. Using interpersonal and communication skills, managers increasingly involve staff in deciding how the business is run. Often staff members are a source of **innovations** that can solve a difficult problem or give the business a competitive advantage.

Innovation The process of introducing a new product or improving an existing one through new ideas, methods, systems and procedures.

Mentoring A method of informal training whereby a less knowledgeable and less experienced employee is guided by a more senior member of staff.

Mentor A more experienced and skilled individual who teaches and provides advice and guidance to a less experienced person on a personal basis.

Involvement in decision-making is a very important source of motivation for employees – sometimes more significant than financial rewards. Many businesses allow employees to be part-owners through employee share-ownership schemes. This gives them an interest in the financial success of the business and further motivates them to achieve the goals of the business.

Staff may also be involved in the achievement of business goals through a **mentoring** program. Mentoring staff is a strategy of informal training and advice given to less experienced employees. A more senior or experienced staff member works with an employee to develop their skills and expertise. The **mentor** can provide specific and individual training tailored to the needs of the mentee.

Mentoring provides a sense of value, empowerment and confidence to the employee so they can move in the right direction to achieve the objectives and goals of the business. A mentor can often give a better idea of the business culture and vision, and the role the employee can play in helping the business succeed. The experience is also valuable for the mentor, who may be exposed to innovative ideas and be intrinsically motivated by the opportunity to pass on their knowledge and skills to other staff.

Source 5.14 Increased participation from staff can be beneficial to a business.

Business Bite

For many large companies in Australia, reporting on their progress in achieving sustainability targets is a key strategy to engage with customers and stakeholders. Sustainability reports provide a link between business strategy and its commitment to sustainability. Therefore, managers must consider the social, human rights, economic and environmental impacts of their decisions. Consequently, managers must be more transparent and accountable.

The Global Reporting Initiative (GRI) sustainability reporting framework enables large and small companies, non-profit organisations and government business enterprises worldwide to plan and assess their sustainability and report the results. The Organisation for Economic Co-operation and Development (OECD) has partnered with GRI to help multinational companies operate responsibly. Standards include:

- Tax
- Waste
- Water and Effluents
- Management Approach
- Diversity and Equal Opportunity.

The full list of standards is available on the GRI website.

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Activity 5.2
Evaluation

'Businesses today are judged on their social and environmental achievements as much as their financial achievements.' Evaluate this statement.

Review 5.4
Comprehension and evaluation

Answer these questions on paper or in the Interactive Textbook.

1. a Which stakeholders would be interested in profit?
   b Which stakeholders would be interested in a business's environmental goals?
2. Outline which goals the profitability goals can be in conflict with.
3. Briefly explain why the owners of a business would be most interested in maintaining a high share price.
4. Explain how an increase in efficiency can increase profitability.

Chapter summary

Management involves working with people to achieve business goals and objectives.

Effective management results in increased efficiency and the achievement of the business's goals and objectives.

Globalisation and international trade have increased the need for Australian businesses to be competitive and add to Australia's economic growth.

Management functions are planning, organising, leading and controlling.

Features of effective management include:

- planning that anticipates changes in the business environment
- organising resources in the most efficient manner
- leading and inspiring staff
- controlling the business so that it sticks to its business plan for success
- using effective information management
- using a range of skills appropriately for given situations.

The skills necessary for effective management for today and in the future include:

- interpersonal and communication skills – listening to, communicating with and motivating employees to reach their full potential
- strategic thinking – viewing the business as a whole consisting of several interdependent parts
- vision – projecting the firm into the future
- problem-solving and decision-making – solving complex problems and closely monitoring the results of decisions
- flexibility and adaptability to change – creating a decision structure that is both flexible and adaptable to change
- reconciling the conflicting interests of stakeholders – developing strategies to resolve conflicts between stakeholders
- teamwork – fully utilising the skills of all members of the team to complete a task and achieve an objective
- ethical and high personal standards – displaying high personal standards and behaving in a manner that conforms to society's values.

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Management ensures that the business achieves a range of financial, marketing, social and environmental goals.

Including employees in decision-making can improve the relationship between owners, management and staff.

End-of-chapter tasks

Chapter revision task

Complete the following lists using the terms in the box below.

a The four functions of management.

b The nine main skills of management.

c Three examples of internal stakeholders.

d Four examples of external stakeholders.

Managers	Interpersonal	Organising	Feedback
Society	Planning	Vision	Teamwork
Future generations	Controlling	Employees	Strategic thinking
People skills	Leading	Owners	Competitors
Government		Problem-solving and decision-making	
Ethical and high personal standards		Flexibility and adaptability to change	

Multiple-choice questions

1 Which statement best describes a proactive manager?

A A manager who considers the business's vision when planning

B A manager who is responsible and considers the interests of stakeholders

C A manager who anticipates and plans for changes in the business environment

D A manager who monitors and evaluates the business's performance

2 Why is flexibility and adaptability to change an important management skill?

A Because the business environment is constantly changing

B Because competitors are always seeking an advantage

C Because managers deal with different stakeholders and their interests

D Because managers must be strategic thinkers

3 Which of the following is included in the interpersonal skill of management?

A Acting as a figurehead for the business

B Being able to lead staff

C Solving complex problems

D Making important business decisions

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4 Why is accurate and timely information important for effective management?
 A To lead and motivate employees
 B To measure the success of a business
 C To make better decisions when organising resources
 D To communicate with the other functional departments

5 To what does the strategic plan of a business refer?
 A The day-to-day operations of the business
 B The business's overall long-term plan
 C Decisions made by functional departments
 D Motivating and leading employees to achieve business goals

6 What is the meaning of the term 'ethical behaviour'?
 A Behaviour that conforms to the values of society
 B Behaviour that is illegal
 C Behaviour that is morally unacceptable to society
 D Behaviour that is legal but morally unacceptable to society

7 Which of the following groups are internal stakeholders?
 A Owners, employees and customers
 B Shareholders, managers and the government
 C Customers, the government and employees
 D Owners, employees and managers

8 Which of the following is a financial goal?
 A Increased sales and market share
 B Expansion into new overseas markets
 C Reduced costs
 D Quality of outputs

9 What term is used for a business that expands by acquiring other businesses that are unrelated to its prime function?
 A Vertical integration
 B Horizontal integration
 C Portfolio investment
 D Diversification

10 Which technology has helped managers make better decisions?
 A Accounting software
 B Data analytics
 C Internal communications systems
 D Social media

Short-answer questions

1 A factory that opens from 8 a.m. to 6 p.m. has decided to reorganise its workforce by changing its working conditions. Management has increased the length of shifts from 7.5 hours to 10 hours for certain shifts. There has been conflict between management and employees as a result of this change.
 a Describe two interpersonal skills required by management in this situation.
 b Explain how staff involvement in decision-making may improve this situation.

2 Describe two goals of a not-for-profit business.

3 Refer to the following scenario to answer this question.

Simon runs a small bike manufacturing workshop. Each year, he offers part-time employment for two young people who have dropped out of school before Year 12. As long as they are enrolled in TAFE, he provides paid training and work as bike mechanics. Simon

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likes to pass on his experience and skills as well as provide an opportunity to disadvantaged youth. He also values their ideas for his business and delegates some responsibility to his young employees once their training is complete.

Analyse the mix of goals for Simon's business.

4 Explain how goals can be interdependent.

Extended-response question

Outline the role of management within an organisation and evaluate the importance of the skills necessary for effective management.

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6 Management approaches

Chapter objectives

In this chapter, students will:

- identify, analyse and evaluate the classical approach to management
- identify, analyse and evaluate the behavioural approach to management
- identify, analyse and evaluate the contingency approach to management.

Key terms

- benchmarking
- chain of command
- collegial
- communication
- division of labour
- laissez-faire
- model
- operational planning
- participative
- quality circles
- span of control
- specialisation
- strategic planning
- strategy
- tactical planning
- world's best practice

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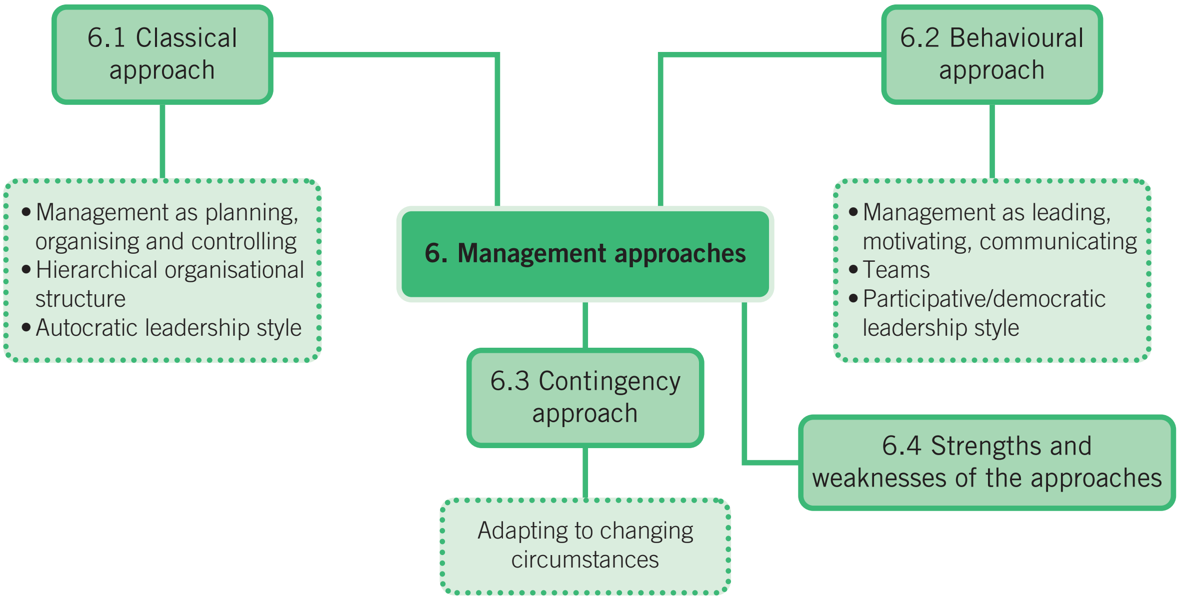
6.0 Introduction



Source 6.1 Management approaches

Management has changed significantly since the development of the factory system, with its mass production and assembly lines.

Managers needed new approaches to the ways in which resources could be organised and used. These approaches, or theories, developed as both the internal and external business environment changed, and as a consequence of shifts in the values held by society. The three dominant management theories are the classical, behavioural and contingency approaches.

Digital quiz Please see the Interactive Textbook to access digital activities.

6.1 Classical approach

The classical approach to management developed at a time when the manager of a business had total control over every aspect of business operations. Workers had very limited, if any, education and merely followed the directions of managers. They focused on performing a specific task in the most efficient and effective way, and did not question how or why decisions were made. The goal of managers was to maximise employee productivity.

Strategy A plan designed to achieve a goal or objective.

The harder the employee worked, the higher the output and the greater the profit for the owner. Management focused on increasing output by increasing worker effort and saving time.

Management as planning, organising and controlling

Effective management involves planning, organising and controlling.

Planning

Planning involves deciding on the direction the business will take in the future, then setting goals and objectives. It must take into account the current position of the business within the restrictions set by the external and internal business environments. Planning also needs to establish the course of action, or **strategies**, managers will implement to achieve the long-term general goals and short-term specific objectives of the business.

Strategies are based on the experience of managers and their technical knowledge. They are developed by management in what they believe is the most effective way for the business to succeed. Adjustments to plans are made to account for changes in the business environment. An effective manager will develop several alternative courses of action and, given the business environment, decide which is the most appropriate.

Source 6.2 History was made as the flywheel magneto, the first manufactured part to be built on a moving assembly line, passed by workers at Ford Motor Company's Highland Park plant in Michigan in the spring of 1913. Time required to assemble magnetos was reduced from 20 to five minutes. The principle was applied to all Model T assembly operations, and mass production was born.

Plans need to be completed for several different timeframes. These are outlined below.

- **Strategic planning** is long-term planning for the overall business, as it encompasses the business's vision. Strategic plans will be developed by the business's senior management. Strategic planning will be determined by where the firm wants to be at a certain time in the future (such as in five or 10 years) and what goals the owner hopes to achieve for sales, profitability and growth.
- **Tactical planning** is medium-term planning – perhaps for one or two years ahead. These plans are devised by middle management. Tactical planning will have short-term objectives that are part of the steps taken to achieve the longer-term strategic goals. These shorter steps are more flexible and adaptable to changing business environment conditions, allowing the business to respond quickly to these influences. Tactical plans allocate resources to specific tasks and delegate responsibility to various managers and employees.
- **Operational planning** addresses the short term – a year, a few months and even the day-to-day running of a business. These plans are far more detailed about the way in which the business will operate and involve specific objectives for each of the key business functions: operations, marketing, human resources and finance.

Organising

Organising involves creating the framework for the implementation of the business plan. It will determine:

- what will be done – analysing the work activities, which are broken down into smaller steps
- who will do it – classifying and grouping activities into specific departments and allocating appropriate employees and resources to each department

Strategic planning Long-term planning for a business as a whole developed by senior management.

Tactical planning Short-term planning developed by middle management.

Operational planning Plans for the day-to-day running of a business, using input from supervisors.

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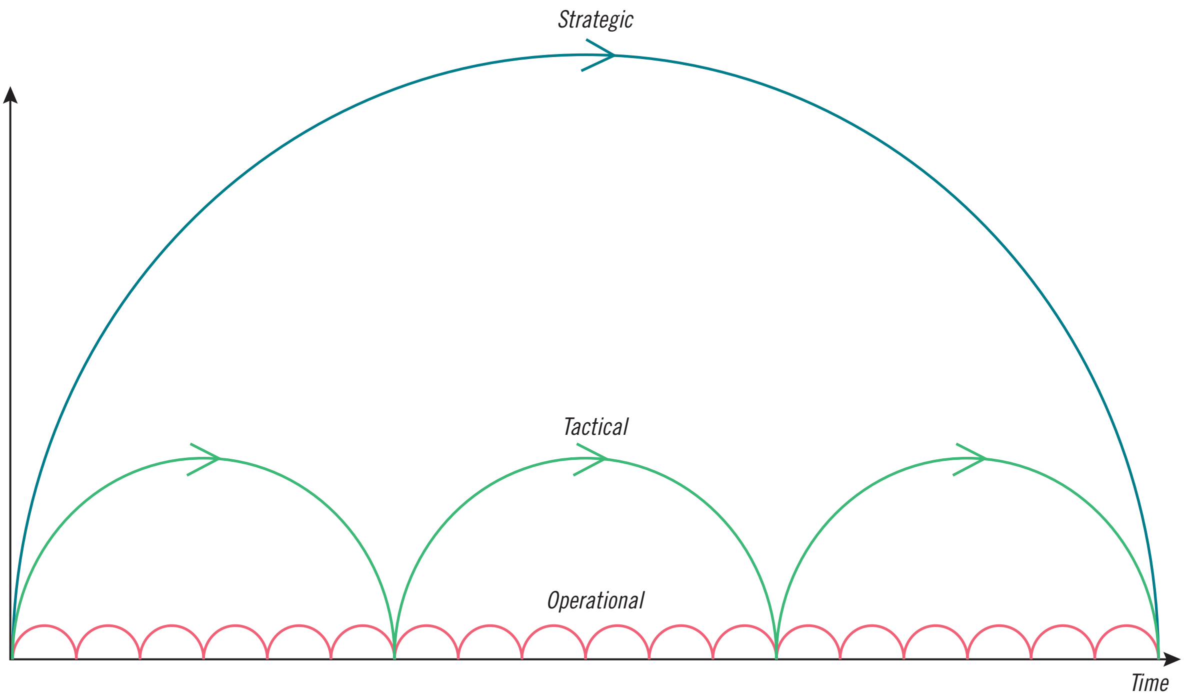

Source 6.3 Strategic, tactical and operational planning

- how it will be done – assigning work to individuals and delegating authority to supervisors and employees so that the work can be completed.

The organising role transforms plans into a reality.

Controlling

When controlling, managers compare the results achieved with what was planned. Managers examine the results of the business and find out what contributed to these results. External influences such as changing consumer preferences or a new product released by a competitor could explain what happened. In this sense, managers monitor the planning and organising processes as well. The performance of the business is compared with its goals and shorter-term objectives. Managers evaluate whether the business is on the correct path and, if objectives have not been met, examine why this is the case. If control measures find a difference between what was planned and what occurred, it may be necessary to take corrective action. This could involve making adjustments to processes in order to improve the business's progress and put it back on the correct course.

Video 6.1 World's best practice

Benchmarking The process of measuring performance against established standards, such as a comparison of a firm's performance against standards set by competitors in the same industry in the domestic market.

World's best practice Comparison of a firm's performance with the highest standards achieved globally.

The control function needs to establish standards to use when comparing goals with results. These standards may be based on the firm's past performance, industry **benchmarks** and even **world's best practice**. Managers will create a list of key performance indicators (KPIs) for the business. KPIs will help managers to determine which part of the business's planning or organising needs to be revised.

Traditional methods of control used in the classical theory were carried out at the end of the production process. The standards used were based on mathematical computations of what the output should be. Businesses in the service industry may use feedback controls based on customer complaints to identify a problem that can be fixed.

Hierarchical organisational structure

Henri Fayol (1841–1925) and Frederick W. Taylor (1856–1915) developed the basis of classical management theory. Their goal was to work out how management could be applied

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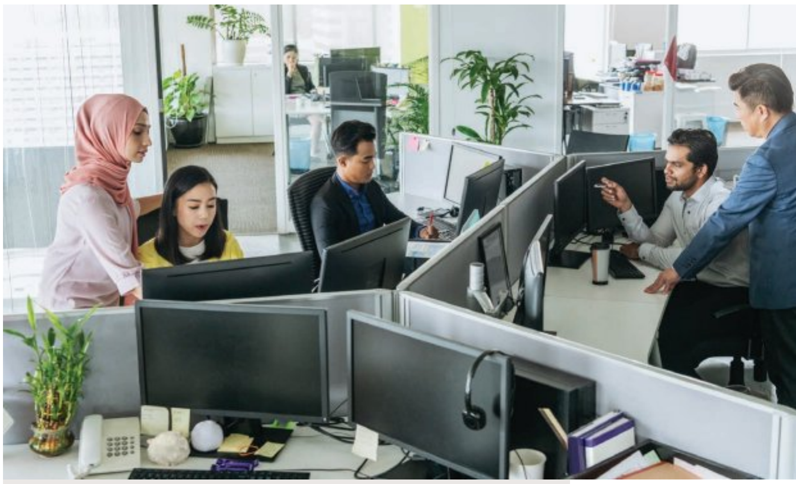
better to achieve the most efficient organisation of workers to improve productivity.

Taylor watched how long employees needed to complete specific tasks and what movements they made. He used 'time and motion' studies to divide tasks into smaller specialised activities, thus generating a hierarchical organisational structure based on the **division of labour**. Management could then select the workers needed for each small step and provide any specific training they would need. Using division of labour allowed employees to become specialists in their own small part of the total production process. Through division of labour, each employee is given a simple task and can learn the task quickly. The repetitive nature of the task results in it being performed efficiently and perfectly each time. The employee needs only one set of tools to work, preventing doubling up or wastage of resources.



Source 6.4 Division of labour enables managers to share workloads across multiple staff.

Division of labour Each task is divided into small steps in the production process and a worker is assigned to each task.

Business Bite

The 2019–20 bushfire season was marked by extensive and long-lived fires. The total area burned appeared to be the largest in a single recorded fire season for eastern Australia. During a fire event, managers at the NSW Rural Fire Service (NSW RFS) have to use an autocratic leadership style where they have total control, even though over half of all NSW RFS staff are volunteers. Information is critical to good decision-making and there is no time to work through a range of potential strategies during an emergency response. Quick decisions can save lives and property.

The organisational role of management was incredibly complex owing to all the different agencies and resources involved. Organisations providing support were: Fire and Rescue NSW, NSW Rural Fire Service, NSW National Parks and Wildlife Service, the Forestry Corporation of NSW, Airservices Australia, Sydney Trains, as well as out-of-state bushfire units and overseas aid. Organising tasks included: transporting firefighters and equipment, fire mapping, search and rescue flights, deploying personnel and firefighting equipment, reloading, refuelling, provision of humanitarian supplies, catering and sourcing accommodation.

Overall, it was an enormous effort to minimise loss of life. Bringing in the military was a contingency response to the worsening fire situation. In December 2019, the Australian Defence Force commenced Operation Bushfire Assist to support state fire services with 6500 troops and 3000 Reservists as well as the Royal Australian Navy's two largest ships. The communication role was therefore critical to coordinate all the state and federal government services.

Continued →

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Overseeing the NSW response was the Commissioner of the NSW RFS. The organisational chart for the organisation can be viewed on the NSW RFS website.

Source 6.5 NSW Rural Fire Service Commissioner Shane Fitzsimmons talks to media in December 2019 after a catastrophic fire danger warning has been issued for the greater Sydney region, the Illawarra and Southern Ranges.

This approach to management had many advantages. People knew their place in the hierarchy, and the lines of communication and authority were clear. The procedures and rules were well established and understood by all employees. What was good for the business came first. However, in a hierarchical organisational structure employees may not understand their role in achieving the strategic goals of the business. This is because employees focus solely on the single task for which they are responsible.

The level of authority of a manager is based on their place in the **chain of command**, which when drawn looks like a pyramid that shows the different levels of management with workers at the bottom. The chain of command, which is the strict line of authority, extends from the top of the pyramid all the way down to its lowest level. The higher up the pyramid one's management level is, the higher one's level of command or authority will be. This higher position also carries with it greater responsibility.

Chain of command The strict line of authority that extends from the top of the pyramid down to the lowest level. It exists in the police force and the armed services, for example.

Span of control The number of workers that a manager directly controls.

Each manager would have a number of employees under their direction, called subordinates. The number of subordinates would determine the manager's **span of control**. The span of control is the number of workers that a manager directly controls. In classical management, the span of control is small or narrow. Due to the small span of control, many levels of management are needed to get the whole job done. This means the business has a tall, narrow hierarchical structure.

Autocratic leadership style

In the classical theory of management, employees were grouped together to perform specialised tasks headed by a manager with a small span of control. This system was rigid and inflexible because decisions were passed down the chain

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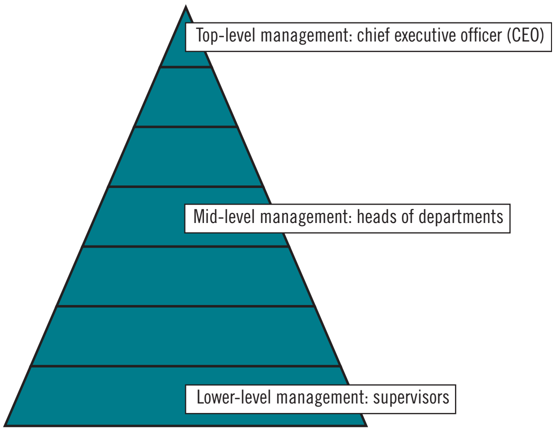
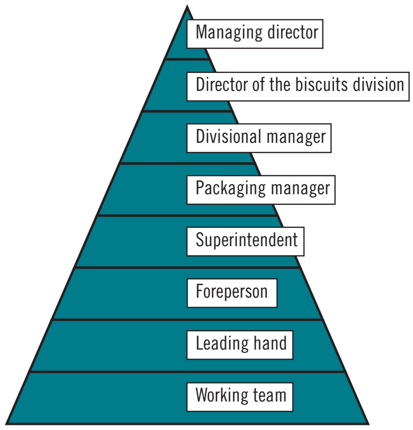


Source 6.6 A typical pyramid-shaped hierarchical organisational structure



Source 6.7 The classical management organisational structure for a food manufacturing business

Activity 6.1
Diagram

Draw a diagram depicting the management structure and chain of command of a school.

Review 6.1
Comprehension

Answer these questions on paper or in the Interactive Textbook.

1 Describe two objectives of the classical approach to management.
2 How are tasks delegated in the classical approach to management?
3 Why are managers, using the classical approach to management, task-oriented in their behaviour?
4 Analyse the potential impact on the planning and organising role of management when a business takes over a competitor.

and information was passed up. Thus managers were also rigid in their management method or style. They were autocratic, making all decisions without employee involvement. Managers held all the power, and told employees what to do and how to do it with little, if any, input. This style is also called directive. Employees are closely controlled and motivated by income, threats and discipline.

An autocratic approach can be effective and is often necessary to manage unexpected change. A new opportunity or threat may require an immediate response. The advantage of this style of leadership is that management decisions can be implemented very quickly.

6.2 Behavioural approach

The classical theorists based their **models** on mathematical concepts and data. They failed to take adequate account of the human factor. They saw employees as mere inputs into production, doing what they were told without question.

In the classical approach, money was the key motivator for employees and they would act in a rational manner and make choices based on the amount of monetary reward attached to each choice. The classical theorists believed that when employees received more pay, they would work harder and longer, resulting in increased productivity.

However, the division and **specialisation** of labour and the use of production lines actually had a number of disadvantages. Employees could find the tasks allocated to them boring. The work could be very monotonous. Instead of efficiency improving, businesses found that productivity and

Model A simplified version of reality based on specific assumptions.

Specialisation Limiting work to a particular area, with the intent of becoming an expert in it.

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Source 6.8 Social gatherings after work can be very effective for team building.

quality would eventually fall. In response, some managers began to focus on the area of human resources – that is, the behaviour and motivation of employees in the workplace.

Management as leading, motivating and communicating

Employees' productivity can be increased when management improves their working conditions. Working conditions include factors that influence the physical comfort of employees, variety of work and how much they are involved in decisions about how they perform their jobs. Business owners and managers discovered that if you treated employees with respect and tried to meet their needs, they would be more productive and take more care about quality.

Collegial Where there is stronger communication between employees and employers.

Behavioural approaches emphasise the need for management to develop the ability to understand and work with people. They acknowledge that workers have several needs other than financial ones.

Behavioural management theories are based on the assumption that people are self-motivated and desire satisfaction from their work. Behavioural theorists believe that the main role of management is to set up a work environment that generates better communication between workers and management. This allows for an improved flow of ideas for decision-making that involves the workers themselves. Even simple ideas, such as a 'suggestion box', can prove effective. Employees should be consulted before significant decisions are made. Using this management approach would require having a more **collegial** or participative leadership style.

Interpersonal and communication skills are very important to the success of this approach to management. These were discussed in the previous chapter.

Leading

In the behavioural approach to management, leadership is just as important a function of management as planning. Where planning sets out where the business aims to be, leadership motivates the worker so that the business achieves its goals and objectives. An effective leader is able to:

- understand the workplace culture and inspire employees

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- listen to employees' contributions and opinions
- know and clearly explain technical aspects of a task
- communicate to workers the goals and overall 'vision' of the business
- understand the needs of employees
- delegate tasks to the appropriate people and be flexible
- motivate employees to work to the best of their ability.

Business Bite

By the age of 19, Elizabeth Holmes had dropped out of medical school and founded Theranos. She thought of herself as another Steve Jobs, a visionary who planned to change the world with a device that could perform hundreds of blood tests from a drop of blood to detect conditions ranging from cancer to high cholesterol. Unfortunately, the device did not work, but this did not stop the company from being valued at $9 billion, making Elizabeth Holmes the youngest female billionaire in the world.

Source 6.9 In October 2015, at the Forbes Under 30 Summit in Philadelphia, United States, Elizabeth Holmes received the Under 30 Doers Award for her work trying to make expensive lab tests accessible to everyone.

Her approach to management seemed very behavioural. She had to work with medical and technical experts to inspire them to develop a working version of the MiniLab, pitch to investors, and act as the company figurehead. She communicated intellectual dominance and even adopted a fake lower voice to amplify her authority. However, her actual approach was more a micromanaging autocrat. Despite being highly charismatic, she has been called secretive, deceptive and paranoid, with no expertise in medical technology. It seemed that any employee that questioned Elizabeth Holmes, including the chief financial officer, Henry Mosley, was fired. Former employees were sued and executives who disagreed with her were kicked out of the company.

Shortly after, the company was found guilty of generating false and unreliable results and, in 2018, Holmes was charged with wire fraud by the Department of Justice. The company was shut down in September, a few months later. The story of the rise and fall of Elizabeth Holmes and Theranos is depicted in the HBO documentary *The Inventor: Out for Blood in Silicon Valley*.

Motivating

Motivation is a key force that impels people to behave in a particular way. In a workplace, motivation can be the major factor that determines whether an employee achieves the required task or objective. There is no doubt that employees are motivated by the monetary rewards for their work – wages and salaries. However, employees also value job security, want to be recognised for their efforts and desire some control over their work and input into decision-making.

Managers using a behavioural approach will use a range of motivational techniques that include both monetary and non-monetary rewards. Managers

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therefore need to understand which motivators are most appropriate to influence individuals in order to achieve improved levels of productivity and allow workers to reach their full potential. Rewards need to be tailored to each individual. Sometimes verbal praise and acknowledgement of good work from the boss can be the most effective reward.

Communication The exchange of information between people; includes talking, listening and understanding what is being said.

Effective managers set up work practices that provide employees with a sense of importance and self-worth. Such practices include positive reinforcement and public recognition for a job well done – for example, being awarded employee of the month. These strategies contribute to maximising worker satisfaction. Employees will work harder if they feel valued and rewarded. These are intrinsic motivators because the desire of employees to perform comes from their own feelings rather than an external or 'extrinsic' reward (such as performance-based commissions or bonuses). Managers using this approach can find that their organising role is easier to implement because employees understand their role in achieving business goals. Managers are freed up to focus on strategic thinking.

Activity 6.2
List

Make a list of the non-monetary benefits that motivate you to achieve a goal.

Review 6.2
Analysis

Answer these questions on paper or in the Interactive Textbook.

1. Explain why, as businesses grow in the number of employees, the organisational structure develops a longer chain of command when a classical approach to management is used.
2. Evaluate which rewards are the most effective motivators – is it those provided at:
   a. home
   b. school
   c. your place of work?
3. Analyse the use of monetary rewards as a motivating factor for employees.

Communicating

Communication involves the exchange of information between people. As well as informing people, it also requires listening and understanding what is being said. Many workplace issues and much conflict can be avoided with good communication skills. The behavioural approach supports the two-way flow of information, which provides managers with feedback and includes workers in the decision-making process. Managers are more open and consultative. This allows greater acceptance and understanding of the changes that need to be made to achieve greater productivity from employees.

Source 6.10 Communication helps to ensure that everyone is involved in decision-making and working towards the same goal.

Teams

As managers have become leaders, effective communicators and motivators, the traditional hierarchical organisational structure has flattened out. Fewer levels in the chain of command and improved communication allow businesses to be far more flexible and responsive to change.

The change to flatter organisational structures was an internal response to external influences, including:

- economic downturns, causing falling profits
- technological innovations
- globalisation and outsourcing
- competition.

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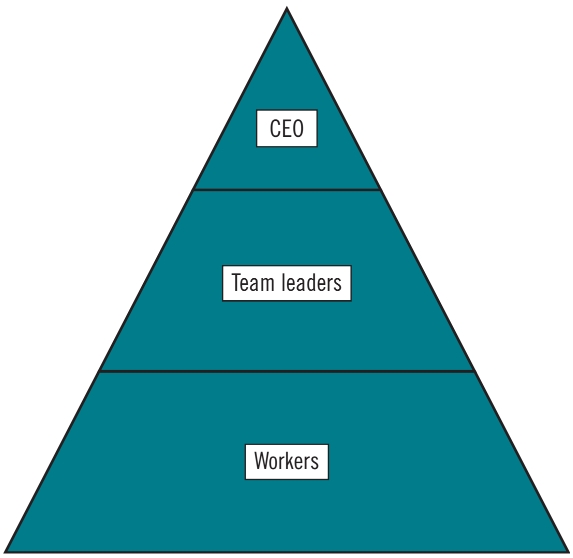
Businesses sought to improve their competitiveness by reducing costs through a more efficient approach to management and better organisation of resources.

Flatter structures led to the development of work teams, which involve a group of people interacting regularly and coordinating their work to achieve a common objective under the direction of a team leader. Work teams have the advantage of being able to combine a range of skills, experience and expertise. Decision-making is more collaborative, and therefore employees feel more valued and hence motivated. Types of work terms are project teams, task forces, **quality circles** and self-directed teams.

The flatter structure consists of the following employees, in descending order of authority:

- general manager
- functional manager
- team leaders
- individual team members.



Source 6.11 A flatter management structure

Participative and democratic leadership style

Under a **participative** style of leadership, employees are encouraged to share their opinions and suggestions. Managers discuss the situation or problem with the people involved, including those who will be affected by the decision, and recognise the relevance of their ideas. Sometimes the best solutions and most innovative suggestions come from employees – particularly those who are experienced and have extensive technical knowledge. In the end, the manager will take responsibility for final decisions after considering the input from employees.

The democratic style does not mean a situation where employees 'vote' on each decision, as the manager remains the ultimate decision-maker. The manager does not delegate this authority to the group of employees; instead, a democratic leadership style refers to one that is very collaborative in nature, and focuses on supportive leadership. This approach is used with more skilled and experienced employees. Management will set goals and objectives and the work team will determine how best to achieve them. A good example would be a surgical team who must decide the best way to perform a highly risky operation.

Quality circles Regular meetings of a group of employees from different sections of the business to discuss issues arising in the workplace.

Participative Including employees in the decision-making process.

Activity 6.3
Classification

Consider a leader with whom you are familiar, such as a business entrepreneur, teacher or coach of a sporting team.

1. Classify their leadership style and explain why they are an effective leader.
2. Describe the main factors that influence their leadership style.

Review 6.3
Comprehension

Answer these questions on paper or in the Interactive Textbook.

1. Assess whether the styles of management vary with the job or with the number of people that need to be managed.
2. Explain the most appropriate approach to management for the following businesses:
   a. a fast-food restaurant
   b. a social media promotions company.
3. Describe the role of the team leader in a work team.
4. Explain why work teams can be more effective at complex problem-solving.

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6.3 Contingency approach

In reality, managers do not select one particular theory to follow. Instead, they use combinations of theories, selecting appropriate elements from each in order to achieve a desired result. Regardless of whether a classical or behavioural approach is used, an effective manager will also use a contingency approach to adapt to changing circumstances. It is a highly flexible approach, so managers can change and match their approach and style to the business environment.

Businesses operate in a dynamic environment. The factors that influence a business are constantly changing, so the business needs to adapt to take advantage of opportunities and to ensure factors that threaten the business are managed to minimise threats. For example, management will have various plans – A, B, C and D – and will choose the most suitable of these to prevent a competitor taking the business's market share.

The contingency approach recognises that management makes decisions based on the current set of circumstances, that these circumstances are constantly changing and that managers need to make adjustments to their plans, the way the business is organised and their leadership style.

Source 6.12 A business may downsize its employment in order to save on costs.

Business Bite

Qantas CEO Alan Joyce was forced to make fast and drastic decisions in response to the impact of the COVID-19 pandemic on the airline industry. As the head of the Qantas Group, he announced in June 2020 a three-year plan to accelerate the airline's recovery from the COVID-19 crisis that involved staff cuts, changing its fleet and financial strategies.

An extreme short-term operational plan made 6000 workers redundant, including 1450 office roles, 1500 ground staff and baggage handlers, 1050 cabin crew, 630 engineering jobs and 220 pilots. Another 15 000 staff were stood down for the period of the international travel bans. One hundred of its aircraft were also grounded for 12 months. This decision limited the $40 million per week Qantas would lose while its operations were grounded and made it easier for the airline to organise resources quickly once borders reopened, bringing back staff as it needed them.

A tactical plan involved storing its fleet of 12 Airbus A380 aircraft in the Mojave Desert, in the United States, for three years and postponing the delivery of the new aircraft Qantas had already purchased. Total employees were reduced from 29 000 to 21 000. These decisions would reduce costs by $15 billion over three years. Strategic plans focused on placing Qantas in a strong financial position. A saving of $1 billion in operational costs will be achieved from 2023. A share issue raised $1.9 billion and nearly $5 billion was available in cash. On the understanding that the airline travel industry will bounce back after the crisis, the new planes being delivered to Qantas will hopefully put Qantas in a position to increase market share. Alan Joyce will remain as CEO until June 2023.

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How closely the business monitors the business environment will be a key factor in the level of success the business achieves.

A useful approach to understanding when to use a particular approach is that of Robert Tannenbaum and Warren Schmidt. Source 6.13 illustrates a continuum of leadership approaches, ranging from autocratic to **laissez-faire**, to describe a range of choices available to a manager according to their work.

Adapting management approaches to circumstances

The business environment – both internal and external – is changing constantly. This alters the circumstances in which the business operates. Effective managers will be able to adapt their approach – classical or behavioural – to suit these circumstances. The style of leadership will need to change as well.

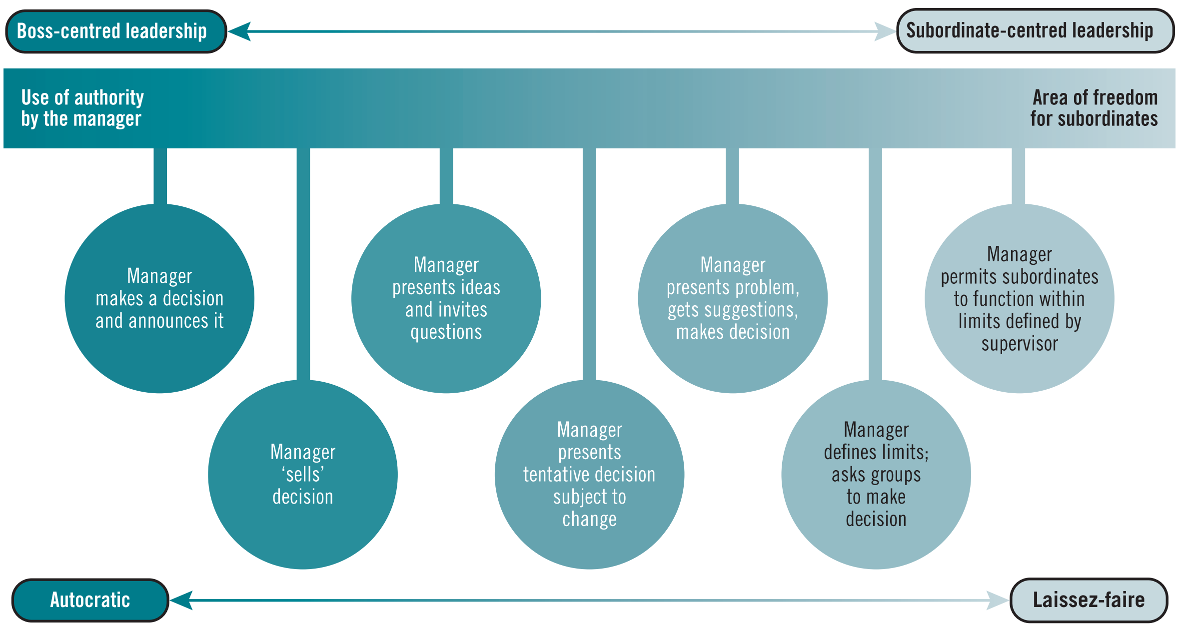
The internal business circumstances will change as the business grows. The role of management also develops and becomes more complex. The procedures and processes used to run a small business will change significantly when the business grows and employs more staff. Managers will establish separate individual functional departments for operations, marketing, finance and human resources. Complexity increases further as the business expands into new products and markets, and even operates in other countries.

The organisational structure of the business will change as more levels of management are added to manage this complexity. This involves a longer chain of command and possibly a widening of the span of control.

Laissez-faire In terms of management style, letting employees do as they choose.

The owner will need to delegate tasks as they cannot do all the required work themselves. Delegation gives other managers and employees the authority to complete tasks. Along with this authority goes responsibility and accountability. Senior management becomes more focused on achieving the long-term vision and goals of the business.

The dynamic nature of the external environmental influences also creates a greater degree of uncertainty and changing circumstances that must be planned for and managed. Sources of change can be political, economic, legal, technological and social. These changing circumstances can create new opportunities and threats. Managers will therefore need to use a contingency management



Source 6.13 The Tannenbaum and Schmidt continuum of leadership behaviour

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Source 6.14 The role of management is still to plan, lead, organise and control the business.

approach to be prepared for these changing circumstances. At other times, it may be necessary to use a more classical approach with an autocratic style of leadership to implement changes to the business quickly so it can adapt to changing circumstances. Or, if faced with a new competitor and the need to reduce costs, managers may adopt a flatter organisational structure. Complex problem-solving tasks will be delegated to specialised teams using a participative style of leadership.

The role of management is still to plan, lead, organise and control the business within this dynamic environment. Ultimately, managers must be able to monitor the business environment and its changing circumstances so that the most effective approach can be implemented at the right time.

Review 6.4

Comprehension

Answer these questions on paper or in the Interactive Textbook.

1 Outline one advantage of a contingency approach to management.
2 Describe a situation in which management will need to alter their behavioural approach.
3 Explain the impact on managers and employees when a business adopts a flatter organisational structure.
4 'The only certainty is that the business environment is uncertain.' Assess this statement.

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6.4 Strengths and weaknesses of the approaches

Each of the three approaches to management (classical, behavioural and contingency) has strengths and weaknesses. These are outlined in Sources 6.15, 6.16 and 6.17.

Source 6.15 Classical approach

Strengths	Weaknesses
Task is to increase productivity and reduce waste.	Human and social needs ignored.
High degree of specialisation and division of labour increases productivity.	A rigid, autocratic management style can lead to conflict with employees.
A clear and formal chain of command for clear communication and authority.	Can be slower to respond to changes in the external environment.
Business goals are the priority.	Lower worker satisfaction and motivation.
Clear sets of rules, policies, procedures and regulations.	Quality issues due to repetition of boring tasks.
Employees' skills are matched to the appropriate task.	Problems may be ignored as it is not the employees' responsibility.
Training maximises productivity of employees.	Major division between employees and management can cause conflict.
Effective in a crisis.	Employee skills are under-developed.

Source 6.16 Behavioural approach

Strengths	Weaknesses
Focus on effective leadership and appropriate strategies to motivate staff.	Decisions can take longer to implement with employee input.
Improved staff morale and productivity because employees feel valued and included.	Less suitable for unskilled and inexperienced workers who need clear directions.
Greater range and sources of ideas to improve the business.	Not all decisions are made in the best interests of the business.
Collegiality and teamwork are priorities to achieve business goals.	Behavioural theories and psychology may not work in the business, owing to unpredictable human behaviour.
Better communication and understanding of the business's mission and vision.	Groups of employees can hold a lot of power over decision-making, slowing down processes.
More suitable for creative processes.	Less suitable for large manufacturing operations.
Motivates by rewarding team effort.	Requires self-direction from employees.

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Source 6.17 Contingency approach

Strengths	Weaknesses
Focus on flexibility, vision and adaptation.	Resources invested in alternative plans that may never be needed.
Faster responses to changes in the business environment mean that a business can keep its competitive advantage.	Relies on strengths of management's skills in solving complex problems.
Change viewed as an opportunity rather than a threat.	Employees and management must be able to cope with change.

Review 6.5

Comprehension and analysis

Answer these questions on paper or in the Interactive Textbook.

1 State one weakness of the behavioural approach to management.
2 Outline two features of the classical approach to management.
3 Briefly explain one advantage of the contingency approach to management.
4 Analyse the use of a behavioural approach to management in a real estate business.
5 Assess the importance of communication skills in the classical approach to management.

Chapter summary

Classical theorists used scientific, mathematical or quantitative approaches to analyse business processes. The classical theory:

- emerged with the development of the factory system of production
- has a high level of specialisation and division of labour to increase productivity
- uses a strict 'pyramid' organisational structure with a rigid chain of command and narrow span of control
- places an emphasis on the management functions of planning, organising and controlling
- encourages managers to use an autocratic leadership style
- sees employees as an input like raw materials and machinery
- uses financial rewards as a key motivator for employees.

Behavioural theories take into account the human factor in business operations and recognise the 'social' influences on productivity in a workplace. The behavioural theory:

- emphasises the need for management to work with people
- realises that an effective two-way communication process is needed between management and workers
- sees management's role of leadership as paramount
- focuses on motivation using a range of intrinsic and extrinsic rewards
- uses a flatter organisational structure with work teams
- encourages managers to use a participative or democratic leadership style with employee participation in decision-making
- emphasises teamwork and cooperation.

Contingency theory emphasises the need for a more flexible structure, varied leadership style and greater monitoring of the business environment.

The classical, behavioural and contingency theories all have strengths:
- The classical theory maximises output from factory-based production.
- Behavioural theories involve workers in decision-making and recognise the productive potential of a motivated and respected employee.
- The contingency theory can respond to external changes at short notice, although this requires a business to have extra resources.

End-of-chapter tasks

Chapter revision tasks

1 Rule up three columns on your page. Use the following column headings:
- Classical
- Behavioural
- Contingency

Place each of the terms from the box under the most appropriate management theory heading. You may need to research some terms to see where they best fit.

division of labour	communication skills	job rotation
autocratic	task-oriented	complex problem-solving
strict chain of command	small span of control	time and motion studies
multiskilling	motivation	participative
bureaucracy	people-oriented	intrinsic needs
scientific calculations	authoritarian	negotiation

2 Outline the meaning of each of the terms used in Task 1.

3 Add other terms that you feel apply to the three headings provided.

Multiple-choice questions

1 Which type of plan deals with the short-term objectives of a business?

A Strategic plan
B Operational plan
C Production plan
D Leading plan

2 What style of leadership is associated with managers delegating decision-making to employees?

A Autocratic
B Behavioural
C Contingency
D Laissez-faire

3 Which level of management determines the strategic plans in a large business?

A Board of directors
B Shareholders
C Middle managers
D Supervisors

4 Which of the following leadership styles is a characteristic of the classical approach to management?

A Autocratic
B Democratic
C Participative
D Laissez-faire

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5 Which of the following would be considered the main motivator of workers in the classical approach to management?

- **A** Self-satisfaction
- **B** Non-monetary rewards
- **C** Monetary rewards
- **D** Positive reinforcement

6 What is the most appropriate term for the line of authority in a business?

- **A** Span of control
- **B** Chain of command
- **C** Remuneration packages
- **D** Planning process

7 Which leadership style would be most suitable for a business with a young, inexperienced staff?

- **A** Participative
- **B** Collaborative
- **C** Authoritative
- **D** Democratic

8 Which approach to management recognises the importance of employee motives at work?

- **A** Classical
- **B** Contingency
- **C** Behavioural
- **D** Operational

9 Which of the following statements is true of the division of labour?

- **A** Enables workers to better understand the working of the whole business
- **B** Allows workers to play a greater part in the decision-making process
- **C** Workers specialise in their own dedicated small task
- **D** Does not result in any increase in productivity

10 Which of the following could be considered a powerful extrinsic motivator to lead staff?

- **A** Communication and empathy
- **B** Mentoring and coaching
- **C** Public recognition
- **D** Performance-based commissions and bonuses

Short-answer questions

1 RoketX, a space tourism company, is led by entrepreneurial visionary Pat Love. He has been the CEO since the business's inception in his parents' garage. Pat plans every aspect of the business and oversees every decision. He has high expectations of his staff and insists that they follow his decisions with absolute loyalty. A recent merger with Global Logistics has proved problematic. Pat frequently clashes with managers from Global Logistics who use a behavioural approach to management.

- **a** Explain a potential issue for management from the merger. Use an example to illustrate your answer.
- **b** Recommend a strategy to solve the issue identified in part **a**.

2 Sarah is a newly appointed manager of a small manufacturing business. She likes to have things done her way. On her first day in the job, Sarah has directed staff to change the layout of the factory equipment, adjusted the staff roster to cut costs and changed employee roles in the business.

- **a** Identify the approach to management that Sarah has used.
- **b** Describe Sarah's leadership style.
- **c** Outline three problems that could arise from these changes.

Extended-response question

'Businesses that use a behavioural approach to management will be more successful.' Evaluate this statement.

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7 Management process

Chapter objectives

In this chapter, students will:

- identify and explain key business functions: operations, marketing, finance and human resources
- explain and evaluate ethical business behaviour.

Key terms

- award
- bad debt
- balance sheet
- bottom line
- brand
- cash flow statement
- current assets
- current liabilities
- customise
- debenture
- debt finance
- defect rate
- distribution channels
- drawings
- elaborately transformed manufactured goods (ETMs)
- equity finance
- ethics
- expenses
- financial accounting
- financial goals
- four Ps
- gross profit
- human resource cycle
- income statement
- induction
- insolvency
- intellectual property
- intermediate good
- job description
- job specification
- liquidity
- management accounting
- market segmentation
- marketing mix
- non-current assets
- non-current liabilities
- patent
- placement
- positioning
- promotion
- quality assurance
- quality circles
- quality management
- rationalise
- recruitment
- redundancy
- remuneration
- retrenchment
- selection
- separation
- simply transformed manufactured goods (STMs)
- substitute
- tangible
- target market
- total quality management (TQM)
- trademark
- training
- transport logistics

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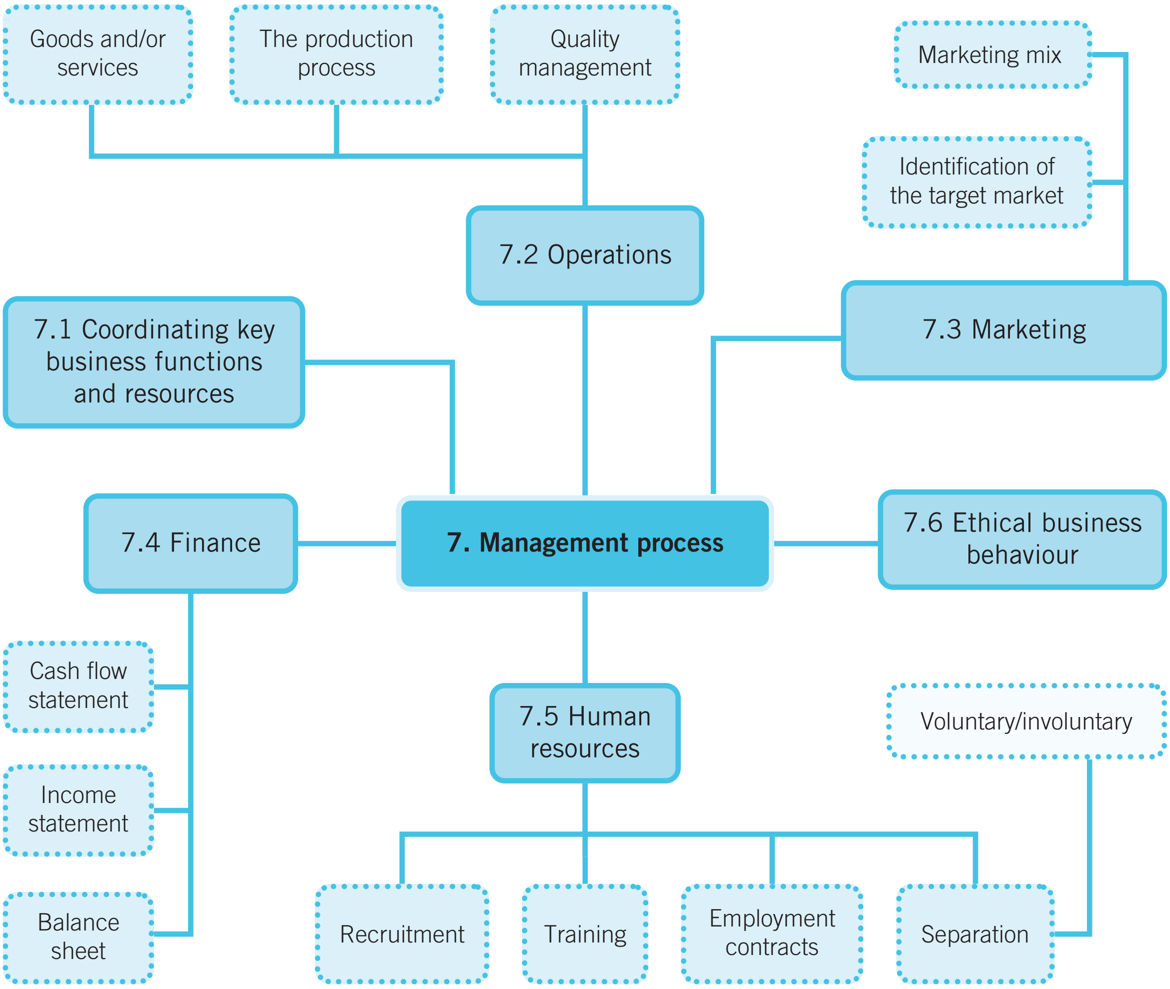
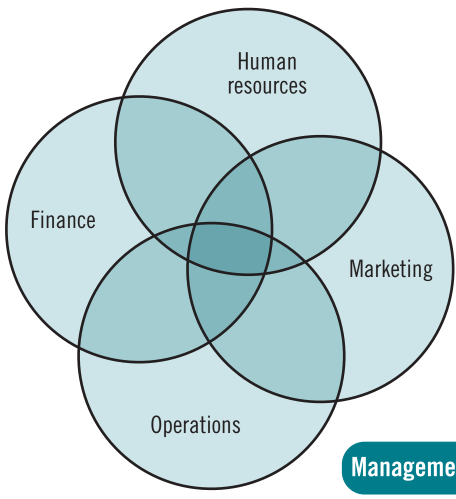
7.0 Introduction



Source 7.1 Management process

Effective management uses the most effective combination of resources in order to achieve the goals and objectives of a business. The process of management requires an underlying theory supporting the different approaches taken by managers when performing their functions of planning, organising, leading and controlling. Modern management considers the business as a system in which a change to one aspect of the business will affect others. The interdependence of the different key business functions – marketing, operations, finance and human resources – must be considered by managers when making decisions. Therefore, managers must understand how their decisions will impact all areas of the business.

Digital quiz
Please see the Interactive Textbook to access digital activities.



Source 7.2 The interdependence of the functional departments

7.1 Coordinating key business functions and resources

A key role of senior management is to organise the resources of the business by coordinating the key business functions in the most efficient manner.

The finance function provides the funds that a business requires to pay for its operations. Operations combine material and labour inputs with technology and the facilities of the business to produce outputs. Marketing connects the business to its customers and sells the outputs produced by the operations function. Marketing also uses information from customers. Human resources are the people in the business who oversee the administrative side of the relationship between an organisation and its employees.

In a large business, there is usually a separate department for each function. This is specialisation. In small to medium enterprises (SMEs), there is much more overlap as managers will perform many roles. In a micro business, the owner will manage every aspect of the business.

Each functional manager focuses their resources, knowledge and experience on the tasks that they must perform while relying on the other functions to complete their tasks. There needs to be a constant flow of information between each of the key business functions. Each function relies on the others so that the business can achieve its goals. Therefore, with specialisation of the business functions there must be interdependence.

To illustrate the interdependence between the key business functions, consider the following links. A senior manager will coordinate marketing and operations. The operations function for a manufacturer of frozen pizza needs marketing to research the market to identify the wants and desires of its **target market** so that it can identify the types of products to make. The marketing function relies on operations to produce a range of pizzas that have the ingredients, tastes and quality consumers demand.

Operations will ensure that the products are available to buy when the marketing function is actively promoting them. The revenue from sales will be used by the finance function to fund different aspects of the business. The finance manager will create budgets and make funds available to purchase inputs required for production. They will consider the costs incurred in operations, bearing in mind the financial objective of maximising profit.

Human resources will ensure that enough employees with the appropriate skills are available for the operations function. The human resource manager will use their leadership style and rewards to ensure quality work is done by employees in the operations function.

Review 7.1

Comprehension

Answer these questions on paper or in the Interactive Textbook.

1 In the context of coordinating resources, what does efficiency mean?
2 Provide an example of a situation in which a marketing manager will collaborate with an operations manager.
3 Explain why interdependence between the key business functions is necessary as a business increases in size.

7.2 Operations

A business exists in order to produce the goods and services that consumers want. In return, consumers pay an appropriate price and the business earns revenue. The amount of profit the business earns depends on how efficiently it can provide the good or service.

The operations function of the business involves combining and transforming inputs to produce a final good or provide a service. Alternatively, a business can make **intermediate goods** or services that will be used by other businesses as inputs. The operations function therefore involves the process of planning, organising and controlling all the activities necessary to combine inputs into outputs.

Target market The focus of the firm's marketing strategy. It will include existing as well as potential customers.

Intermediate good A good that is used by other businesses in the next stage of manufacturing as an input for further processing.

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Source 7.3 Businesses aim to meet the wants of the consumer.

Source 7.4 A personal trainer provides a service.

Goods and/or services

A business can produce a good or a service; however, most businesses have both incorporated into their 'product'. For example, a fast-food restaurant provides a meal, which is the good, as well as a fast service. The meal can even be delivered to a home. Management must consider both the good and the service the business provides. There will be businesses that have manufacturing-based operations and others that focus on service-based operations. There will be significant differences between the operations processes used in these businesses.

Manufactured goods are outputs that are **tangible** – that is, they physically exist. The outputs can easily be measured, counted, compared and stored before being distributed to customers. Tangible outputs can be used many times over. Once these outputs are made, they cannot be changed or **customised**.

Goods can be simply transformed manufactured goods (**STMs**) or elaborately transformed manufactured goods (**ETMs**). STMs are quite simple; the inputs have undergone little transformation. STMs can be intermediate goods used as inputs for other businesses. An intermediate good is a good that is used by other businesses in the next stage of manufacturing as an input for further processing. It may become a component of an ETM.

ETMs are much more complex, having many more steps of value adding. ETMs are often finished goods, which can be very complicated and highly sophisticated products that are regarded as having a high value and therefore command a high price.

Services, in contrast, are intangible. Services are not for multiple uses. For example, a visit to the dentist or a haircut can only be used once. The quality of the service is determined by the knowledge and skills of the employees of the business. The more complicated the level of service, the more value has been added.

Therefore, manufactured goods use a lot of equipment while services are much more labour-intensive. The advantage of services over manufacturing is that it is easy to modify and customise the service to suit the desires of the customer.

Tangible A physical good that can be seen, touched and reused.

Customise To change the features of a product to suit the precise preferences of a customer.

STM Simply transformed manufactured good. The inputs have undergone few steps in processing to produce the output.

ETM Elaborately transformed manufactured good. Many inputs have undergone many changes and transformations to produce the output.

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The production process

The production process is the set of steps and processes used to transform inputs into outputs. Inputs include raw materials, ingredients, parts and information. These inputs cannot be reused. Inputs also include the facilities, equipment, technology and labour to create the output. These inputs can be reused.

Source 7.5 Inputs combined and transformed into outputs

Source 7.6 Car factories use continuously flowing production lines.

Managers must select the most appropriate production process for their business. Included in this decision will be considerations about:

- the level of technology required
- the amount of labour used
- the skills, experience and training of employees
- the need to change the volume of output
- the degree to which outputs can be changed.

Manufacturing businesses can use different production methods; the three most common are job, batch and flow.

- *Job production* suits those businesses that produce unique products – no two outputs are exactly the same. Outputs can be made on demand to suit what the customer requests. It is a highly flexible system, but with a low output. There is usually less equipment and more use of skilled and experienced labour. An example could be a one-off designer wedding dress that will never be available in a shop. The cost of each unique output is quite high compared with a business that uses flow production.
- In *batch production*, outputs are made in groups or small amounts of the same output. A good example is a clothing manufacturer that makes a number of different sizes of a particular design and also produces a range of sizes of other ready-to-wear fashion items. Outputs are produced in batches, sometimes only a few and other times up to a few thousand or more. A bakery is a good example of a batch producer. If demand for a particular good increases, the business can simply add more batches of the same product and delete batches of products not selling well.
- *Flow production* involves a continuous flow of inputs that are transformed into outputs. This production process is often associated with assembly lines in large factories. Outputs of operations all look the same and have the same features. There will tend to be less use of labour. Employees will need the skills to program and supervise equipment and technology that is used in the production process.

Factories producing consumer electronics such as computers and smartphones use a continuous flow process that makes it extremely difficult to halt production. Businesses that tend to be high-volume producers such as mining companies or car assembly plants will also have to use flow production. A business that must produce a variety of models with different features that require considerable skill and expertise will use batch production processes.

Service-based businesses will also have a clear process to turn inputs into service outputs. For example, an advertising agency producing television commercials will have client meetings and a written strategy statement as key parts of the production process.

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Video 7.1 Operational quality

Quality management

Quality is not just concerned with the goods and services provided by a business but the whole system of operations. Improvements in quality can occur at every stage of the production process. **Quality management** is a strategy used by the business to ensure that the quality of the product meets the expectations of the business and customer. For the operations manager, strategies to achieve this would include quality controls, **quality assurance** and **total quality management (TQM)**. The first step in quality assurance is quality control.

Quality management A strategy used by the business to ensure that the quality of the product meets business and customer expectations.

Quality assurance Establishing and using a set of procedures and/or processes that will prevent products from having problems (such as faults or errors).

Total quality management (TQM) An approach to quality control that relies on continuous improvement in all aspects of the business. It is often referred to as *kaizen*, and is very evident in Japanese manufacturing companies, such as Toyota.

Defect rate The percentage of goods produced that are of an unacceptable inferior quality.

Quality circles Regular meetings of a group of employees from different sections of the business to discuss issues arising in the workplace.

Quality control

Quality control involves establishing standards and measuring the outputs of a business against those standards. Physical inspection and checking of outputs can identify those outputs of poor quality. One of the main reasons for planning production is to achieve a particular objective such as a certain level of quality. Once production begins, the entire process needs to be monitored. The actual performance of machinery and staff should be measured and compared with what was originally planned. For example, a **defect rate** of 3 per cent may be acceptable.

A firm may compare its performance with that of other businesses in the same industry by using the industry average as a benchmark. This will provide a guide to the business's progress. The business will then make necessary corrections or adjustments to its processes in order to achieve the desired results. The operations manager will try to establish why the variations have occurred and look at both the internal and external influences.

Many professional occupation associations have established standards as a control mechanism. These standards are often referred to as codes of practice. They set out the minimum level of service that registered members of a profession are expected to provide. Chartered Accountants Australia and New Zealand has a distinct set of accounting professional and ethical standards. Together with CPA Australia, it set up the Accounting Professional and Ethical Standards Board in 2006 to ensure the highest level of professional conduct from practising accountants.

A more proactive form of control is quality assurance, which involves establishing and using a set of procedures and/or processes that will prevent products from having quality problems (such as faults or errors).

Total quality management

The total quality management (TQM) approach to quality management focuses on continuous improvement in all functional areas, not just operations. Every employee has a responsibility to ensure quality. Small improvements are constantly made to improve quality outcomes. Procedures are put in place to ensure poor-quality goods never reach the consumer. Success is achieved from getting the process right the first time.

Source 7.7 Manufacturing supercars requires the highest standard of quality management.

The concept of **quality circles** is relevant to TQM. Quality circles are regular meetings of a group of employees from different sections of the business to discuss issues arising in the workplace. The group tries to clearly

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identify any problem areas and come up with possible solutions to those problems, which are communicated to management.

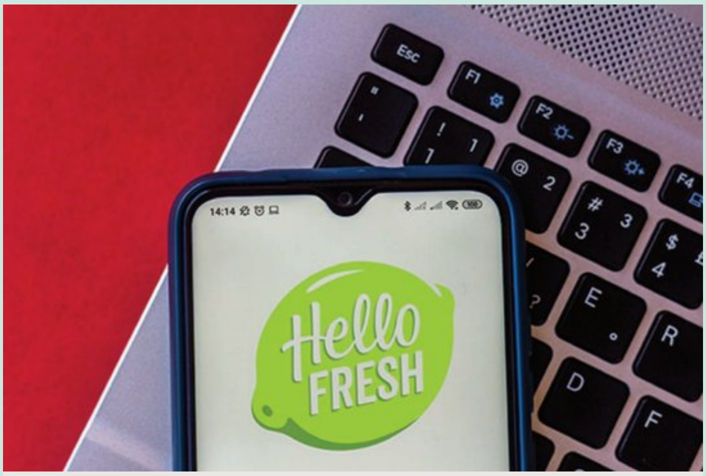
Through benchmarking, many businesses are able to compare themselves with the rest of their industry and past performance. This allows a firm to identify critical factors that may need improvement. The business can also research the best production processes used by its competitors in order to select ways by which it can improve its own methods. Through world's best practice, the firm can compare its performance with the highest standards achieved by businesses worldwide and select businesses to use as models from which to learn.

Business Bite

As an alternative to takeaway for time-poor people, subscription recipe boxes have gained in popularity. Customers have specific quality expectations for ease of ordering, freshness, recipe accuracy and inclusion of locally sourced Australian ingredients. In addition, growing environmental awareness means that customers have expectations about carbon emissions and packaging sustainability.

These expectations present significant quality management challenges for companies like HelloFresh, Marley Spoon, Pepper Leaf and Dinnerly. The weekly quality target is to ensure that the correct meal kit arrives at the appropriate time at the right address. This objective is complicated by the number of permutations of outputs each week. In Australia, HelloFresh customers can order any combination of 25 available recipes in their weekly subscription box. Servings of two or four people are available to suit whether customers are a couple or a large family. Each box can also have an element of customisation, as subscribers can choose additional sides, fruit boxes and snacks. Given this range of choices and variety of output, quality assurance processes must ensure that the correct ingredients are included in each individual customer's box, with the correct portions, and this changes each week.

Data collection, monitoring and control are essential for minimising errors in deliveries and overall quality management. Ideally, the company would aim for a 0 per cent defect rate. Wrong orders are not cost-effective to return, so quality problems would be a significant cost. In addition, because customers order in advance, HelloFresh needs reliable supply chains to ensure the availability of ingredients. Sometimes changes are needed owing to unexpected supply problems, such as poor weather or delayed deliveries. When this occurs, an email is sent as part of meeting customer expectations. HelloFresh routinely collects data as a feedback quality control using emails and asking customers to rate their meals.



Source 7.8 Meal kit companies such as HelloFresh offer a healthy solution for time-poor customers.

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Review 7.2

Comprehension

Answer these questions on paper or in the Interactive Textbook.

1 Identify an example of a business that produces:
   a STM goods
   b ETM goods
   c an intermediate good.
2 What is the objective of quality management?
3 Describe the role of the quality manager.
4 Describe how improvements to quality can be achieved with improvements to quality control.
5 Assess the importance of labour inputs for a service-based business.

7.3 Marketing

Marketing connects the business to its customers and is the main revenue-generating activity of the business. Marketing is not simply advertising a product; it is a whole system to develop a product that suits the tastes and preferences of consumers, then to price it, promote it and place it on the market for customers to buy.

Market segmentation Through market analysis, the division of the total market into small segments based on the similar or common characteristics of a customer group.

Market research is a key feature of effective marketing. This is because market research can identify the features of a product that customers desire. The marketing department uses research to develop the most effective strategies for the most appealing product to maximise sales.

Existing as well as potential customers are called the target market. Customers can be households, other businesses, government departments and institutions such as schools and churches.

The marketing department develops a marketing plan that works with the business's overall strategic plan. The goals and strategies put forward to successfully market the product must be compatible with the overall goals of the business. The marketing plan is made up of strategies that fit into the business's strategic plan.

The role of marketing is to satisfy the needs and wants of the consumer at a price that provides a profit for the business.

Identification of the target market

For most businesses, the marketing process is directed at a small group of people within the general population. **Market segmentation** enables the business to identify this particular group and ensures that it does not waste its resources by marketing to everyone. The largest market segment is a mass market, which includes all consumers, and the smallest is a niche market. A niche market is a highly specialised market with a small number of potential customers.

The target market is the focus of the firm's marketing strategy, and will include existing customers as well as potential customers who may currently be using a competitor's product or even be unaware of the existence of this type of product. The target market essentially comprises the people who the business believes will be the buyers and users of its products.

Market research gathers, tabulates and analyses the data collected from this target group to gain key information to help the business ensure that its product is what the customer wants. Research eventually will allow a customer profile to be completed. The closer the product is to attaining the highest possible satisfaction levels for the target group, the greater the possibility of achieving success and maximising sales. Market research may also:

- investigate existing competitors in the market
- analyse changes in government regulations
- research advances in technology that may affect the business

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Source 7.9 The owner, and not the dog, is the target market of dog food advertising.

- identify fashions or trends in the industry
- determine consumer buying patterns.

Market segmentation will divide the mass market into segments or groups. These groups can be based on the following factors:

- geographic – the state, city or region where they live
- demographic – including age (such as teenagers and retirees), gender (male, female) and income
- psychographic – a person's attitudes, values, personality and lifestyle
- behavioural – brand loyalty, purchase occasion, usage rate, benefit sought.

Potential customers also share the same problems, values and needs. Alex Osterwalder created the Value Proposition Canvas (VPC) as a tool to help marketers develop products that solved customers' pain points.

It needs to be understood that not all customers of a business are the final consumers of the product. Many businesses use another firm's outputs as inputs into their own production process. These are intermediate goods. In each case, producers of intermediate goods will have their own target market.

Final products are sold in consumer markets and to individual consumers, including families and households, in order to satisfy their immediate needs or wants. A 50-kilogram bag of flour would be an intermediate good for a bakery. A packaged birthday cake would be a final product for an individual consumer.

Business Bite

In marketing, data analytics has evolved out of the enormous amount of personal information that businesses are able to collect about consumers. This information is collected through transactions and loyalty cards, and via social media. Because individuals put so much information about themselves and their interests online, it is easily accessed by marketers. This data is analysed by business intelligence (BI) tools that use software to analyse and present findings in easy-to-understand visuals (graphs, charts and maps) and summaries about what is happening now in the business and its market. BI offers a way for marketers to examine data to understand market trends and derive insights about the business's customers. BI is different from business analytics, which uses data analysis to predict the future. Using both BI and analytics, managers can change and improve marketing strategies to more effectively target potential customers and increase sales.

Marketing mix

The marketing function of a business needs to develop strategies that apply to the **marketing mix**, which in turn must appeal to the target market. The marketing mix is the process of developing a *product* that meets the needs of consumers and implementing a series of *promotional*, *pricing* and *placement* strategies that will encourage consumers to purchase the product. This mix is referred to as the **four Ps**. An additional three Ps are often discussed in marketing:

- *people* – services are performed by people who influence the quality of the service delivered

Marketing mix The process of developing a product that meets the needs of consumers and implementing a series of promotional, pricing and distribution strategies that will encourage consumers to purchase the product.

Four Ps The process of developing a product that meets the needs of consumers and implementing a series of promotional, pricing and placement strategies.

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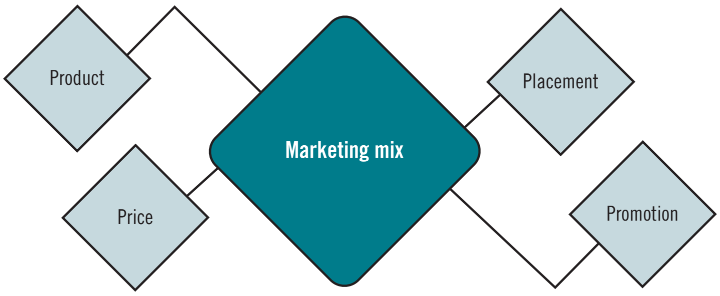
- *process* – the process people use to provide the service
- *physical evidence* – physical objects such as brochures and advertising flyers.

However, in this textbook we will concentrate on the four Ps: product, price, promotion and placement.



Source 7.10 Elements of the marketing mix: The 4Ps

Product

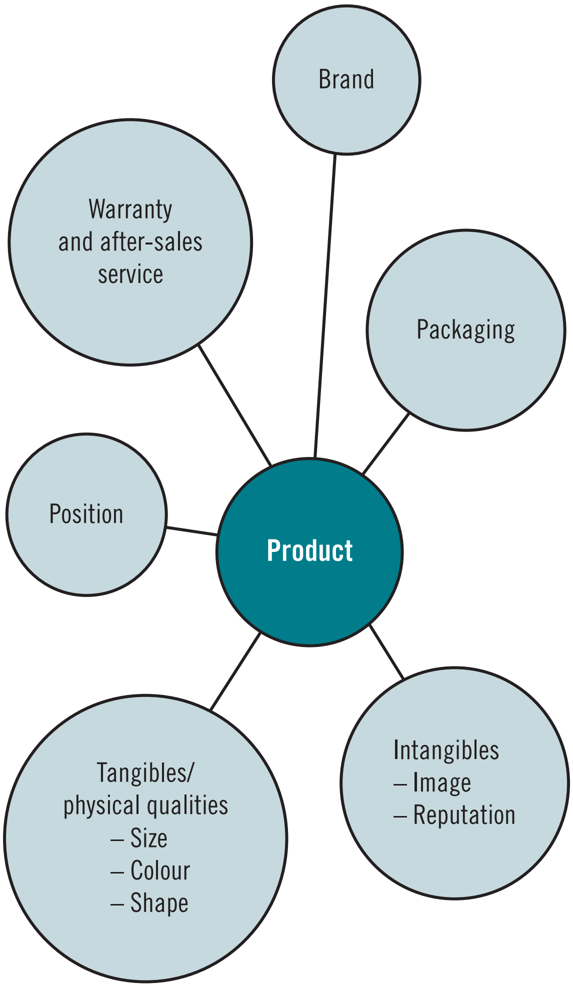
The term 'product' refers to a good or service that can be exchanged in the market.

Product involves a total product concept. This includes the tangible, or physical, qualities of the product, such as its size, colour, features and design. It also includes the intangible qualities, such as the image, service and reputation from its brand name. Extra after-sales service may be provided to add more value. All products sold in Australia are protected by a warranty; however, a business may provide additional protection and service above what is legally required. Marketing can take advantage of these intangible qualities by creating a certain customer impression of the product by **positioning** it as a superior product or one that represents more value for money compared with its competitors.

Positioning The image of the level of quality of a product in the mind of the consumer compared with alternative products offered by the firm's competitors.

Brand A name, design or symbol that distinguishes a particular product from the product of another business.

Brand refers to the name (sometimes of a company), term, sign, symbol or design that is used to identify a supplier's good or service and its associated image to the public, and to differentiate it from its competitors' products. The brand itself may be associated with a particular logo that is distinctive and individual in its appearance. Well-known and successful brand names are easily recognisable and stand out among their competitors. In many cases, the brand name is used as the key selling point for the item. Businesses can promote a brand rather than individual products.



Source 7.11 Elements of product

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Business Bite

Source 7.12 Interbrand's best global brands of 2020

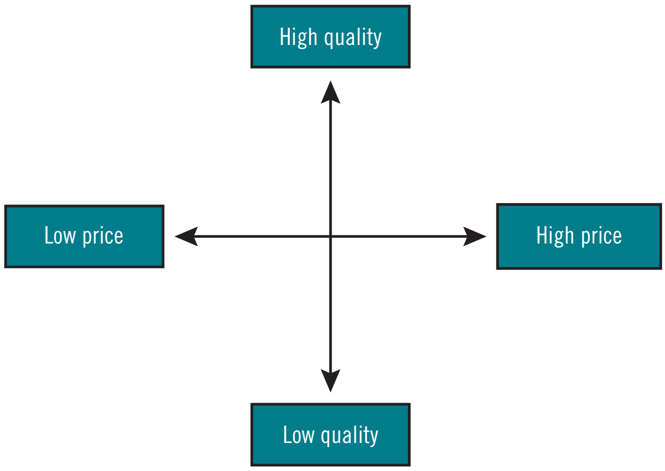
Position	Brand
1	Apple
2	Amazon
3	Microsoft
4	Google
5	Samsung
6	Coca-Cola
7	Toyota
8	Mercedes-Benz
9	McDonald's
10	Disney

A **trademark** is the symbol or name that a business uses to represent its products. It is part of a business's **intellectual property**. A registered trademark gives the owner the legal right to be the only user of the brand name or symbol.

Positioning in the market is how the product or brand is perceived by consumers compared with its competitors. Consumers will rank products and brands on the basis of price, quality and other features. A positioning chart (Source 7.13) illustrates this.

Products normally are presented in some form of packaging. Packaging of the product not only provides protection for the product but also attracts interest to the product. Eye-catching colours or appealing designs on the package will generate interest about the product inside. The package often provides information and highlights special features of the product.

Each element of the product strategy is intended to differentiate the product from others in the marketplace. The business attempts to make its product distinctive. This will depend on what the business perceives its competitive advantage to be. It may present the product as the 'best value for money' item available, or as providing a higher level of personalised service.



Source 7.13 A positioning chart

Price

The marketing manager will choose a price that will be compatible with the marketing and finance objectives of the business. There are several methods that the firm may use to set its prices, including the following:

- *Cost-of-production method:* A profit margin or mark-up is added to the cost of production.
- *Demand pricing:* The firm sets the price based on what consumers are prepared to pay for the product.
- *Competition-based pricing:* Competitors' prices are used as a guide.
- *Prestige pricing:* This is based on the product's 'image', which has been established through positioning.
- *Loss leader pricing:* The product is sold for less than it cost to make or supply.

The price that is set may also be affected by other factors, such as remoteness from the supplier, the cost of transportation or the availability of **substitutes**.

Trademark A symbol or name that a business uses and has registered to represent its product. It is part of a business's intellectual property.

Intellectual property The research and ideas that a business has developed into a product, trademark, design, name or artistic work that is unique to the business and can earn income. It is illegal to copy intellectual property without permission. Intellectual property is an example of an intangible asset.

Substitute A product that can be purchased as an alternative to another product.

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Promotion

Promotion is the process of creating and maintaining consumer awareness and interest. Marketing uses promotion strategies to inform and influence consumers to buy a product. Strategies might include the following:

- *Sales promotion:* The business may offer incentives to the consumer through competitions or special offers.
- *Advertising:* Advertisements may appear in newspapers, in magazines, on billboards, on television or online.
- *Direct selling:* This may include direct phone calls, emails and text messages.
- *Publicity:* An example would be a prime-time current affairs program featuring a 'good' business providing assistance to a needy family, with the business's name and logo clearly displayed.
- *Product placement:* The product is used or demonstrated by the actors in a television show or movie.

Ethical Spotlight 7.1

Discuss the statement 'Product placement is an unethical method of promotion'.

Promotion The process of creating and maintaining consumer awareness of and interest in a particular product.

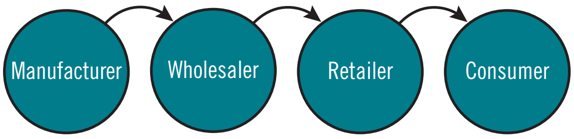
Placement How a product is distributed to its market – that is, the transportation used, the storage of the goods, and the outlets and locations that will sell the product.

Transport logistics The management of the physical flow of goods and/or services from where they are produced to where they are consumed.

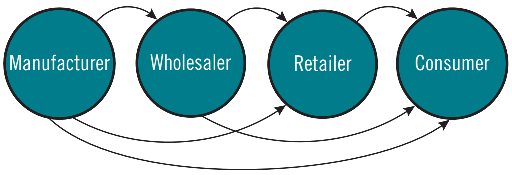
Distribution channels The channels by which a product is moved from the place of manufacture (the product's place of origin) to the consumer (place of origin) to the consumer (the product's final user).

Placement

Placement refers to how a product is made available to the market. It includes transportation, warehousing or storage of goods as well as the outlets and locations that will sell the product. There is a connection with the operations function of a business that involves **transport logistics** – distributing and delivering products in the most cost-effective manner.



Source 7.14 A 'classic' distribution channel



Source 7.15 Alternative distribution channels

Distribution channels involve the movement of the finished product from the place of manufacture (the product's place of origin) to the consumer (the product's final user) (see Sources 7.14 and 7.15).

In each stage of this distribution chain, goods are transported closer and closer to the consumer. Wholesalers are intermediaries that purchase goods from manufacturers in bulk quantities, provide secure storage facilities and then resell these goods to retailers in smaller quantities. They often provide the retailers with trade credit and convenient deliveries, and allow the retailer to deal with a smaller number of suppliers. With the growth in e-commerce and online shopping, distribution can occur from a central warehouse directly to the customer. Fast delivery times are the key to gaining a competitive advantage in the market.

Source 7.16 Distribution can be directly from a central warehouse to the customer.

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Placement also requires decisions to be made about the degree of distribution. For example, a business needs to decide whether its product will have the following kinds of distribution:

- *Intensive distribution:* This maximises the firm's sales by ensuring that its products are available through as many outlets as possible.
- *Selective distribution:* This makes a product available only to a limited number of approved retailers. Examples are certain make-up products that are available only in department stores or pharmacies.
- *Exclusive distribution:* This involves only one retailer or wholesaler being permitted to sell a supplier's product in a particular area or territory. Rolls-Royce, Louis Vuitton and other luxury items are distributed in this way in Australia.

Review 7.3

Comprehension

Answer these questions on paper or in the Interactive Textbook.

1 What is the role of marketing?
2 Using market segmentation, describe the target market for energy drinks such as Monster Energy, Red Bull and Mother.
3 Explain how market analysis can help improve the effectiveness of the marketing mix.
4 Analyse the purpose of branding in the marketing mix.
5 'A good product will sell itself.' Assess this statement.

7.4 Finance

The finance function organises the financial resources needed to pay for all aspects of each key business function. We learned through study of the business life cycle in Chapter 4 that during the establishment phase, a business needs capital so it can acquire the resources necessary to begin operations. Leasing premises, acquiring technology, purchasing inputs and hiring employees will all need finance. Businesses also need an inflow of cash (funds) to enable them to successfully manage their daily operations. It is the key business function of finance that manages all the sources and uses of these funds.

By law, businesses must account for all the money coming into and going out of the business. These movements are recorded and summarised in the financial statements. In fact, most of the decisions a manager makes are measured in financial terms. It allows them to measure their performance and evaluate the profitability and financial position of the business at any time. These financial statements are often used to evaluate how successful the business has been in reaching its goals and objectives. As well as finance managers, there are many other stakeholders in the finance function.

Accounting is involved with recording and reporting financial information in financial reports for use by stakeholders.

Finance is concerned with acquiring and managing the funds that are necessary for goods and services to be produced.

Without finance, the business plan could not be carried out. Finance allows inputs (or resources) to be acquired, funds the key business functions, and records the revenue and expenses to calculate profitability. In some SME businesses, the owners may perform the role of the finance department.

Accounting information about a business is presented in three main financial statements:

1 **cash flow statement**
2 **income statement**
3 **balance sheet.**

It is from these financial statements that the business can determine its profitability, and the efficiency and the effectiveness of its management.

Cash flow statement A financial report that summarises cash transactions – involving cash flowing into and out of the business – that have occurred over a period of time.

Income statement A summary of all revenues generated and expenses incurred by a business over a specific period of time, such as a financial year. It is completed to work out the business's profitability and efficiency. Also known as a profit and loss or revenue statement.

Balance sheet A summary statement of the assets a business owns, the liabilities the business owes and the equity the owners have invested in the business.

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Source 7.17 The stakeholders of a business

Stakeholder	Interest in the business
Customers	Can the business afford warranty claims and after-sales service?
Government	Is the business paying the correct tax?
Society	Can the business afford to operate in an ecologically sustainable manner?
Suppliers of stock	Can the business pay its invoices when they are due?
Creditors/financiers	Can the business pay its interest and loan repayments?
Owners and shareholders	Is the business profitable? Can the business provide a good return on investment?
Employees	Can the business afford an increase in pay and offer job security?
Managers	Can the business afford to pay a bonus?

Management accounting The internal accounting process. Management uses financial statements as a basis for decision-making.

Financial accounting Produces financial statements about the overall financial position of a business.

Equity finance Internal sources of finance – that is, finance provided by the owners, who can give the business start-up capital or contribute cash by buying shares. It also refers to any net profit reinvested in the business.

Debt finance Funds borrowed from a bank, an investor or another firm. It involves a contractual agreement that specifies the need to repay the principal as well as interest, and states the set period of time over which the debt must be repaid.

Management accounting refers to the internal accounting process. Management uses information from the statements as a basis for decisions. For example, this information would be used when preparing budgets, tenders or quotes, and in negotiating price changes.

Financial accounting produces financial statements about the overall financial state of the business. These statements are used by external stakeholders and provide information such as the ability of the business to repay loans or how much tax is owed to the government.

The finance that is needed by a business may come from various sources. The finance function makes sure the conditions of finance available to the business (such as the interest rate and term of a loan) will be matched appropriately to the purpose of the finance and the length of time for which it will be needed.

The two major sources of finance are:

1 internal sources – profits reinvested into the business
2 external sources, of which there are two types – external **equity finance** and external **debt finance.**

Equity finance includes all funds that are obtained from people who become shareholders or private equity investors. Debt finance is borrowed funds, generally from financial institutions such as banks from another business.

The accounting principles set out the policies and rules that must be followed when completing accounting records and financial statements. In Australia, accounting rules and standards have been established by Chartered Accountants Australia and New Zealand and CPA Australia. As part of the accounting principle, a business's financial statements are all presented from the business's point of view. Therefore, all assets are owned by the business, all liabilities are owed by the business and all the transactions are recorded as separated from the owners.

Source 7.18 Rules and policies are in place regarding accounting practices and financial statements.

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Cash flow statement

Critical to a business's financial success is controlling its cash flow – that is, maintaining its **liquidity**. Businesses need to be able to pay their debts as they fall due, or they will run into financial trouble. Failure to control cash flow can result in liquidity problems in the short term and **insolvency** in the long term. This can lead to the closure of the business. Insolvency occurs when a business can no longer pay its debts when they fall due. Lenders will take legal action against the insolvent business. Liquidation may be the result, with the business's assets sold to pay all outstanding debts.

A cash flow statement summarises cash transactions that have occurred over a period of time. Its purpose is to provide information about the flow of cash receipts and cash payments within the accounting period, and to provide management with necessary details for budgeting and managing expenses and liabilities. It gives creditors information about a firm's ability to pay its accounts and the degree of risk involved when allowing additional supplies to be provided on trade credit.

Cash inflows include all the money that flows into the business, whereas cash outflows include all money that flows out of the business. Cash inflows include revenue received from sales of goods or services, new share issues and the sale of **non-current assets**, such as unnecessary machinery. Credit card sales are also classified as a cash inflow because the seller receives payment from the credit card company immediately. Cash outflows include purchases of stock, wages and operating expenses. Dividends, tax payments and repayments on loans are also cash outflows. The difference between the cash inflows and cash outflows is referred to as net cash flow and can present a cash surplus or cash shortage.

The three main areas of a cash flow statement are:

1. cash flow from normal operations of the business, such as sales receipts and payments for expenses
2. cash flow from business investments, such as dividends paid by the firm or received from the ownership of shares in other businesses
3. cash flow relating to finance, such as interest received or paid on loans.

Source 7.20 on the next page shows an example of a cash flow statement. The result of the year's activities for this business was a $36 500 cash shortage. This figure is a negative result, which is indicated by the brackets around the number.

Liquidity Indicates how much ready cash is available in a business. Current assets are listed in order of liquidity, which is how easily they can be turned into cash. Savings in the business's bank account are the most liquid as they are already cash.

Insolvency When a business cannot pay all its liabilities, both current and non-current. A business that is insolvent will most likely fail because creditors will demand repayment and the business cannot afford to pay loans without selling assets.

Non-current assets Assets that earn revenue for a business over a long period of time, usually greater than 12 months. Examples are land, equipment and vehicles.

Source 7.19 Credit card sales are classified as a type of cash flow.

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Source 7.20 A simple cash flow statement

Cash flow statement for First Sight Optometry for the year ending 30 June 2021	
	$
Receipts from customers	439 000
Payments to suppliers and employees	(406 700)
Interest received	1 000
Net cash provided by (used in) operating activities	33 300
	$
Payment for property, plant and equipment	(125 000)
Net cash provided by (used in) investing activities	(125 000)
	$
Repayment of borrowings (previously lent by Wilbur)	85 000
Net cash provided by (used in) financing activities	85 000
Net increase (decrease) in cash held	(6 700)
Cash at beginning of year	(29 800)
Cash at end of year	(36 500)

Cash flow statements can also be created for monthly periods to allow for closer management of liquidity. Consider the example in Source 7.21.

Analysis of cash flows allows a business to identify the periods during which additional cash may be needed. If the problem is a short-term situation, a bank overdraft may be organised to provide necessary funds for the business.

Business Bite

Small start-up businesses usually have limited finance and need to prove their ideas with a minimum viable product and launch. Crowdfunding is a different source of finance available to businesses without going into debt or giving up ownership. Outsourcing to a specialist crowdfunding marketing company to launch and promote a project can significantly increase the chance of a successful fundraising campaign.

Kickstarter (kickstarter.com) brought crowdfunding online in 2009. The company offers a simple process in which entrepreneurs create a story for their business, product videos, project budget, set a funding target, and provide links to Instagram and Facebook to promote their campaign. Investors can back individuals and businesses through a donation or reward. Kickstarter encourages creativity with rewards, although many businesses offer backers the first option to buy their new product, discounts and promotional merchandise. Once a project's funding goal has been achieved, the amount pledged by the backers is transferred to the creator.

Kickstarter earns revenue from charging processing fees and a fee of 5 per cent of the total funds raised. Equitise (equitise.com) is an Australian and New Zealand investment platform. This company received a crowd-sourced funding licence in January 2018 and offers an equity-crowdfunding service where individuals can purchase shares in private and unlisted companies. There is a risk of losing your investment if the company fails.

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Activity 7.1
Comprehension

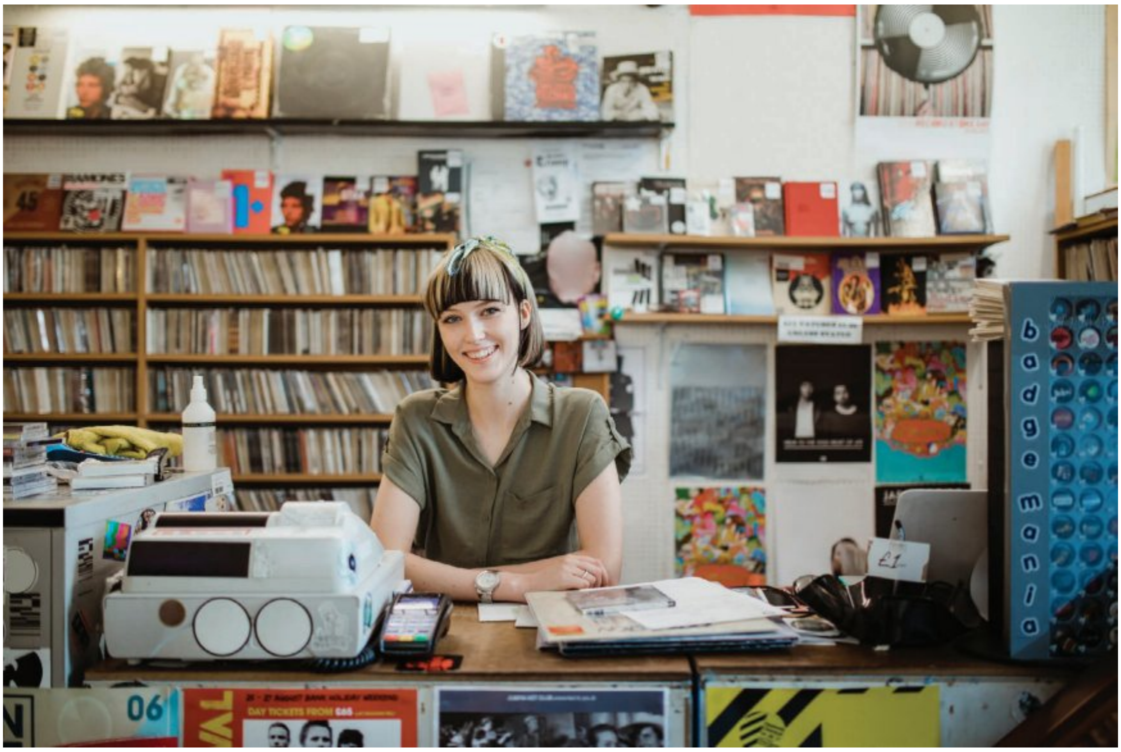
Answer these questions on paper or in the Interactive Textbook.

Source 7.21 Cash flow for Idol Music

Month	Cash inflows $	Cash outflows $
January	0	2500
February	1500	3000
March	4500	3500
April	3500	2600
May	3300	2100
June	3000	1900
July	2700	3500

Using the information provided in Source 7.21, complete the following tasks:

1 Describe the cash flow of Idol Music over the months from February to July.
2 Calculate the net cash flow for each month.
3 Identify the month in which Idol Music had the highest positive net cash balance.
4 Identify the month in which Idol Music opened for business.
5 Identify the months in which Idol Music had a cash flow shortage.
6 Calculate Idol Music's bank balance at the end of each month.
7 Using your answers from Question 6, identify Idol Music's bank balance at the end of the financial year.



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Income statement

The income statement may also be referred to as the revenue statement, profit and loss statement or the statement of earnings.

The income statement is a summary of all the revenues that are generated for the business and all the **expenses** that are incurred to earn that revenue. The summary is for a specific period of time – usually a year.

The difference between the total revenue earned and total expenses for the period is profit.

Revenue – expenses = profit

Expenses All the costs incurred in earning revenue; this could include wages, the cost of marketing and the purchase of materials and stock.

Bottom line The net profit from business operations after all costs have been paid.

Gross profit The revenue remaining after paying the cost of goods sold.

If total revenue is greater than total expenses, a positive result is calculated.

If the expenses were greater than the revenue, a loss would be incurred. This is recorded in brackets.

Revenue includes all funds flowing into the business:

- cash and credit sales
- payment of fees for its services
- rent or interest from its investments
- discounts received from suppliers
- dividends on shares that this business owns as investments.

Expenses are all the costs incurred in earning revenue. They include the cost of the goods sold as well as administrative, selling and financial costs.

The income statement can be used for internal purposes by managers as a monitoring tool, as it tells them whether the business is profitable. It reports on the **bottom line** – that is, the net profit from business operations after all costs have been paid.

A bank or lender will require the income statement if the business needs additional debt finance. It will provide evidence of the business's ability to repay loans and interest. Investors and potential shareholders will also be interested in profitability. For taxation purposes, all businesses – no matter how small – need to have some type of income statement, even if it is in the form of a simple recording of expenses and income received. If records are not kept correctly, the Australian Taxation Office (ATO) has the power to estimate income.

The income statement allows management to calculate the level of **gross profit**, net profit and the return on investment. These figures provide the most recognisable measure of a business's success.

Source 7.22 Income statements can be used by managers as a monitoring tool as they report on the bottom line.

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Calculating gross profit

The following formula is used to calculate gross profit, which is the revenue remaining after paying the cost of goods sold (COGS).

Gross profit =
sales revenue – cost of goods sold

The calculation of gross profit is completed in the first section of the income statement. COGS is simply the cost to the business of the goods it sells – that is, its inventory cost. The calculation of COGS provides the firm with the total cost of the goods it has sold over the trading period. The firm could use the template that follows.

Stock at the beginning of the period
(1 July 2020) = __________

Plus purchases made during the period
(bought between 1 July 2020 and
30 June 2021) + __________ = __________

Less stock at the end of the period
(at 30 June 2021) – __________

Equals cost of goods sold (COGS)
= __________

Note that COGS may represent the cost of stock for a retailer or a wholesaler. It may also include the cost of transporting the goods to the store, called cartage or freight. An example is shown in Source 7.24.

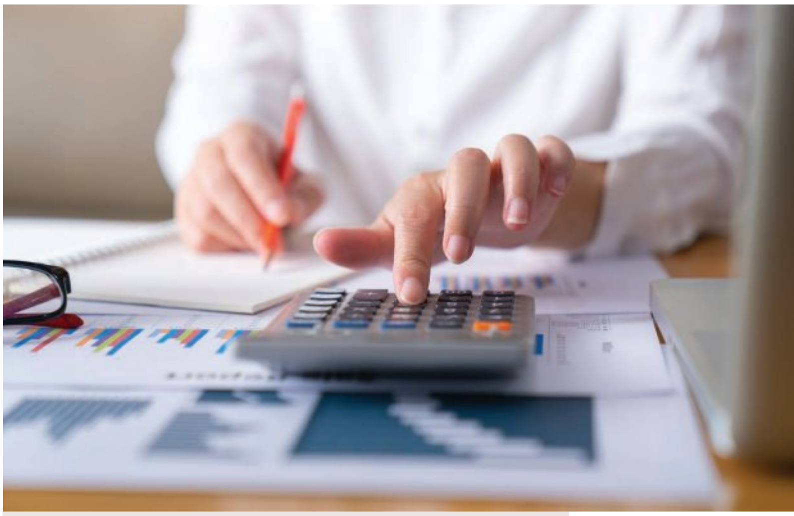
To calculate the gross profit (or loss) made on sales, use the following formula (an example is provided):

Sales revenue – COGS = gross profit

(Example: $13 000 – $10 000 = $3000)

The level of gross profit can be used as the basis for the selling prices set by the business.

The business can use a mark-up pricing system or a cost plus system. In the above example, a mark-up of 30 per cent is used. Here, 30 per cent has been put on top of COGS. If COGS is $1, then 30 cents is added to the cost to get a selling price of $1.30. The finance manager will need to assess the adequacy of this mark-up level – that is, they will need to determine whether it will be enough after all the other costs of running the business are deducted.



Source 7.23 Financial records can be used to measure the success of a business.

Source 7.24 Sample calculation of COGS

	Amount ($)
Opening stock	5000
plus Purchases	16 000
Total	21 000
less Closing stock	11 000
equals Cost of goods sold (COGS)	10 000

Calculating net profit

The following formula is used to calculate net profit.

Net profit = gross profit – expenses

Businesses have a large number of expenses, and it is usual practice for the accountant to divide expenses into three categories:

1. selling and distribution expenses, such as commissions paid to salespeople, delivery expenses, advertising and the wages of sales staff
2. financial expenses, such as interest paid on loans and writing off **bad debts**
3. general and administrative expenses, including wages of office staff, rent, insurance, telephone, electricity and depreciation.

Bad debt An account that is unable to be paid when an invoice or bill has been issued. The customer has a debt owed to the business, but is unable to pay; therefore, their debt becomes an expense.

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Depreciation is the loss in value of an asset over time as it wears out and becomes out of date.

The formula for calculating net profit can also be presented as follows:

Sales revenue – COGS – expenses
= net profit (or net loss)

Net profit (or net loss) is the overall result of trading for the period – that is, the result of operating the business.

Using the example shown in Source 7.25, it is possible to calculate the amount of tax that Survivor Games Pty Ltd would need to pay. The current company tax rate for small businesses is 27.5 cents in each dollar profit. For Survivor Games Pty Ltd, this means:

$46 500 × 0.275 = $12 787.50

payable to the federal government through the ATO. Thus $46 500 less $12 787.50 = $33 812.50 is the profit after tax.

Many businesses report earnings (net profit) before interest and tax (EBIT) on their reports because it more accurately represents the profitability of the business from its actual operations before the impact of external factors such as interest repayments and tax paid to government.

The final net profit for a business represents the reward to which the owners of the business are entitled for their entrepreneurship. Net profit therefore adds to owner's equity and is recorded on the balance sheet. If a business makes a loss, owner's equity will be reduced.

Source 7.25 A simple income statement

Income statement for Survivor Games Pty Ltd For the period ending 30 June 2021		
	$	**$**
Sales revenue		450 000
less Cost of goods sold		
Opening stock	30 000	
plus Purchases	270 000	
minus Closing stock	70 000	
		230 000
Gross profit		*220 000*
less Expenses		
Advertising	6 000	
Bank charges	200	
Insurance	3 000	
Interest paid to bank	10 500	
Motor vehicle expenses	9 000	
Printing, postage and stationery	2 000	
Rent	12 000	
Salaries and wages	120 000	
Superannuation contributions	10 800	
Telephone	3 000	
Accountancy fees	2 000	
		178 500
Net profit (before tax)		*46 500*

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Balance sheet

A balance sheet provides a 'snapshot' of a business's financial stability at a particular point in time. It shows what the business owns, what it owes and the owner's investment in the business. Thus the balance sheet shows the value of a business's assets, liabilities and owner's equity at a set time – usually at the end of the financial year, which in Australia is 30 June.

The balance sheet is based on the principle of the accounting equation, which is given below.

Assets = liabilities + owner's equity

A = L + OE

The balance sheet shows:

- the value of assets a business owns
- the level of debt the business has that is used to fund these assets
- the amount of the owner's own money that has been used to purchase these assets.

Consider this simple example. Sam has purchased a car for \$10 000. The value of his asset is therefore \$10 000. Sam has saved \$2000 and has used this as a deposit. He borrows \$8000 from the bank to make up the full cost of the car. Sam's equity in the car is \$2000 and his liability, or debt, is \$8000.

\$10 000 in assets = \$8000 funded from liabilities or loans + \$2000 funded from owner's equity

This is represented by the accounting equation:

A = L + OE

Assets

Assets include all resources owned by and under the direct control of a business. They are used to generate revenue for the business. Assets can be divided into two groups, based on their liquidity – that is, how easily they can be converted into cash. These groups are **current assets** and non-current assets.

Current assets are those that earn revenue for a business in the short term – usually less than 12 months. These are assets that are more liquid because they are more easily converted into cash in a short period of time. They include:

- cash – money in the business's bank account
- accounts receivable or debtors – customers who bought goods or services on credit and have not yet paid their account
- stock or inventory – the total of unsold items still owned by the business at the end of the trading period
- prepaid expenses – expenses that are paid before they are due and may possibly secure future resources needed by the business.

Current assets Assets that earn revenue for a business in the short term – usually less than 12 months. Examples are cash in the bank and accounts receivable.

Source 7.26 Store stock is considered a current asset.

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Non-current assets are those that earn revenue for a business over a long period of time – usually greater than 12 months. These are items that would not normally be converted into cash in a short time period and would remain in use for several years. They may include:

- land and buildings, such as a factory
- plant and equipment, machinery
- fixtures, fittings, display cabinets
- intangibles such as trademarks and **patents**
- motor vehicles, delivery trucks, forklifts.

Sometimes goodwill is included as a non-current asset to represent the value of the business's reputation.

Patent By taking out a patent, the owner of an invention, innovation or production technique has exclusive rights to sell, market, license or make a profit from it. A patent lasts for a set period of time.

Current liabilities Money that is owed to an external business or person that will be repaid in the short term, usually less than 12 months.

Non-current liabilities Debts of a business that are repaid over a long period of time – usually greater than 12 months.

Debenture A long-term loan where a company writes a document expressing its commitment to repay a debt at a fixed date in the future; sometimes known as bonds. Debentures require assets of the borrower as security for the loan.

Liabilities

Liabilities include all the money or debts that the business owes and needs to repay. They are financial obligations of the business. Liabilities can be divided into two groups according to the length of time it will take the firm to pay the debt. These groups are **current liabilities** and **non-current liabilities**.

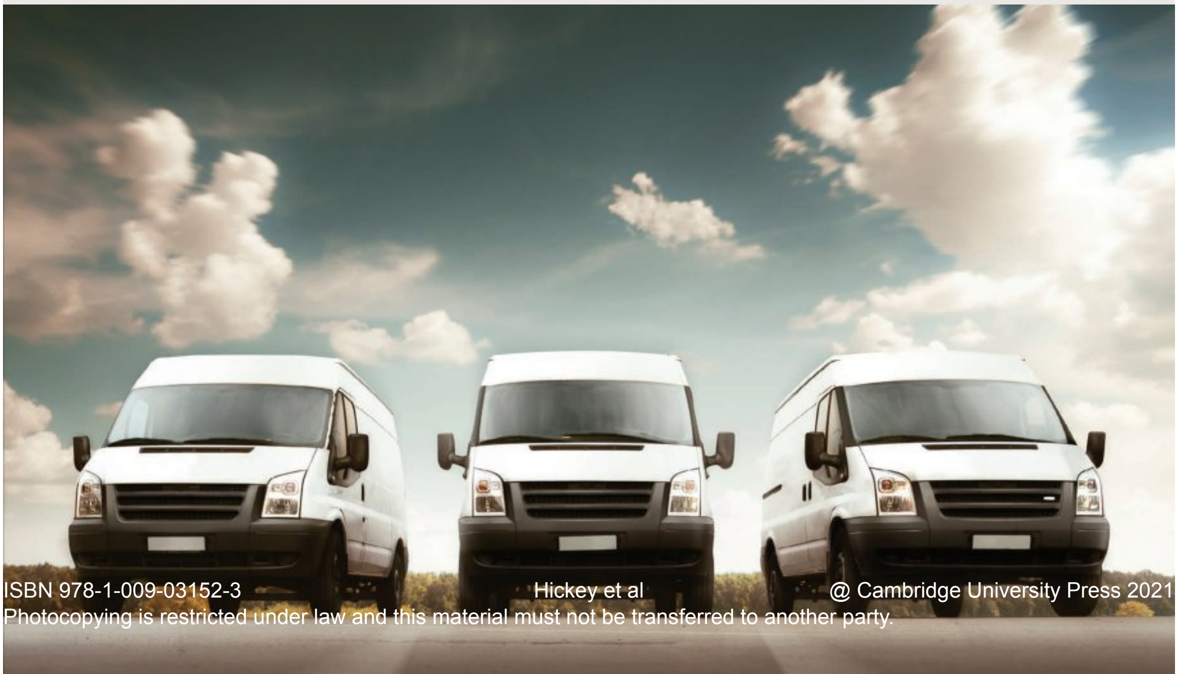
Current liabilities are debts that need to be repaid in the short term, usually within 12 months. The more common of these include:

- business credit cards – banks will issue a credit card that can be used for business expenses; a minimum repayment may be required each billing cycle and interest rates are high
- a bank overdraft – where the bank has allowed the business to write cheques to pay bills for more money than it has in its account
- accounts payable or trade creditors – money owed to the firms that have supplied the inputs used by the business
- commercial bills – loans for large amounts over $100 000, usually to buy inventory and pay other short-term liabilities, with a set rate of interest and to be repaid on a set date no more than 270 days (nine months) into the future; commercial bills are not secured or guaranteed by the assets of the business.

Non-current liabilities are debts that can be paid over a long period of time – that is, they will take longer than 12 months to repay. Examples are:

- a long-term loan – a loan taken out for a fixed period of time more than 12 months
- a mortgage – usually money borrowed to purchase a property where the title deed of the property is held as security for the loan; the property cannot be sold without the deed
- **debentures** – medium- to long-term loans used by large businesses, sometimes called bonds; debentures are not secured or guaranteed by the assets of the business.

Source 7.27 Non-current assets, like delivery vans, will be owned more than 12 months.



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Owner's equity

Owner's equity represents the net worth of the business. It is the money that the business 'owes' to its owner – the owner's claim on the assets of the business. It is also the amount of money that would be left over after all the debts have been paid. It is sometimes called proprietorship or owner's capital. It includes:

- capital – the money that the owner has invested into the business
- undistributed profits (or retained profits) – includes profit made in previous financial periods and kept for future use by the business rather than being distributed to the owner as dividends for a company
- **drawings** (in the case of a sole trader or partnership) – money taken out of the business for the owner's personal use; this would be deducted from the total of owner's equity.

Drawings When the owners of a business take money out of the business for their own use. This reduces the owners' equity because the owners are reducing their original investment in the business by withdrawing capital.

Source 7.28 A simple balance sheet

Balance sheet for Just Desserts Pty Ltd as at 30 June 2021		
	$	$
Current assets		
Cash at bank	1 500	
Accounts receivable	48 000	
Stock	50 000	
		99 500
Non-current assets		
Plant and equipment	112 000	
Motor vehicles	34 500	
		146 500
Intangible assets		
Goodwill	10 000	
		10 000
Total assets		***256 000***
Current liabilities		
Bank overdraft	68 000	
Accounts payable	39 500	
		107 500
Non-current liabilities		
Mortgage	85 000	
Total liabilities		192 500
Owner's equity		
Capital	20 000	
Undistributed profits	43 500	
		63 500
Total liabilities and owner's equity		***256 000***

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Activity 7.2

Comprehension

Answer these questions on paper or in the Interactive Textbook.

1 Copy and complete the following table. Fill in the blank spaces with the aid of the accounting equation provided at the top of the table.

Source 7.29

Assets =	Liabilities +	Owner's equity
100 000	80 000	
150 000	105 000	
	167 500	15 000
367 250	167 000	
234 567		32 100
	213 989	14 000
176 000		16 000

2 Using the information about Block Party Pty Ltd provided below, construct an income statement for Block Party for the year ended 30 June.
- opening stock $50 000
- sales $250 000
- rent $30 000
- advertising $25 000
- insurance $10 000
- purchases $70 000
- closing stock $10 000

3 Classify each of the following using the headings 'Current asset', 'Non-current asset', 'Intangible asset', 'Current liability', 'Non-current liability' and 'Owner's equity':
- a accounts receivable
- b accounts payable
- c cash at bank
- d stock
- e capital
- f retained profits
- g mortgage
- h drawings
- i furniture and fittings
- j vehicles
- k goodwill
- l land and buildings
- m undistributed profits
- n inventory
- o net profit
- p prepaid expenses.

4 The information about Chebalor Ltd provided below is correct as at 1 May. Use the information to complete the tasks that follow:
- stock $45 000
- overdraft $15 000
- cash at bank $1000
- capital $40 000
- mortgage $51 000
- drawings $5000
- accounts payable $18 000
- accounts receivable $2000
- cars $30 000
- furniture and fittings $41 000.

- a Construct a balance sheet for Chebalor as at 1 May.
- b Calculate the net worth of this business.
- c Assess the value of total liabilities.
- d Assess the value of owner's equity.
- e Identify how much money is owed to the business by its customers.
- f Discuss how current assets compare with current liabilities.

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7.5 Human resources

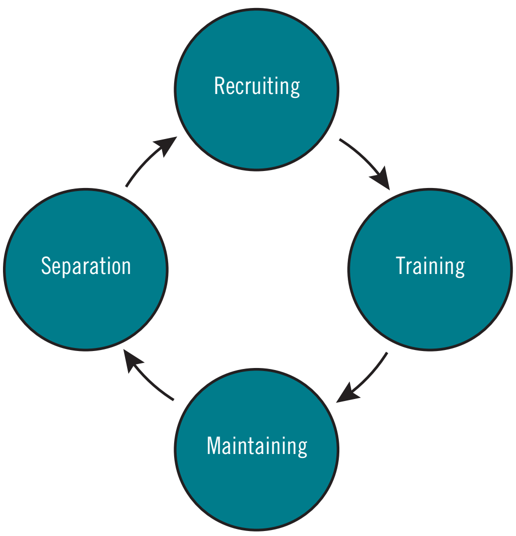
Human resources (HR) are the human labour used to transform inputs into outputs. The experience, skills, talents and expertise of a business's employees are a valuable part of the business, which can give it a competitive advantage. HR can be defined as the function that deals specifically with the relationships between the employer and the employees of the business.

The role of the human resource function is to provide the business with the type of workforce that it requires. It is a key business function that aims to find, attract, develop and motivate the people who can provide the work the business needs.

HR managers are increasingly aware that employees' satisfaction with their employment often impacts on productivity and efficiency within a business. This relationship improves substantially when employees are given some responsibility for making decisions that affect how they do their jobs. An effective HR function is a critical success factor. As a response to the growing importance placed on the human factor, governments have passed many laws covering employment issues, including equal employment opportunity (EEO), anti-discrimination and work health and safety (WHS). Businesses must comply with these laws.

The human resource cycle

The HR manager oversees various aspects of the **human resource cycle**, which involves recruiting people with appropriate skills and qualifications for the job, providing training and developing their skills, maintaining staff with appropriate rewards and managing their **separation** from the business.



Source 7.30 The human resource cycle

The maintenance component of the cycle provides a range of incentives to motivate and reward effective and reliable employees. In addition, there are procedures for the removal of employees whose skills and experience are no longer relevant to the business.

Recruitment

Human resource planning includes all strategies that meet the staffing needs of the business today, as well as in the future. The business will have established its goals and objectives, and the HR manager will ensure that the business has the appropriate staff to meet its needs. In order to do this effectively, the HR manager needs to:

- analyse the existing workforce – by reviewing the skills and experience of existing employees
- identify the number of employees required in the future, considering business growth
- identify the required skills and experience of employees in the future, considering any changes to the business, such as introducing new technology.

Human resource cycle Recruitment, training, maintaining (rewarding) and separation of employees.

Separation The ending of an employment contract. Separation may come from either the employee or the employer.

Recruitment The stage in the human resource cycle that involves identifying staffing needs, seeking applications and selecting new employees.

The finance manager will consider the cost implications of hiring additional employees, providing additional training or reducing the size of the workforce. **Recruitment** is the stage in the human resource cycle that involves seeking applicants and selecting the most suitable candidate.

Identifying staffing needs

Identifying staffing needs is not as simple as employing more people. It is possible that the existing workforce may not be utilised fully. Identifying staffing needs may simply involve training existing staff to help them cope with the changes that will be introduced to the business, or providing employees with an incentive program to encourage them to be more productive and efficient.

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Source 7.31 It is important to identify staffing needs in order to avoid workers becoming overworked or stressed.

Job description A document listing the duties, tasks and responsibilities of a particular job.

Job specification A written statement describing the key skills, experience and qualifications needed for a particular job.

Remuneration How much a job is worth – that is, the pay and entitlements to be provided to the person employed to do the job.

Award A legal document that specifies the minimum working conditions that apply to all people employed in a common industry.

If more employees are needed, the specific job needs to be identified and analysed. This will result in a **job description**, which is a document listing the duties, tasks and responsibilities of the job. After this, a **job specification** must be developed. It outlines the key skills, experience and qualifications needed for this particular job. Obviously, the HR manager will need to work closely with the other managers of the key business functions to determine this information. In the function of operations, for example, an industrial designer may be needed. The job specification for the industrial designer would be developed with the operations manager.

In order to acquire a new employee, the value of the job needs to be established and a **remuneration** figure attached. This involves determining how much the job is worth – that is, the pay and entitlements that will be provided to the new employee. Much of this detail will depend on the pay and conditions that have been established in the relevant **award** or agreement with which the business must comply.

Sourcing

The business can fill a vacancy by finding applicants:

- internally – from existing staff
- externally – from outside the business.

When the HR manager looks within the business to fill positions, this could involve a promotion for an existing staff member who has applied for the job. Their success would depend on merit, expertise and ability. This also provides an incentive for other employees to improve their performance, as promotion would be seen as a reward for their loyalty and hard work. This method can cause problems if other staff members feel that the person did not deserve the promotion. A promotion will create a need to fill the place vacated by the promoted employee.

If the position cannot be filled from internal sources, the business can advertise externally for job applicants.

If a business chooses to recruit employees itself, the applicants would apply for the advertised job by a specific date and provide a resumé outlining personal information such as employment history, skills and qualifications. The main aim is to accumulate a pool of potential candidates for a job. From this pool, HR must make its selection of the most appropriate employee. However, small business owners may wish to outsource this task to a specialist recruitment agency or use government resources, such as Jobactive (jobsearch.gov.au), to find and select suitable employees.

Source 7.32 Group job interviews are an efficient method of finding candidates that stand out and show leadership qualities.

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Business Bite

When a business outsources the recruitment of its key employees, it may use the services of a specialist firm. Recruit Shop is a small recruitment specialist business located in Manly, a suburb of Sydney. It has found a gap in the market, offering recruitment services for a low fixed price. Other SMEs outsource to Recruit Shop, using its expertise to find and select suitable candidates for vacant positions. The business can find, at short notice, potential employees such as accountants, chefs, sales staff or tradespeople at a cost 80–90 per cent lower than that charged by a traditional recruitment agency. The owner or manager only needs to make the final choice. This takes the risk out of the recruitment process and saves time, as most small business owners and managers are too busy to take time out to advertise and interview.

A key differentiator for Recruit Shop is that it offers an all-inclusive recruitment service for a flat fee. In addition, Recruit Shop offers a guarantee of finding a suitable staff member within one month. Discovering this niche market, and using well-trained and incentivised staff, has been a critical advantage for Recruit Shop, as it has grown from a small home office to recently offering services to New Zealand.

Selection

Selection is a screening process. The information gathered about job applicants is reviewed and the most appropriate applicant is chosen. The more effective the selection process, the more likely it is that the best possible candidate will be selected.

The selection process may involve:

- application forms
- individual and/or group interviews
- tests, such as mathematics, English proficiency, reasoning or IQ
- psychological evaluation to assess the applicants' mental and emotional suitability
- medical examinations and fitness tests
- handwriting assessment for clarity, spelling and grammar
- psychometric tests for personality and aptitude.

The procedures used will depend on the costs involved, the time that can be taken, any legal obligations and the nature of the job to be filled. There are many specialist companies to which recruitment and selection can be outsourced. Small business managers often do not have the time for interviews or the skills to select the most suitable candidate. Large businesses may need a highly experienced and trained specialist who is difficult to find, and therefore a recruitment firm will be contracted with expertise in locating these unique people.

Communication skills and the ability to work with other people as a team are seen as increasingly important. In this case, selection procedures may take the form of a group interview situation, where the group is given a problem to solve. The individuals are assessed on their ability to interact with each other, to communicate ideas clearly and to contribute to finding a solution to the problem.

A selection process should reveal differences between candidates. It is important to eliminate the unsuitable candidates as the process continues. Once the business has decided on the successful applicant, the chosen person is formally offered the position. After the offer has been made and before the applicant accepts the offer, there may be a process of negotiation over pay and entitlements.

Any business can buy the latest equipment and technology because they are available on the open market. A difference that cannot be bought is the quality of the people working in the business, giving it a competitive edge. In order to maintain this edge, the business must continue to develop the skills and capabilities of its staff through training.

Selection A screening process in staff acquisition. The information gathered about job applicants is reviewed and the most appropriate applicant is chosen.

Training

Training includes any activities aimed at improving an employee's present and future performance in the workforce. It results in upgrading of skills, knowledge and competency levels in order to better meet the needs of the business. Training is critical in a business undergoing change; employees can manage the change by learning skills such as how to operate new technology. For employees, training should be regarded as offering new opportunities for skill development; for the business, it adds value to a key input in operations.

The first training employees usually receive is an employee **induction** program. Orientation or induction of new staff usually involves a few days of training to 'introduce' them to the business. During induction, the policies, procedures, rules and requirements will be explained – for example, the business's vision and mission, staff code of conduct, grievance procedures, organisational structure, workplace culture and even password policies.

Training Any activities that are aimed at improving an employee's present and future performance in the workforce.

Induction Introduces new employees to the business, enables them to become familiar with the workings of the organisation and provides them with information about the business's day-to-day operations.

New employees should understand where they fit in and their role in helping the business achieve its goals. New employees will be more productive following effective induction.

Other training methods can include:

- on-the-job training – including advisers, traineeships, apprenticeships and job rotation
- off-the-job training – including TAFE and university courses, in-services and seminars.

Trainees and apprentices need to be supervised while on the job. Work may proceed more slowly while they are learning new skills. The practical component of their training is backed up by the lectures and course material, which can often be far more theoretical in nature than the training the apprentice or trainee receives on the job. Traineeships and apprenticeships are successful systems used for plumbers, mechanics, electricians, chefs and other tradespeople.

To increase employee expertise, businesses may organise lectures by guest speakers or their own specialists, or arrange conferences. Employees may also be encouraged to attend courses related to developing their technical skills, general capabilities and even self-development to improve their effectiveness.

Source 7.33 Staff training is important in any business.

Employment contracts

All employers and employees have a contract covering their working relationship. Under common law, employees have certain rights and responsibilities, including the right to be paid (compensated) for their work. The employment contract may be verbal or written, and is legally binding on both parties – that is, it is enforceable by law. Common law contracts of employment set the wages and conditions of work (for example, start time, hours of work per day, leave) for employees who are not covered under an award or an agreement. Individual employees can therefore negotiate better pay and working conditions than those offered by the award or agreement. Executive staff and senior managers will be employed on a contract.

Employees can be employed under the following terms:

- casual
- part-time
- full-time
- subcontracting.

Casual

Casual workers are hired and paid on an hourly or daily basis. The hours they work may be infrequent and irregular, or they may work more hours per week than a full-time worker if the business is very busy. Casual staff will receive an extra loading on top of the normal rate of pay to compensate them because they do not receive benefits such as sick leave and paid

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holidays to which full-time staff are entitled. For example, someone working casually in food and beverage under the Hospitality Industry (General) Award will receive a 25 per cent casual loading in addition to the ordinary hourly rate. Employers use casual staff to provide flexibility in their workforce, increasing casual hours when they need more labour and reducing them when they do not.

Source 7.34 Casual staff offer flexibility to a business's staffing.

Part-time

Part-time employees work a regular number of hours per week but fewer than full-time hours. Part-time workers usually receive the same flat hourly rate as full-time workers and are entitled to benefits on a pro rata, or proportional, basis. For example, if an employee works half the load of a full-time worker, the employee is entitled to half of the entitlements of a full-time worker for the same job or role.

Full-time

Full-time employees receive full weekly wages and conditions and may work between 35 and 40 hours (37 hours per week on average), depending on their occupation and award. In Australia, minimum wage rates and working conditions are stated in the award. These awards are based on specific occupational groups. The awards for various occupations are influenced by specific factors such as duties, qualifications, job location, the risk/danger involved and days/hours of work. Some firms offer over-award payments in order to provide additional benefits to their staff. Workers can be rewarded for their improved productivity.

Subcontracting

Subcontracting is a type of labour contract that has become more popular with small businesses that need temporary staff to work mainly full-time, but usually only for a short time. This type of labour contract demands less administration and leave costs, and therefore is a less expensive and more flexible source of labour. For example, a personal trainer working at a gym will establish themselves as their own small business and sell their time to the gym. The employee as a subcontractor must register themselves with an Australian Business Number (ABN), which is applied for on the Australian Business Register, pay for and organise their insurance, keep financial records to work out their tax obligations and contribute a portion of their income into a superannuation fund. The personal trainer is free to earn income from working with other clients outside of the gym.

Employment legislation

The most important Commonwealth legislation is the *Fair Work Act 2009* (Cth). This law covers all aspects of the employer–employee relationship, in particular the negotiation of wages.

More specifically, this legislation led to:

- the establishment of the Fair Work Commission
- modernisation and simplification of awards
- the reinstatement of unfair dismissal laws for larger businesses
- the requirement for good-faith bargaining when employers and employees negotiate pay and conditions
- the introduction of National Employment Standards (NES).

Using the Fair Work Ombudsman Awards website, an employee who is employed under an award can check their pay.

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Source 7.35 The General Retail Industry Award 2020 for shop assistant, clerical assistant, checkout operator, driver, trolley collector and similar roles. Rates are updated from 1 July every year.

Retail Employee Level 1	Ordinary hours full-time in 2020 ($)	Ordinary hours casual in 2020 ($)
15 years of age and under	9.63	12.04
16 years of age	10.71	13.39
17 years of age	12.85	16.06
18 years of age	14.99	18.74

Source: Australian Government, Fair Work Ombudsman.

Business Bite

Video 7.2 Fair Work Commission and Fair Work Ombudsman

The Fair Work Commission (FWC) is the national workplace relations tribunal. As a tribunal, the FWC can act as the independent umpire in disputes between employees and an employer. Overall, its role is to help employees and employers to maintain fair and productive workplaces by setting minimum wages, creating and changing modern awards, and approving enterprise agreements.

Although the FWC does not handle complaints about wages, superannuation or workplace safety, it can help employees if they believe they have been:

- unfairly dismissed
- discriminated against, victimised or unfairly treated
- bullied at work.

Employees can gain more from the Fair Work Ombudsman website concerning:

- correct pay rates
- entitlements for leave, overtime and allowances
- information on awards and agreements
- ending employment.

Separation

Separation involves the ending of the employment relationship. Separation may be instigated by either the employee or the employer. It is the termination of the employment contract between the employee and the employer.

In many cases, employees may provide the business with a competitive advantage over other businesses in the same industry. It is very important that an employer is able to acquire and develop the right staff for the business, and able to retain them by providing suitable incentives and rewards to keep them motivated, productive and satisfied. In addition, a business needs to have ways to manage the staff who leave the business and policies to remove staff who do not follow directions, are ineffective workers or behave inappropriately.

The departure of staff can be on a voluntary basis, where the employee wishes to leave of their own free will. Separation may also be involuntary, where an individual member of staff is no longer required (redundant) or is terminated ('sacked').

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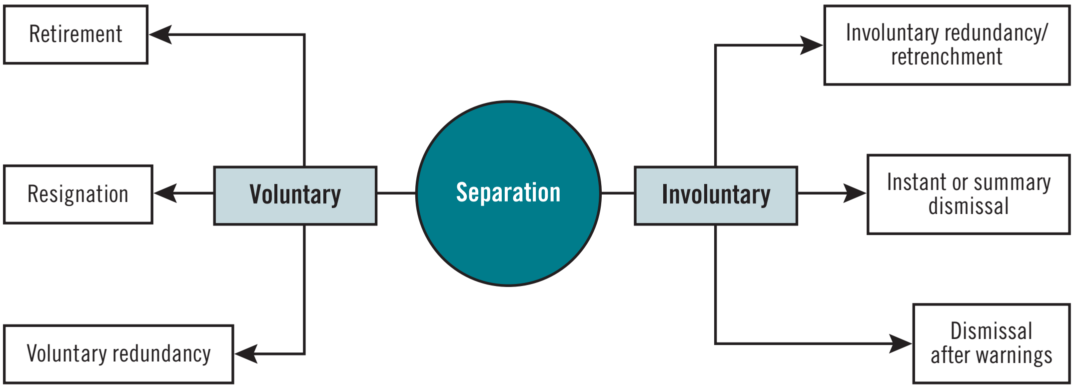
Source 7.36 Separation can be voluntary or involuntary.



Voluntary separation

Voluntary separation may take the form of retirement, resignation or voluntary **redundancy**.

Retirement

When an employee retires, the employee has decided to give up work. In Australia, since new legislation was passed in the 1990s, there is no 'official' retirement age. For workers born before 1952, the age pension can be accessed from 65 years; however, this increases for younger workers, and for anyone born in or after 1957 it is 67 years. The trend has been to retire earlier, in a person's mid- to late fifties, thereby taking advantage of superannuation and possibly accumulated long service leave. Some people choose to continue to work into their seventies. Some people retire due to ill-health or some simply lack the motivation to continue working and instead plan leisure activities, such as travelling. Businesses may provide counselling for people who intend to retire to help them to plan their lifestyle changes. Australia has a 'greying' population – that is, older people make up an increasing proportion of the population. This factor, combined with our increased life expectancy, has meant that many capable and productive people are available to businesses as a resource. Many of these older employees have a great deal of experience and expertise in their field of work. It is recognised that the loss of this valuable resource is a disadvantage for many firms. A number of retired workers are now consultants for the industry in which they formerly worked, or they may return as casual staff.

Resignation

Some employees resign – that is, leave their jobs for reasons such as a need for change in their lives or a new challenge, or simply because they are moving. In this case, the employee needs to provide the employer with notice of the intention to leave. The length of notice required depends on the industry involved and the employee's award, contract or agreement. In many occupations, employees are required to give four weeks' notice.

Redundancy Workers are made redundant when their labour is no longer needed. This may be a result of the business downsizing, restructuring or introducing technology to perform the workers' role. The business may ask workers to volunteer to leave (voluntary redundancy) or their employment may be terminated (involuntary redundancy).

Source 7.37 Thousands of car manufacturing industry workers were made redundant when Australia ceased manufacturing Ford and Holden cars.

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Voluntary redundancy

When an employee is made redundant, it means that they are no longer needed by the business. Employees can nominate themselves for voluntary redundancy where their existing job is no longer required by the firm, possibly due to **rationalisation**, restructuring or new technology. There are a variety of potential causes:

Rationalise To implement a strategy to cut costs or make a process more efficient.

Retrenchment Workers are dismissed (retrenched) when their services are no longer needed because the business for which they work has downsized, closed a division or outsourced a function and therefore requires fewer workers.

- A firm that has undergone a merger or takeover may have a duplication of tasks. Two employees end up performing the same role when only one is needed, resulting in redundancy of an employee.
- Technological innovation means the actual 'skill' of the worker is outdated and no longer used in the industry. For example, shoppers can now use an automatic checkout when grocery shopping.
- If a business downsizes due to a drop in demand for its product or service, or sells a division of its business, it may need to cut back or reduce the number of staff it employs. Some of these employees may be offered their jobs back if demand increases. In the 1980s and 1990s, the banking sector undertook significant **retrenchment** programs due to increased competition, deregulation, mergers and major changes in technology.

These individuals may have been offered a redundancy package and find that it is in their financial interest to leave the job earlier than they initially had planned.

Involuntary separation

Involuntary separation occurs when the employer terminates the employment contract. This may include involuntary or forced redundancy, instant or summary dismissal, or dismissal after warnings. Businesses should have a written policy setting out procedures that managers follow in cases requiring discipline, dismissal or retrenchment of staff.

Involuntary redundancy

As previously noted, if certain jobs are no longer required by a business, it may offer voluntary redundancies – allow affected staff members to nominate for a redundancy payment. However, it may not be possible to give employees a choice – for example, if the whole business is closing down, or if it will not be possible to move employees into other roles. This is known as involuntary redundancy, or retrenchment. In order to terminate employment in this way, the employer would need to make redundancy payments to employees based on their position, income and years of service to the firm.

The NES redundancy payments (Source 7.38) usually do not apply to employees in a small business (with fewer than 15 employees) or subcontracted employees, casual employees, trainees or apprentices, or those dismissed for serious misconduct. The HR manager must ensure that the employee is not covered by some other state award or agreement.

The *Employment Protection Act 1982* (NSW), updated in 2009, states that an employer must give a minimum seven days' notice (written) for termination of any permanent employees under New South Wales awards who work for an employer with more than 15 employees. Employers with fewer than 15 employees are exempt from these provisions; however, relevant state awards or agreements can provide different entitlements from those provided for in the Act. More information can be found on the NSW Industrial Relations website.

The remaining employees may be left feeling insecure about their jobs, and productivity may fall as a result. Their view of the retrenchments may differ from the view of the employer. Remaining employees may believe the employer has retrenched loyal staff due to cost-cutting programs to improve profitability.

Sometimes conflict can occur between employees and their employer. To manage involuntary redundancy, many firms provide counselling or try to find redundant and retrenched employees new jobs with other businesses as part of their social responsibility.

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Source 7.38 Extract from the National Employment Standards (NES) scale of redundancy payments

Period of employee's continuous service	Redundancy pay period
At least 1 year but less than 2 years	4 weeks
At least 2 years but less than 3 years	6 weeks
At least 3 years but less than 4 years	7 weeks
At least 4 years but less than 5 years	8 weeks
At least 5 years but less than 6 years	10 weeks
At least 10 years	12 weeks
[etc.]	[etc.]

Business Bite

The textiles, clothing and footwear (TCF) industry employed 350 000 workers in the 1970s. However, redundancies and retrenchments have been common in the manufacturing industry over the last 40 years, as the sector was not competitive against cheaper imported goods. Today, approximately 30 000 people work in TCF, and this is expected to decline to 27 000 by 2024. The decline is expected to stabilise, and individuals and entrepreneurs entering the industry will need a different set of skills.

According to the Australian Industry and Skills Committee (AISC) National Industry Insights Report, the industry needs the following skills to be developed: the business of fashion, legal compliance, use of new materials and technologies, supply chain management, and ethical sourcing. Employers are also looking for candidates with the ability to think critically, solve problems, communicate, collaborate, and learn and work with a high level of intellectual autonomy. Customer service and marketing skills will be highly valued.

Research and industry consultation conducted for the Textiles, Clothing and Footwear IRC's 2019 Skills Forecast found that there are opportunities for businesses that can successfully communicate their sustainability credentials to customers because of changing attitudes from customers who desire better-quality, longer-lasting clothing.

A small Adelaide-based clothing business, Andorwith (andorwith.com), has achieved this goal. The business's mission started in Goolwa Beach with the aim to ethically source and responsibly produce premium-quality, sustainably driven surf and skate wear. Clothes are distributed worldwide through its online store and ASOS (asos.com).

Source 7.39 Owing to increasing global awareness of the need for sustainable and ethical clothing manufacturing, the textile, clothing and footwear industry offers many opportunities for young entrepreneurs.

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Dismissal

Dismissal occurs when the employer terminates an employee's employment contract due to the unacceptable conduct or behaviour of the employee. It can take the form of:

- instant or summary dismissal
- dismissal after a series of warnings.

Instant or summary dismissal is the immediate termination of the employee's contract without notice. Circumstances in which this may happen include:

- using obscene language to employer, staff or customers
- being intoxicated or affected by drugs while at work
- fraud, theft or other forms of dishonesty
- criminal conduct while at work
- fighting at the workplace
- refusing to carry out a reasonable and lawful instruction at work.

Dismissal after a series of warnings may follow less serious incidents, such as lateness, failing to perform the duties as required or not achieving targets. In each case, the employee may be issued with a written warning and provided with counselling or assistance to improve their behaviour and performance. After three warnings, the employer may dismiss the employee.

The federal government has passed unfair dismissal legislation to protect employees from 'harsh, unjust and unreasonable' dismissals, such as in the case of discrimination. In some cases, the employee may be given the option to leave the business before being terminated.

Source 7.40 Can you be dismissed by text message or fired via Facebook?

Review 7.4

Comprehension

Answer these questions on paper or in the Interactive Textbook.

1. What is the role of the HR function?
2. Explain how a formal induction process can improve productivity of new employees.
3. Explain why employees are a valuable business 'asset'.
4. Explain the interdependence between the human resource and operations functions of a manufacturing SME.
5. Analyse the impact of the use of subcontracting on the business.
6. Analyse the impact only employing staff on a casual basis could have on a business.

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7.6 Ethical business behaviour

It was once considered that the primary responsibility of any business was to its owners and shareholders. These individuals and organisations have a financial interest in the success of the business. By today's social standards and values, a successful business is one that not only meets the demands of its shareholders but also operates in a manner that is fair and ethical to its managers, employees, customers and the community as a whole. **Ethics** refers to the values that an individual or organisation has that determine appropriate and inappropriate conduct. Therefore society and potential customers expect businesses to act responsibly and managers to have high personal standards for their own behaviour and decision-making. Ethics is what is seen as right or wrong based on the values of management, employees and the community. It is what society considers the most appropriate course of action. Ethics determines the 'right' choice to make in any situation and goes beyond what is legally required.

Ethical behaviour involves acting in a manner that is consistent with the values and standards set by society as a whole. The community will make a value judgement about decisions made by the managers and owners of a business based on whether they find the decisions acceptable. This does not necessarily mean that the community determines whether the business's actions are legal or illegal; rather, the actions will be judged by what society accepts as acceptable and as being in the long-term interest of the community.

Unethical behaviour, such as bullying, concealing unhealthy or dangerous practices and failing to respond promptly to an environmental crisis, is considered unacceptable by society and potential customers. This will have impacts on the business's public image that may ultimately result in lower sales, decreased profits and possibly the end of the business.

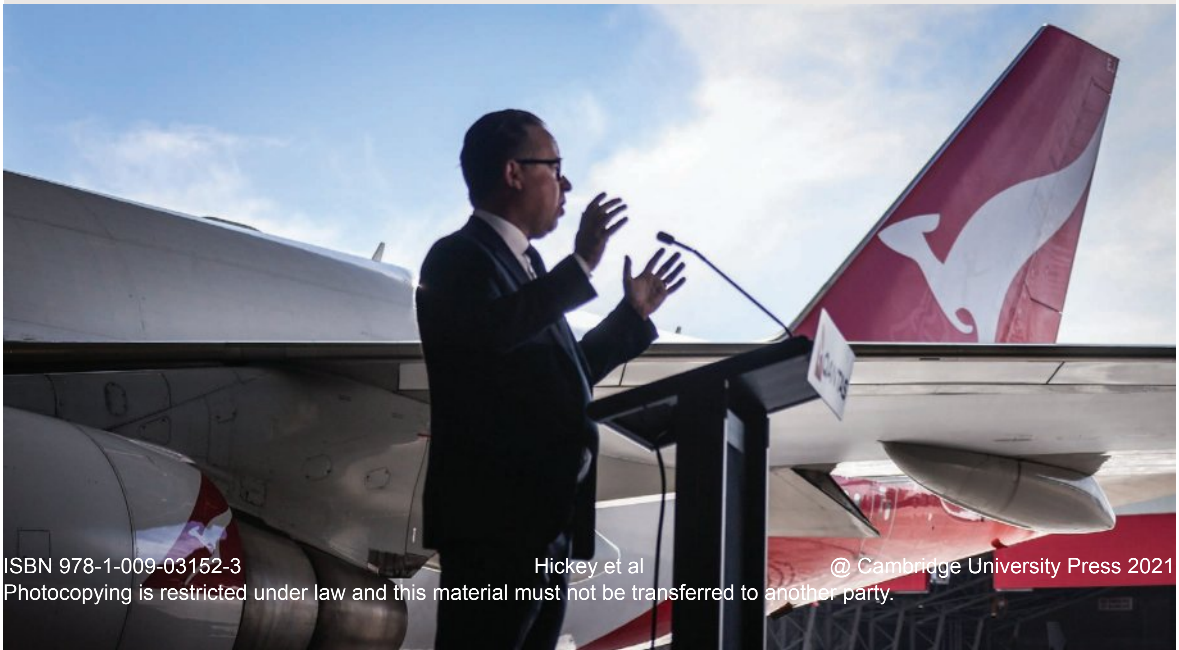
Managers need to have high personal standards, as they are role models for their employees and represent the business to the public. As well as having a strong code of conduct guiding their decisions, managers should:

- treat people fairly
- have pride in their work
- dress and speak appropriately
- be transparent in their decision-making process
- consider the interests and concerns of stakeholders
- use and develop the business's resources properly to achieve its goals.

Overall, managers are expected to exercise good stewardship, which means to manage the resources of the business – finance, materials, people and equipment – in a responsible manner while considering the potential impacts of their decisions on the community and the environment.

Ethics Standards of behaviour and moral position, which influence the choices and decisions the person makes; what is seen as right or wrong for a business based on the values of management, employees and the community.

Source 7.41 Managers need to behave as leaders and be an example to other staff.



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Ethical Spotlight 7.2

Young people can gain valuable experience by undertaking unpaid work as an intern. Are managers obligated to provide a paid position at the end of the internship?

Financial goals Goals relating to increasing or gaining maximum wealth for the owners of a business.

Ethical Spotlight 7.3

The community has high expectations about the behaviour of senior managers. How might this conflict with the **financial goals** of businesses and the managers' responsibilities to the owners?

Source 7.42 Managers need to have high personal standards, as they are role models for their employees.

Digital quiz Please see the Interactive Textbook to access digital activities.

Chapter summary

Operations combine inputs into outputs in the form of goods and services.

Quality management focuses on continuous improvement in all functional areas, including operations.

Quality control is the process of comparing actual business performance with what was planned to see whether goals and objectives have been achieved and standards are met.

The role of marketing is to help determine a product, price it, promote it and place it in the market successfully.

Marketing aims to satisfy the needs and wants of the consumer at a price that provides a profit for the business.

Market segmentation based on geographic, demographic, psychographic and behavioural factors is used to identify a target market.

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Product includes the brand, packaging, positioning and warranty.
Pricing methods include cost of production, demand pricing and prestige pricing.
Promotion refers to activities that provide the market with information about the product and ways to encourage the consumer to purchase.
Place refers to the distribution methods used by the firm, including transportation, storage and sales locations.
Finance is concerned with providing and managing the necessary funds so that all key business functions can achieve their objectives.
The two main external sources of finance are equity and debt.
Accounting involves the process of collecting and analysing the financial information of a business and communicating the financial results in reports and statements to relevant stakeholders.
The three financial statements are the cash flow statement, income statement and balance sheet.
Income statements present a summary of revenue and expenses for a firm over a specific period of time and are used to calculate profitability.
A balance sheet is a summary statement of a business's assets, liabilities and owner's equity at a specific point in time.
Cash flow statements summarise cash transactions (that is, cash inflows and cash outflows) over a period of time.
Human resources deals specifically with the relationship between an employer and employees.
The stages of the human resource cycle are the acquisition, development, maintenance and separation of the firm's workforce.
In acquisition of staff, the business needs to be able to identify staff needs, recruit suitable applicants with the expertise and appropriate skills to complete the job and then select the best possible candidate.
The development of staff includes all forms of training that aims to improve the employees' present and future performance in the workplace.
Separation may be voluntary, as in a worker's retirement, resignation or voluntary redundancy, or involuntary, through dismissal or involuntary redundancy/retrenchment.
The main types of employment contracts are full-time, part-time, casual and subcontracting.

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End-of-chapter tasks

Chapter revision tasks

1 The figures in the table below represent cash inflows and outflows for Farmers Supplies. Use the information to complete the following tasks.

Source 7.43 Inflows and outflows for Farmers Supplies

Month	January	February	March	April	May	June
Revenue	$800	$900	$1500	$2500	$3500	$4000
Expenses	$2000	$2000	$1500	$1200	$500	$1000
Balance at end of month	($900)					

a Calculate the balance for the beginning of January.

b Calculate the balance at the end of March.

c Identify the months in which the business needed to use its overdraft.

d Provide an appropriate reason to account for the higher sales figures in May and June.

2 Analyse the financial impact of staff training on a business.

Multiple-choice questions

1 Which operations process should be used by a mobile phone app developer?

A Batch production
B Job production
C Flow production
D Workflow process

2 What is the output of the operations process known as?

A Products
B Goods
C Materials
D Services

3 Of which key business functions is transport logistics a feature?

A Finance and operations
B Operations and human resources
C Operations and marketing
D Marketing and finance

4 Which of the following make up the elements of the marketing mix?

A Cost, price, marketing and competition
B Cost, price, promotion and place
C Preference, promotion, place and price
D Product, price, promotion and place

5 Which of the following financial statements would be used to determine profitability?

A Balance sheet
B Income statement
C Cash flow statement
D Operating statement

6 Which source of finance creates a non-current liability?

A Capital contribution by the owner
B Debt
C Drawings
D Venture capital

7 Which of the following is the cost of buying and reselling inventory?

A Wages
B Cost of goods sold
C Discounts received
D Electricity

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8 Current assets are assets that are able to be more readily converted into cash in a short period of time. What does a short period of time refer to in this context?

A Less than 12 months
B More than 12 months
C More than 18 months
D Less than one month

9 What pricing method would be used by an airline whose objective is to minimise the number of empty seats each flight?

A Cost of supply
B Competition-based pricing
C Demand-based pricing
D Prestige pricing

10 What does the term 'separation' mean?

A Multiskilling of employees
B Division of labour between departments
C Conflict between employees and employers
D When the employment contract is terminated and employees leave the business

Short-answer questions

1 Explain two key considerations for managers when managing the supply of health-care services in an aged care facility.

2 Describe how a finance manager can use the business's financial statements to evaluate the performance of the business.

3 Explain the types of businesses that could use social media promotion effectively for their products and services.

4 Explain why the human resource manager must consider the business environment when assessing the future needs of the organisation.

5 Describe how a manager can ensure that each key business function works cooperatively to achieve the business's goals and objectives.

Extended-response question

Mike runs a pet shop. He considers training for his employees as an expense that must be minimised. Mike believes that spending more on staff training is pointless because he has high staff turnover. Evaluate Mike's attitude to staff training.

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8 Management and change

Chapter objectives

In this chapter, students will:

- identify the ways in which businesses respond to internal and external influences
- analyse and evaluate the ways in which businesses can manage change effectively.

Key terms

- change agents
- competitive advantage
- cultural incompatibility
- culture
- deskilling
- driving force
- e-commerce
- induction
- inertia
- just-in-time method
- layout
- lead time
- merger
- network
- redundancy
- restraining force
- retraining
- sabotage
- situational analysis
- strategic alliance
- SWOT analysis
- takeover
- threat

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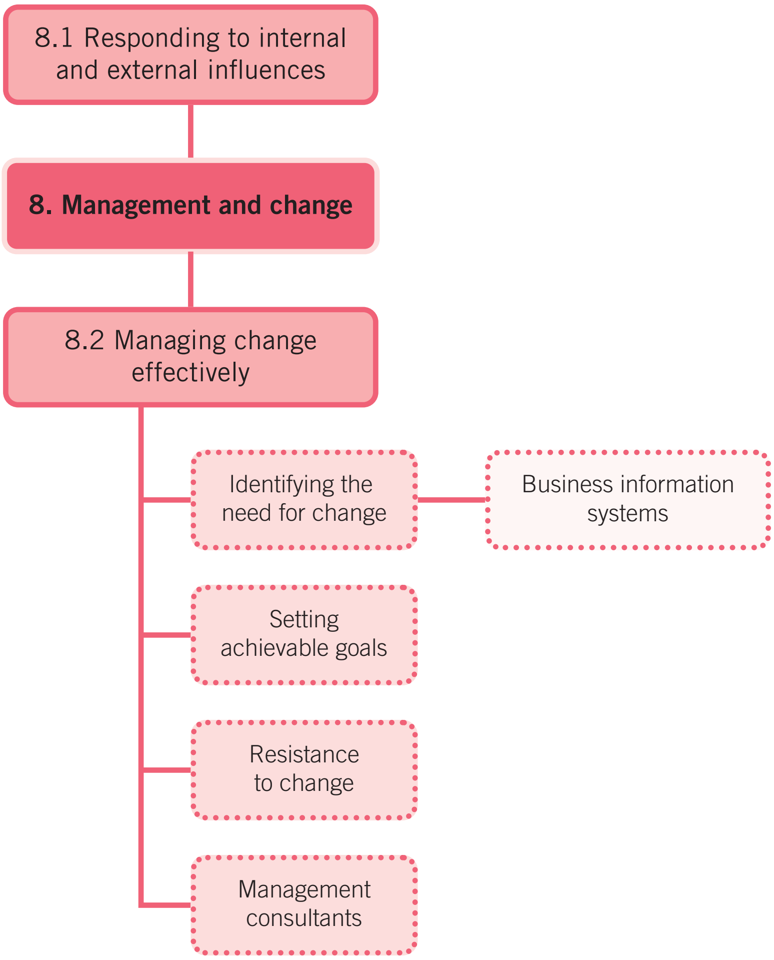
8.0 Introduction



Source 8.1 Management and change

Managers must be aware of the dynamic business environment. Change is occurring in the business environment at a faster pace and in more areas than ever before. Proactive managers can create opportunities from change by applying technology, developing new products or entering new markets. They should also anticipate change and prepare for **threats** to their business.

Managers need to make decisions that implement change as efficiently as possible, providing the business with renewed growth and securing its position in the market. A manager must identify the need for change, overcome resistance and manage the change effectively, thus ensuring that the firm either gains or maintains its **competitive advantage**.

A business will have a better chance of coping with challenges and initiating the changes necessary to achieve its goals if managers:

- are flexible and adaptable
- have excellent communication skills
- are able to use market research to identify market trends
- are proactive by monitoring the external environment for potential threats
- are able to scan the environment to learn about new technologies, products and opportunities.

Threat External environment factor that could present problems for a business.

Competitive advantage Those features of a product or business that provide it with an advantage over its competitors.

8.1 Responding to internal and external influences

The internal and external influences covered in Chapter 3 should be viewed as opportunities to be taken advantage of, rather than as challenges to overcome. These changes include the effects of new technology, globalisation and the ways in which businesses are organised and managed. When responding to change, there may be significant changes to how the

Digital quiz
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business uses technology, updates its policies and procedures, and modifies its strategies to suit the culture of the business. There may also be changes to the organisational structure as some functions are outsourced, and managers will need to prepare for employees who are to be made redundant. Reorganisation may also require staff to work together in new work teams.

Effects of accelerating technology

Technology has increased the speed at which business and commerce occur. It allows faster and more efficient communication, access to more information and prompt feedback on business performance. Management needs to be aware of technological change and assess its application to the business. However, not all technological developments will be beneficial, so careful analysis is required before investing in new technology.

When using a cost–benefit analysis, managers must calculate the cost of the installation of the new technology, its impact on operations and the expected increase in profit generated. Cost–benefit analysis is an excellent financial tool to determine whether the business should invest in new technology. The advantages of implementing new technology are usually long-term cost savings and quality improvement, resulting in an advantage over competitors.

E-commerce Electronic commerce; the use of electronic communications (such as the internet) to carry out business.

Technological changes can result in faster communication and decision-making processes as well as a reduction in overall costs. Examples of such innovations are smartphones, cloud storage and videoconferencing. Small changes are often quite simple to implement, although large ones can involve a lot of time and many work teams.

There are also a number of disadvantages:

- additional costs for purchase of equipment and software, as well as maintenance and staff training
- time lost while changes are introduced
- redundancy of some employees
- negative environmental impacts
- negative community perceptions.

Source 8.2 Business change is occurring faster than ever before.

These issues all need to be taken into account when choosing to install new technology. There is also the potential to lose sales and market share if the business chooses not to adopt new technology when its competitors are embracing change. Technology can be considered an internal influence because management must decide whether and how to use new technology in the business.

E-commerce, or electronic commerce, is the use of electronic communications to carry out business. Examples are Skype, instant messaging and email. E-commerce improves business-to-business (B2B) communications and offers savings in time and money. E-commerce has extended to business-to-consumer (B2C) use, and allows such services as banking, payment of accounts and the purchase of goods to take place. This is a growing area of business development, where specialist firms are creating integrated e-commerce software that enables the easy management and communication of information throughout all key business functions. Information is accessible from any internet-enabled device, such as a smartphone, tablet or laptop.

Technology has also revolutionised inventory management, requiring new systems to manage finished stock and inputs. Barcodes are scanned on the arrival and departure of stock. Computers

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can then calculate stock availability and **lead times**, reorder stock automatically and provide warnings when stock is low. This makes inventory control simpler and more efficient than with manual systems. Manual counting and checking procedures will be used as a safeguard against loss – for example, through theft or damage – and to verify stock numbers. The **just-in-time method** of inventory control is less costly and allows minimal stock levels to be maintained, making more efficient use of business funds.

Managers need to respond to technological changes in numerous ways. They may need to change the way their business operates, make use of new tools to gain information, learn and understand the terminology associated with new systems and procedures, and ensure staff are trained to utilise the new technology effectively.

New systems and procedures

Technological change often makes traditional methods used in a business impractical and obsolete. Ways of operating, marketing, financing and managing human resources will change. New systems and procedures will be needed for:

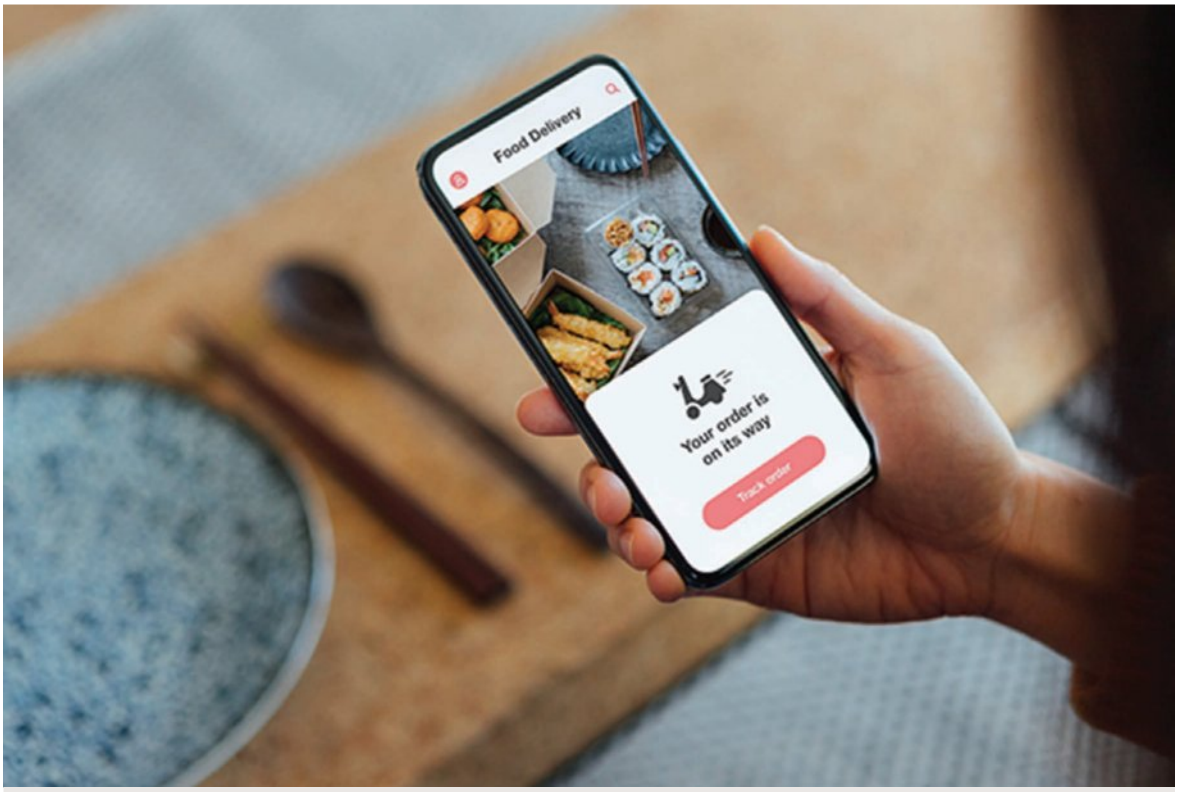
- using information technology for communication, promotion and selling
- keeping digital records and managing information
- operating in other countries.

The introduction of information technology (IT) has resulted in communication between and within businesses increasingly being conducted via email rather than through meetings, phone calls and hard-copy memos. Consequently, many businesses have a specific email policy. In addition, customers can order supplies or ask questions interacting with online chatbots and virtual assistants, saving both the customer and the business time and paperwork. The results of e-commerce are greater convenience, and therefore cost savings, and more potential sales.

The internet has allowed goods and services to be marketed globally from a domestic base through a company's website rather than a traditional 'bricks and mortar' shopfront. New systems and procedures will be needed for online sales and managing customers. The volume of data management has meant that managers must have new policies and procedures in place

Lead time The time it takes for a supplier to provide its customer with the goods ordered – that is, the time between the supplier's receipt of a request for goods and the delivery of those goods to the purchaser.

Just-in-time method A stock-control system whereby the business is able to access stock just when it needs it.



Source 8.3 E-commerce enables a variety of online and digital services.

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to ensure security of information, such as credit card details, and the privacy of customers.

Globalisation has created opportunities to access new markets, as well as for outsourcing and moving operations to low-cost countries. Managers need to be aware of differences in the legal frameworks of other countries. For example, all contracts involving international operations will need to be checked by specialists in international law and in the laws of the nations involved.

Legal influences will also require businesses to have specific policies and procedures in place to ensure employee safety. These will include events such as handling emergencies and evacuation procedures.

New business cultures

Culture The informal, unwritten rules and procedures followed in a business – a business's way of doing things. For example, a business may have a generally accepted dress code of smart casual.

The **culture** of a business comes from its vision and mission as well as the informal communication and unwritten rules and procedures followed in the business – the accepted 'way that things are done'. It includes expected behaviour from employees, the style of doing business and the attitudes and values of leaders. These intangible factors bind the various parts of the business together to form a single unit with a particular culture. The business culture may be traditional, formal and inflexible, or innovative and risk-taking. More innovative businesses tend to be very adaptable when it comes to managing change.

A particular culture may inhibit a business's progress, preventing it from responding to external influences quickly enough to take advantage of a set of circumstances – for example, a culture that values tradition and resists change. For these reasons, mergers are not always successful if they require an integration of two very different business cultures that are incompatible.

To create a greater opportunity for success, managers need to understand their business culture, have effective communication and use key people to implement required changes. Change that is introduced slowly can use a more participative style of leadership. A faster, more urgent change may require the use of an autocratic style.

Source 8.4 Remote working and videoconferencing require new procedures and policies.

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Business Bite

Many founders have adapted their business models to incorporate social and environmental goals. The Thankyou vision is to see a world where not one person lives in extreme poverty. Thankyou's mission is to amplify impactful change-makers to better serve people living in extreme poverty, and it does this by redistributing wealth from consumer spending. Thankyou is ultimately owned 100 per cent by the Thankyou Charitable Trust, which distributes its funds to these change-makers. This means that after all the costs involved in creating great products are taken care of, every cent left helps end extreme poverty. Thankyou aims to help close the funding gap to end extreme poverty by 2030. Its impact partners are currently working in more than 30 countries where the need is greatest, tackling root causes that create impact, not just activity. As of 2020, Thankyou raised more than A$17 million for these global change-makers.

After seeing the problems caused by the lack of access to clean water in developing countries, Thankyou's first product, bottled water, was launched in 2008. The strategy was to use profits from bottled water to fund water programs in developing countries. The business model offers consumers a choice on everyday purchases by offering products that exist for one purpose only; to see a world without extreme poverty. The company has since expanded, with over 50 products, including personal care and baby products.

In 2020, Thankyou ceased production of its bottled water range; it became obvious to the company founders that such products contradicted the vision, mission and culture of Thankyou. Co-founder Daniel Flynn stated that bottled water was a 'silly product' and that it shouldn't exist – but while it did, the organisation wanted to provide a better choice in the market that would help bring water to those in need. After looking far and wide for responsible solutions – from reducing the amount of plastic and waste water used in production, to challenging the amount of recycled plastic used in the bottle, and exploring alternatives with biodegradable products and carton solutions – Thankyou concluded that to reduce the impact that single-use bottled water has on the planet, there was no other option but to leave it behind. On its blog, Thankyou stated that to get to where it is headed, it knows it must take action and challenge (even its very own) systems, structures and ways of doing things.

Source: https://www.theguardian.com/australia-news/2020/aug/18/silly-product-thankyou-stops-producing-bottled-water-citing-environmental-damage.

Structural responses to internal and external influences

Business structure refers to the way a firm is organised. Traditionally, this structure looked like a tall, narrow pyramid because of the many different levels in the hierarchy. This structure incorporated a long chain of command with many levels of management, each with a narrow span of control. Information from employees was passed up the chain of command and decisions were made and handed down from senior managers. The business performed all the key business functions itself and was mostly independent of other businesses.

Over time, this rigid and inflexible structure could not cope with the nature and speed of change necessary to keep pace with the increasingly complex business environment.

As many Australian businesses participate in the global environment, a business needs to have a flexible structure that can respond quickly to global influences. These influences can include new competitors, the changing value of the Australian dollar, differences in tax rates between countries and the emergence of new markets. Managers will use outsourcing and alliances to minimise risks and maximise opportunities.

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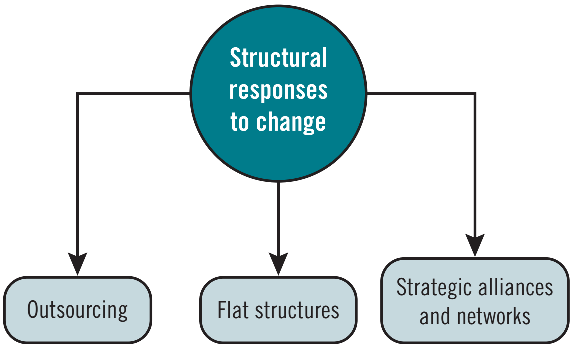


Source 8.5 Common structural responses to change

Outsourcing

Many businesses find it more efficient to concentrate on their main activity and outsource aspects of their operations. Apple, for example, focuses its efforts on design and marketing. It outsources the manufacturing of its products to Foxconn in China.

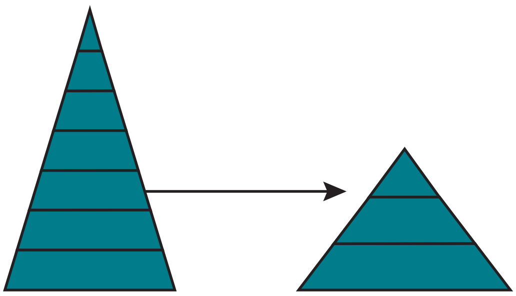
Outsourcing is where the business contracts a specialist firm to carry out a task that the business previously had done itself. There are a number of advantages of outsourcing. The specialist firm will be more efficient at doing a specific task, possess more expertise and have access to the latest innovative technology. With globalisation and new technology, it is easier for companies to outsource to businesses in low-cost countries such as Vietnam, China and India.

Businesses can outsource aspects of all key business functions, including recruitment, equipment maintenance, accounting, market research, legal assistance and payroll management. To reduce risk, managers will prefer not to outsource core activities to ensure corporate confidentiality and quality. Non-core functions such as security and cleaning commonly are outsourced. This allows resources previously used in these areas to be made available to the core activities. Overall, the business will be more efficient and effective. Some employees will be made redundant, saving on labour costs.

Flat structures

The 1990s saw the removal of many levels from the traditional pyramid structure to form a flattened structure.

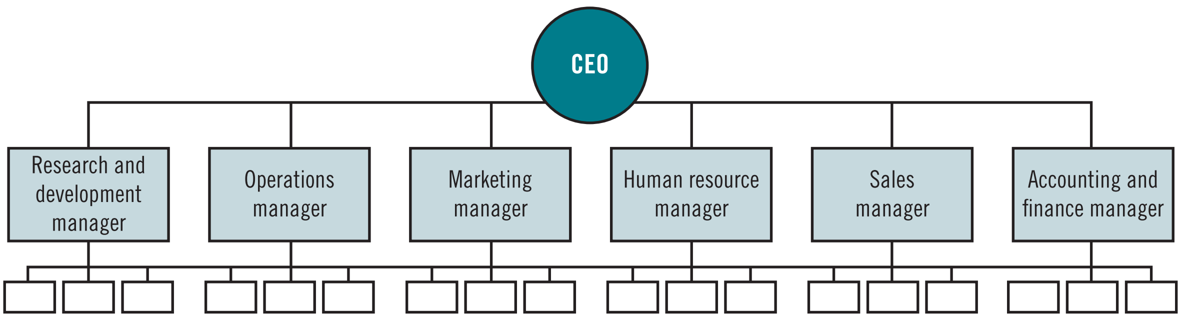
When the middle layers of management are removed, delegation of tasks and responsibility is passed down to the lower level of management and employees who are organised into self-managing work teams with team leaders. The flatter structure has a shorter chain of command and a wider span of control. Improved communication, along with collaboration, should result in increased productivity and therefore profitability.



Source 8.6 The traditional tall pyramid structure is being replaced by a flatter management structure.

Strategic alliances and networks

Competing businesses can attempt to gain benefits by joining together in a single business venture or sharing marketing, finance, operations or human resources. By combining their skills, experience and resources, they can lower costs and take advantage of opportunities in the global market. For example, a joint venture can be to manufacture, store, transport or market products,



Source 8.7 A flatter business structure

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Source 8.8 In 2019, a 10-year strategic alliance agreement was signed between Viva Energy (Shell brand licensee) and Coles. Coles Express focuses on convenience food retailing and Viva Energy focuses on petrol retailing.

resulting in decreased costs and increased profits that could be shared proportionately between the two businesses.

A **strategic alliance** can help a business to gain entry into a new market area. Strategic alliances also set up a system of **networking**. Under this system, tasks are subcontracted to other businesses on their behalf. Each business in the network provides products and services that the other members cannot fully supply.

Strategic alliance A joint venture between firms that is established in order to share resources and thus gain benefits that would otherwise be unachievable.

Network Businesses working together as a group, performing tasks for their mutual benefit.

Business Bite

In April 2020, pandemic-related lockdowns and physical distancing forced many businesses to organise their staff to work from home. This sudden change required a very rapid response from management to find a suitable videoconferencing application such as Skype, Zoom, Teams or Slack. Zoom proved to be the easiest 'plug and play' system and quickly became the most popular. However, managers needed to ensure that employees had the IT capabilities to work remotely and participate in online meetings and project management. In addition, there were work health and safety considerations, such as workload, workstation set-up, and mental health and well-being.

Source 8.9 While working from home, employees often unintentionally shared glimpses of their private lives with colleagues.

When working from home, managers still wished to maintain employee productivity to meet targets and deadlines. Managers had to quickly learn how to host effective online meetings and keep their employees engaged. However, maintaining a professional business culture could be challenging when moving work into the online space, particularly with less employee accountability and new distractions such as children and pets. There are also numerous incidents of 'Zoom fails' where employees accidentally shared their private conversations and behaviour with everyone they worked with. Online meetings therefore required specific policies and procedures for hosting and participating in meetings, sharing information and collaboration. Another necessary internal change was to ensure new security protocols were followed to avoid publicly publishing meeting IDs or accidentally sharing sensitive data. There was a steep learning curve and a number of managers experienced 'Zoom bombing' during their meetings.

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Review 8.1

Comprehension and analysis

Answer these questions on paper or in the Interactive Textbook.

1 a Outline two risks of outsourcing.
  b Briefly explain two disadvantages of investing in new technology.
2 Describe the ‘corporate culture’ of your school.
3 Briefly explain how technology can improve inventory management. Use an example to illustrate your answer.
4 Explain how technology can be an internal and external influence.
5 Explain how a business may need to modify its organisational structure in response to internal and external influences on the business.
6 Analyse the impact of globalisation for a business seeking to increase sales.

8.2 Managing change effectively

Businesses operate within a dynamic business environment, which is more unstable and unpredictable than in the past. Flexibility needs to be incorporated into a firm’s strategic plan. Managers need to implement change smoothly, minimise the costs of change and overcome any resistance to change. Managers must use their interpersonal, communication and even conflict-resolution skills to manage change effectively. This is because change – in any form – usually faces some opposition.

Managers can reduce resistance by communicating the nature of the threat or opportunity arising, outlining the strategies that the business wants to use and gaining the support of the employees to manage change without fear or resentment. All of this needs to be completed within a specific timeframe and the parameters set by the business. Management of change will be more effective when the firm can:

- identify the need for the change using business information systems (BIS)
- clearly communicate the need for the change to all stakeholders
- set achievable goals
- develop strategies to overcome resistance to change
- use management consultants and change models.

Source 8.10 Businesses change and need to work with their employees to reduce resistance.

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Business Bite

A business pivot can range from a change in an aspect of a business's key business functions, such as a change in marketing strategy, to a dramatic change in the entire business model. This is to usually the result of the threat of failure owing to changes in social attitudes, technological innovation or competition. Sometimes the founders' brilliant ideas must change to keep market share and profitability. Many famous brands that exist today have undergone a significant shift in what they do and how they make revenue.

YouTube began as a dating service where users uploaded a short self-made video promoting themselves and what they wanted in a partner. Uploading and sharing videos became so popular that YouTube pivoted to just offering a platform for hosting and sharing content. The company was bought by Google in 2006, which uses the site to generate billions in advertising revenue each year. Instagram was originally called Burbn. However, users much preferred photo sharing than using the app to check in at their favourite social venues or to make plans to meet up. Nintendo began manufacturing playing cards in 1889 and pivoted its business model many times to include a taxi company, entering the ramen noodle industry, before games and electronic toys in the 1980s. Technological innovations in video gaming enabled the business to develop and sell gaming consoles such as the Game Boy and Nintendo 64.

Identifying the need for change

Change in the business environment may cause it to lose its competitive advantage. The fundamental need for change is therefore financial survival. Effective managers constantly monitor the external and internal business environments. A changing external environment may present opportunities for the business or possibly threats to its progress. Internally, a manager who observes falling profitability must uncover the underlying causes. Corrective action will be needed – for example, in the following areas:

- *Marketing:* A new competitor may be aggressively targeting market share. Customer attitudes may be changing.
- *Operations:* There may be changes to legislation concerning product safety, production methods and waste disposal. Equipment has become technologically obsolete and quality has decreased.
- *Human resources:* Employee motivation, productivity and quality may have fallen. Absenteeism and turnover may have increased.
- *Finance:* The costs of operating the business may have risen dramatically.

A manager cannot ignore such changes, or avoid their impact. The more responsive the manager is in dealing with these changes, the better it is. Managers need to assess market trends and try to anticipate future changes.

In addition, effective managers continually assess their own performance and that of their business. Up-to-date and accurate information about all aspects of the business is crucial to good management decisions.

Business information systems

Video 8.1 Business information systems (BIS)

BIS represents a specific strategy or process to provide management with the information it needs to perform its functions. Rather than just collecting data and producing reports about sales, employee productivity, inventories and other statistics, BIS examines and analyses this information to identify trends and patterns. BIS provides information for the key performance indicators (KPIs), such as how many defects for every 1000 products. These measure actual performance of specific functions of the business. This data helps managers to make better decisions and justify changes to the business.

Effective BIS not only tells a manager how the business is going in specific ways; it also

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indicates why the business has not stayed on course and achieved what was planned. BIS is closely linked to IT management, and helps managers to control the business.

Source 8.11 Business information systems and data analytics help better decision-making.

Setting achievable goals

A business plan sets out the path a firm wishes to take and the goals it hopes to achieve. Goals need to be measurable and achievable within the set time period. Managers need to have a realistic vision for their business's future. They will have to consider the constraints the external environment places on the business's profitability, efficiency and growth. For example, economic downturn and recession will limit the potential for a business to increase sales. Thus goals also need to be realistic.

Strategic goals can be broken down into shorter-term objectives. It is these objectives that employees find easier to understand and achieve. These objectives are much more detailed and can be used to measure success. They can be expressed as SMART objectives. This means that they are Specific, Measurable, Achievable, Realistic and have a Time limit. Before setting achievable goals and developing SMART objectives, managers will need to evaluate the current position of the business. They will need to perform a **situational analysis**, such as a **SWOT analysis**, which identifies the following aspects of the business:

- *Strengths:* These are internal to the business. Strengths are what the business does well and the qualities that may give it an advantage over its competitors.
- *Weaknesses:* These are also internal to the business. Weaknesses are what the firm does not do very well, which may include areas of resistance to change.
- *Opportunities:* These are external environment factors and changes that the business can take advantage of.
- *Threats:* These are external environment influences that pose problems for the business.

Once they are identified, the firm will try to build on its strengths, eliminate or minimise weaknesses, take advantage of opportunities and manage threats. Senior managers will then determine realistic objectives. Ideally, the senior managers will not make these decisions independently, but will consult with other employees and stakeholders.

Situational analysis An examination of a business and its internal and external environments to identify factors that affect the firm directly, those over which it has no control and those it can influence or control. It establishes the current position of the business.

SWOT analysis Used to examine the strengths and weaknesses of a business and the opportunities and threats that exist in the business's external environment.

Review 8.2

Analysis

Answer these questions on paper or in the Interactive Textbook.

1. Identify a critical skill managers require to reduce resistance to change.
2. Outline three objectives for managing change effectively.
3. What is the purpose of business information systems (BIS)?
4. Provide a reason why change management can fail.

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Driving forces for change

Managers are looking constantly for ways to help them stand out from competitors. All parts of the business need to work together as a team to achieve success. Managers need to be able to create a culture of change whereby change encourages employees and motivates them without causing them to be anxious or to lack the confidence to succeed.

It should be remembered that all change carries with it a degree of risk. However, with a culture of change, employees can support each other to create the highest likelihood of success, seeing change as an opportunity rather than a threat.

Some employees have qualities that inspire other employees; they instil confidence and encourage active participation in the change process. These individuals are **change agents**. They assume a degree of responsibility for managing the change process. Through their leadership, other employees' resistance is overcome. Employees will understand that change is necessary, logical and achievable. They realise that the resulting benefits are not only for the business but also for them. Successful change agents can generate open-minded learning, improve staff morale, lower absenteeism rates and inspire genuine staff interest in improving productivity.

Resistance to change

Resistance to change can come from many sources.

Resistance from managers and owners

Inertia is a personal reluctance to change. People often prefer their situation to remain as it is. They want to remain in their comfort zone, safely surrounded by what they fully understand.

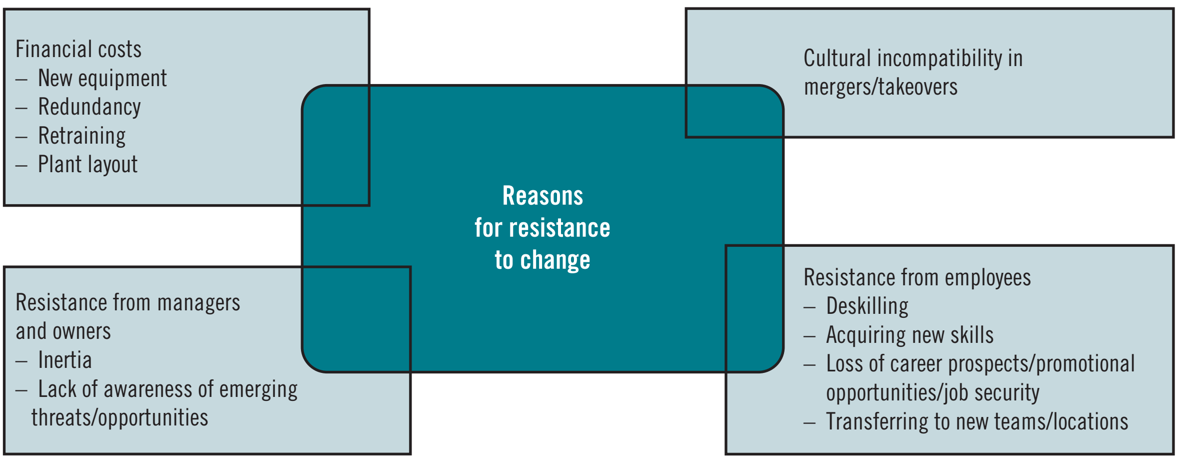
Managers and owners encountering inertia may have experienced a very stable business environment; implementing change is risky and they may see it as unnecessary. Furthermore, there may be a lack of awareness of emerging threats or opportunities, stemming from the post-maturity phase in the business life cycle, which could put the business on a path to decline or even cessation.

Owners soon realise that their own income, wealth and security may be under threat if the business does not change. Shareholders in particular will not be satisfied with managers who are not prepared to take on new opportunities. The annual general meeting (AGM) of share-holders may be used to replace directors and senior managers who are too conservative or who do not manage new threats. Another strategy to overcome the inertia of managers is to offer part-ownership in the business through employee share ownership schemes or share options.

While managers may acknowledge changes in the external environment that affect their business, it may not be a simple matter to undertake the actual changes that need to be implemented.

Change agents Individuals with analytical skills that enable them to see the consequences of change and influence others to accept change.

Inertia Reluctance or resistance to change; being satisfied with a situation as it is.



Source 8.12 The main reasons for resistance to change

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Deskilling Occurs where the introduction of new technology leads to repetitive tasks being performed by machinery, so employees and their skills are no longer required.

Retraining Teaching employees new skills.

Sabotage An illegal form of industrial action that may involve an employee deliberately damaging the physical equipment of the business.

Resistance from employees

In general, people like to stay in their comfort zone. Change brings with it anxiety and the 'threat' of not being able to cope with the new situation or 'fit in' as they used to. Other employees may be complacent and not 'buy in'. They want to keep things as they are.

Change is inevitable and necessary in order to remain competitive. To individuals in the internal business environment, it may not be obvious that changes are required. Several groups of people in the business may resist change, particularly if they feel that their jobs are no longer secure. Fears about job security and uncertainty about the future are the most significant causes of employee resistance. For example, using outsourcing can lead to job losses in the business.

Employees may be concerned about having to learn new skills. They may feel their job, income and opportunity for promotion are threatened. Job positions may change, new positions may be created and old ones may disappear, colleagues may be made redundant and younger employees may come into the business. Business change may lead to staff feeling insecure in their jobs and threatened by the unknown.

Staff may also resist change because of **deskilling**. This is where the introduction of sophisticated technology leads to complicated tasks being performed by machinery so that employees and their skills are no longer required. In some cases, businesses may have introduced mass production techniques along with division of labour. Staff could be 'trapped' in performing simple jobs. To overcome resistance created by this fear, management would need to ensure that there is multiskilling of staff and job rotation to eliminate boredom.

Staff would need to undergo training to acquire new skills. In more complex areas, staff may need to commit to extensive **retraining**.

Change is not always as straightforward as introducing new machinery. Instead, it can involve a significant restructure of the business. The trend towards a flatter management structure could see a loss of career prospects or promotional opportunities within the business. If these changes are occurring industry-wide, people in affected positions will realise that there is little potential for career advancement. In such cases, middle management will be resistant to the changes. In fact, employees will feel their firm has not been loyal to them. In extreme cases, employees may seek to **sabotage** the change process so it does not succeed.

By analysing the resisting forces or arguments against change, effective managers will develop and implement strategies designed to overcome resistance and promote change as a positive. These strategies will need to align employee wants with business goals. A possible strategy is to change to a more consultative and participative leadership style.

Communication is very important. This approach will inform employees about the nature of the change and its duration, and include them in decisions for change. Setting SMART objectives for the change process can reduce uncertainty.

Another effective strategy to overcome resistance is the use of a change agent. Change agents are individuals with analytical skills that allow them to see the consequences of a change taking place and it not taking place. They can work out what needs to be done and how to do it, and influence others to accept the change. A change agent may be a hired consultant brought in until the change is complete, or an inspirational senior manager put in charge of the change process.

Financial costs

Financial costs are involved in any change made by the business. Management needs to be well informed and secure in the belief that the benefits generated by the change will outweigh these costs. In each case, the opportunity cost needs to be taken into account. This measures the cost of opportunities lost from not changing. Management will need to compare the possible expected return achieved when using its resources in one particular activity with what it could receive by devoting all its resources to an alternative activity.

This concept of choice can be shown through a decision tree. In the simple example shown in Source 8.13, a firm has to choose between

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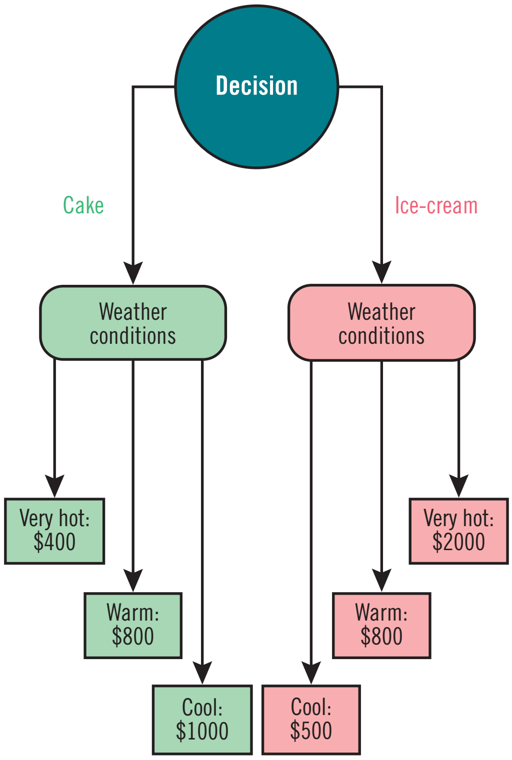

Source 8.13 A simplified decision tree showing a factor (weather) in a business's choice about whether to produce ice-cream or cake, considering the potential revenue from each choice

producing cake or ice-cream. It cannot produce both because of limited resources. The decision tree shows how much revenue the firm expects to make for each product over a set period of time, based on what it considers to be the major environmental factor: the weather. A decision tree helps to identify the choice with the greatest financial benefit for the business.

Financial costs can involve purchasing new equipment. Financing could include using retained profits, leasing new equipment or taking out a loan. Repayments must be compared with the life of the new equipment and its expected rate of return over that period of time. Management may also need to consider the cost of any break in production while new equipment is being installed.

New equipment is unlikely to fit into the same space as the old equipment. Reorganising plant **layout** will involve considerable planning. Old equipment needs to be removed and sold. Installing the new machinery may involve the need for larger premises and additional health and safety requirements. Some businesses may close temporarily to allow these changes to take place. Individual stores in major shopping centres often close while furniture and fittings are upgraded. In other cases, the entire business may need to relocate.

It is possible that new technology and machinery may replace several employees. The firm will downsize as employees are made redundant. **Redundancy** payouts would need to be made. These are a form of compensation paid to workers based on the length of time they have worked at the firm as well as the experience they have acquired. For example, employees over 40 years of age may receive one week's pay for each year of service for up to 20 years (depending on the award involved). Redundancy payments can be a significant cost of change.

Many employees who have been made redundant may also be entitled to payments for long service leave, unused annual leave and, in some industries, unused sick pay. Workers may be offered incentives to take voluntary redundancy.

Retraining will teach employees the new skills needed to operate equipment, provide them with information and techniques to deal with new procedures and help generate positive attitudes towards the changes that are taking place. The aim is to increase worker productivity. However, there are several costs involved. For example, retraining requires time allowances for a temporary stop or slowing of production, and there may be extra costs for getting an instructor. Some businesses may try to save on retraining costs and employ new staff who already have the appropriate skills. However, recruitment, selection and induction costs will still need to be considered.

All these costs need to be assessed and included with the cost of the new equipment as well as lost revenue. The total financial costs of implementing change

Layout A floor plan of a business, showing the location of equipment or different functions in an office.

Redundancy Workers are made redundant when their labour is no longer needed. This may be a result of the business downsizing, restructuring or introducing technology to perform the workers' role. The business may ask workers to volunteer to leave (voluntary redundancy) or their employment may be terminated (involuntary redundancy).

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Source 8.14 Retraining teaches employees new skills.

can therefore be significant and may not be considered worthwhile in the short term. However, there can be long-term benefits that give the business a strong, sustainable competitive advantage.

The finance function will need to make a careful calculation of the costs and financial benefits to the business resulting from the change. There will be short-term and long-term financial impacts, and the long-term benefits may be more difficult to determine. Managers may use investment appraisals such as the payback method or the net present value method to evaluate the total benefits to the business.

The payback method determines how many years of the profit generated by a new machine will be needed to pay for its initial cost. The net present value method is more complicated, and takes into account the change in the value of money over time. Obviously, if the potential benefits outweigh the costs, the financial reasons against change are not valid.

Merger The joining together of two businesses to form one business.

Takeover One business buying a controlling interest in another business, such as by becoming a majority shareholder.

Cultural incompatibility A conflict between the informal, unwritten rules and procedures of two individual businesses that have merged.

Cultural incompatibility in mergers/takeovers

Mergers involve two businesses joining together to form one business. **Takeovers** involve one business buying out another business. In many cases, mergers and takeovers come about as firms expand, achieve economies of scale, eliminate competitors, increase market share or acquire a strategic advantage in an industry. In theory, these structural changes seem to make good business sense. In reality, mergers and takeovers can fail because the two businesses have very different cultures and do not 'bind' together well; the two businesses may be culturally incompatible.

Cultural incompatibility is a conflict between the informal, unwritten rules and procedures of two individual businesses that have merged. In particular, this situation can occur when a larger competitor takes over a smaller rival, and imposes its culture – its way of doing things. Employees do not understand the new business vision, feel uncertain about their place in a restructured organisation and resent 'outsiders' telling them how to perform.

To overcome cultural incompatibility issues, management must create and introduce a new culture for the new business. This may be difficult

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to achieve because many aspects of corporate culture are ‘hidden’ and unofficial. However, **induction** training sessions, corporate bonding activities, and a new name and business brand can assist in developing a new culture. All employees need to understand the new vision for the business. Those employees who cannot overcome their own inertia and refuse to embrace the new culture may find that they are not considered for promotion and may even be retrenched.

Using management consultants

Management consultants are external experts hired by a business to examine the efficiency and effectiveness of its entire operations or to analyse a particular area of the business, such as operations or human resource management. They can identify the specific nature of a business’s problems and develop strategies to implement effective change. The management consultancy industry developed during the 1960s and 1970s when American managers were outsourcing management expertise.

Management consultants may provide highly prescriptive advice and tell the business’s managers what they should do. Alternatively, they may work with management to implement change. Often an internal manager will be appointed to work with the consultants to provide business-specific information and technical advice on the existing systems, procedures and operations.

Management consultants may be change agents themselves or identify particular people in the business who will lead the change process as change agents.

Source 8.15 Staff will need to be trained to use new technologies.

Induction Introduces new employees to the business, enables them to become familiar with the workings of the organisation and provides them with information about the business’s day-to-day operations.

Using change models

A model is a simplified version of reality that is based on specific assumptions. Several models have been developed that can assist firms wishing to incorporate change. In the 1940s, Kurt Lewin (1890–1947) developed two models to overcome resistance to change, and these can still be used today. Lewin believed in a ‘total’ approach, which is reflected in his models: force-field analysis and the unfreeze/change/refreeze model.

Source 8.16 Advantages and disadvantages of using management consultants

Advantages	Disadvantages
Objective analysis of the business’s issues and problems	Time required to learn about the business as an outsider
Able to bring industry and world’s best practices to the business	High cost of fees
Can identify existing business problems quickly, having observed them before	Difficult to measure benefits
Plans to improve are tailored to the needs of the business	Interruption to the business operations to introduce changes
Innovative solutions provide a competitive advantage	Corporate information may not be kept secure by external consultants

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Driving force A force that pushes towards the need for change.

Restraining force A force that holds back a business and resists change.

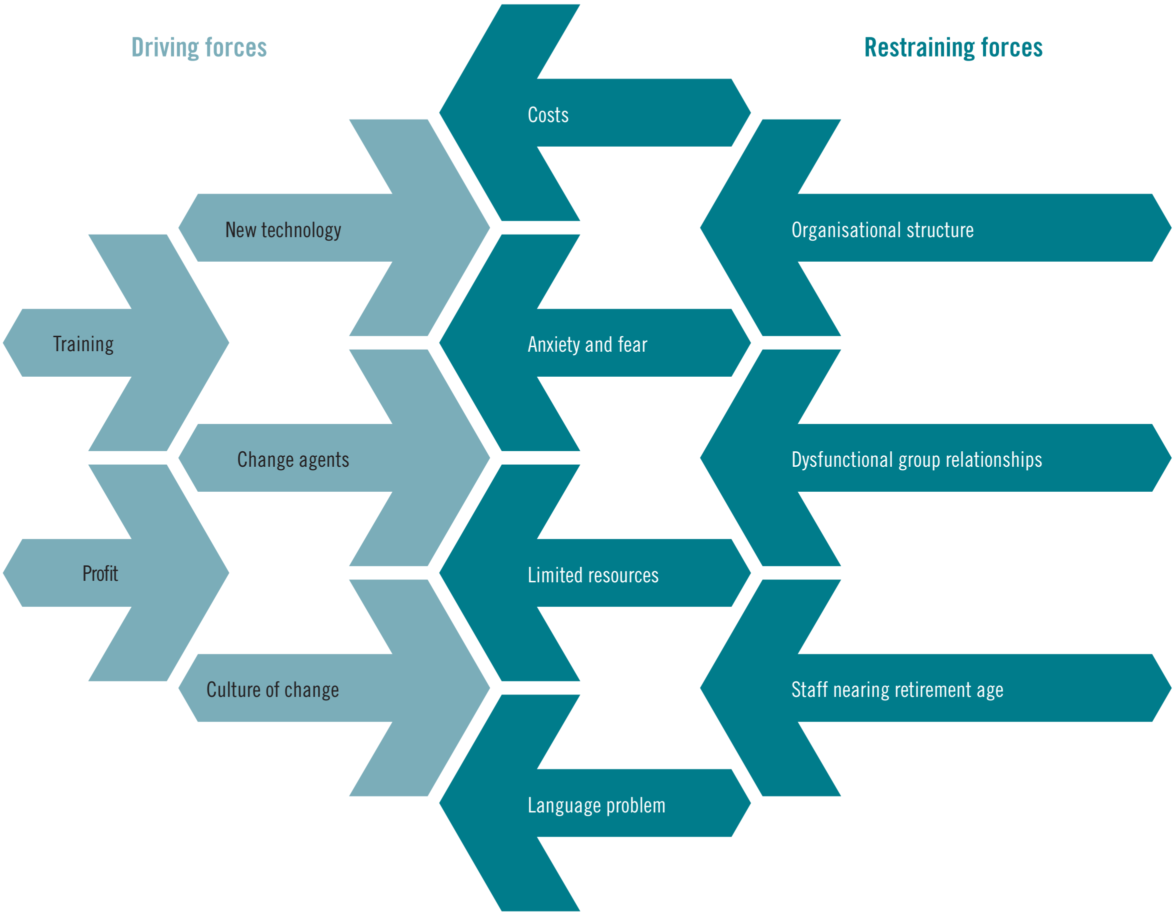
Lewin identified that a business has **driving forces** and **restraining forces**. Driving forces are those that push towards the need for change.

Restraining forces are those that hold the business back and resist any change that is attempted.

The managers responsible for implementing change will need to weaken the restraining forces, encourage the driving forces and create a positive culture for change. Communication, retraining and offering financial rewards are effective ways of achieving desired change.

Other change models that could be used are:

- Dunphy and Stace's contingency model
- Kotter's eight steps model
- Mintzberg and Quinn's model
- Anderson and Anderson's model.



Source 8.17 Force-field analysis

Review 8.3

Comprehension

Answer these questions on paper or in the Interactive Textbook.

1. Identify two reasons for resistance to change by owners.
2. Outline a reason for resistance to change by employees.
3. Describe a method for managing change effectively.
4. Explain the advantages of using a change model when implementing change.
5. Explain the difference between Lewin's model and one other change model you have researched.
6. Explain the impact of business culture on the successful implementation of change.
7. Analyse the use of management consultants to implement change.

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Chapter summary

Businesses operate in a highly dynamic business environment, and therefore must change and innovate to maintain their competitive advantage.

A manager's role is to identify the need for change, overcome resistance and manage the change effectively.

Businesses can respond to internal and external influences in various ways, including outsourcing, using a flatter management structure or establishing strategic alliances and networks.

The main reasons for resistance to change are:

- the financial costs associated with change, such as purchasing new equipment, redundancy payments, retraining and reorganising plant layout
- inertia experienced by managers, owners and employees
- the risk of cultural incompatibility that can arise from a merger or takeover
- employees' reluctance to accept the possible outcomes of change, such as deskilling, the need to acquire new skills and the loss of job security.

Managing change effectively requires managers to:

- identify and communicate the need for change
- revise or update the business plan to ensure goals are achievable
- create a culture of change within the business, utilising teamwork
- consider using management consultants as a catalyst for change
- use a change model to overcome resistance and implement a change process.

End-of-chapter tasks

Chapter revision task

Rewrite the following sentences using the words listed in the box to fill in the blanks.

cultures	need	technology	proactive	organisational
external	command	control	culture	procedures
consultants	outsourcing	achievable	flexibility	strategies

The external business environment is outside the direct __________ of the business.

An effective manager will be __________ in responding to changes in the __________ environment. Key skills of an effective manager are __________ and adaptability to change.

Changes to the business may include:

- implementation of new __________
- new systems and __________
- new business __________.

The business may also change its __________ structure by shortening the chain of __________ and __________. Managers must identify the __________ for change.

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Effective change can be achieved by:

- setting __________ goals
- creating a __________ of change
- developing __________ to overcome resistance to change
- hiring management __________ to facilitate change.

Multiple-choice questions

1 What is the primary cause of employee resistance to change?

A Desire for promotion
B Fear of job loss
C Outsourcing of business functions
D Financial costs of change

2 Which of the following best defines the term 'outsourcing'?

A The removal of waste
B Contracting out part of a business function to another business
C Supplies of inputs
D Manufacture of the final product

3 When management implements new technology, what is this an example of?

A An external influence
B An internal influence
C Organisational change
D Downsizing

4 What is the approach to management used when the organisational structure is flattened?

A Outsourcing
B Contingency
C Classical
D Behavioural

5 What analysis tool can be used by managers to analyse the changes in the total business environment?

A Business information system tool
B Boston Consulting Group matrix
C PESTLE analysis
D SWOT analysis

6 What is inertia?

A Reluctance of the business to change
B Reluctance of a person to change
C A feeling of uncertainty
D Unwillingness to incur extra financial costs

7 When do redundancies usually occur?

A When labour-saving technology is introduced into the business
B When employees are unwilling to change
C When a business expands operations
D When employees receive training to be more multiskilled

8 Which of the following is an effective strategy to overcome staff resistance to change due to deskilling?

A Termination
B Redundancies
C Retraining
D Investment appraisal

9 What is meant by the culture of a business?

A The intangible values and processes that bind the parts of the business together
B The formal rules and regulations that control the business's operations
C The traditional and inflexible structure of the business
D The nationality of its employees

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10 What is an advantage of using management consultants?

- **A** Their expertise in change management
- **B** The time needed to learn about the business
- **C** The time needed to understand the business's plans
- **D** The need to use a local change agent from the business

Short-answer questions

1 Ferrin Softdrinks is an SME beverage manufacturer located in Botany, Sydney. A key strength of the business is its brand awareness and distribution network. The owner, Tom Trevally, is exploring options to expand the business and eventually sell products in Victoria and South Australia. The beverage industry is highly competitive and new products are being developed as demand for high-sugar soft drinks is falling. Tom is considering investment in new equipment as current loan rates are low. However, it may be more profitable in the long run to purchase a purpose-built automated manufacturing plant and sell the old facilities. Alternatively, Tom could change the business model to cease manufacturing and become an importer. This would require leasing a warehouse in Sydney and hiring specialist marketing and distribution managers.

- **a** Identify two stakeholders who may be impacted by this change to the operations of Ferrin Softdrinks.
- **b** Outline a business tool Tom could use to analyse the financial costs and benefits of his options.
- **c** Explain the need for change for this business.
- **d** Provide two reasons why employees would be resistant to change.
- **e** Propose an alternative strategy Ferrin Softdrinks could use to lower costs and expand its market share.

2 The owner of Natural Surf, a clothing, footwear and beach sporting goods store, is considering implementing a cloud-based accounting system with EFTPOS ('tap and go') facilities. Currently, all sales and accounting records are maintained manually, which suits the owner for its simplicity and low cost.

- **a** Outline one financial cost of implementing this change to the accounting system.
- **b** Briefly explain a non-financial reason why the owner may resist this change.
- **c** Provide two reasons for this change.
- **d** Discuss the impacts of the change on the business's policies and procedures for processing and maintaining financial information.

Extended-response question

'Implementing change always involves short-term costs for long-term benefits.' Do you agree with this statement? Justify your response.

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TOPIC 3

Business planning

40% of indicative time

Principal focus

This topic focuses on the steps for setting up a small to medium enterprise (SME) and planning for its future development.

Video 9.0 Introducing Topic 3 Business planning

Introduction

SMEs play a key role in the Australian economy. Anyone can start a business if they have the desire and determination to be their own boss and are willing to take the risk to become successful.

This topic will look at the importance of SMEs in contributing to the Australian economy. It will identify factors that contribute to the success and the failure of a business.

To be successful, a new business owner will attempt to develop a unique quality that will give their business a sustainable competitive advantage. The business will need to develop a comprehensive plan for its growth, taking into account influences from both the internal and external business environments.

Outcomes

Students will:

- discuss business attributes, the role business plays in society and the different structures a business can have
- describe the elements that help determine whether a small to medium business enterprise will fail or succeed
- assess the processes that are crucial to business functions, and how they are dependent on each other
- analyse internal and external stakeholders, and the responsibilities business has to them
- plan and conduct investigations into issues affecting modern business
- evaluate information about real and potential situations affecting businesses
- communicate, using effective formats, details of business information and issues
- apply appropriate mathematical concepts to a study of business situations.

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Content

Students will learn about the influences, processes and key issues for success and failure in small to medium business planning, through examination of current business issues, investigation of real and potential business situations, and preparation of a small business plan.

By the end of this topic

Students will have learned to:

- discuss how SMEs are affected by government
- assess two alterations in the business environment, and how they have affected SMEs
- explain how at least one SME determines its business plan
- explain how SMEs can support long-term growth when entering the international market
- identify actions SMEs can take that will offer them an advantage against their competitors
- prepare a business plan for a real or invented business, presented in an effective format.

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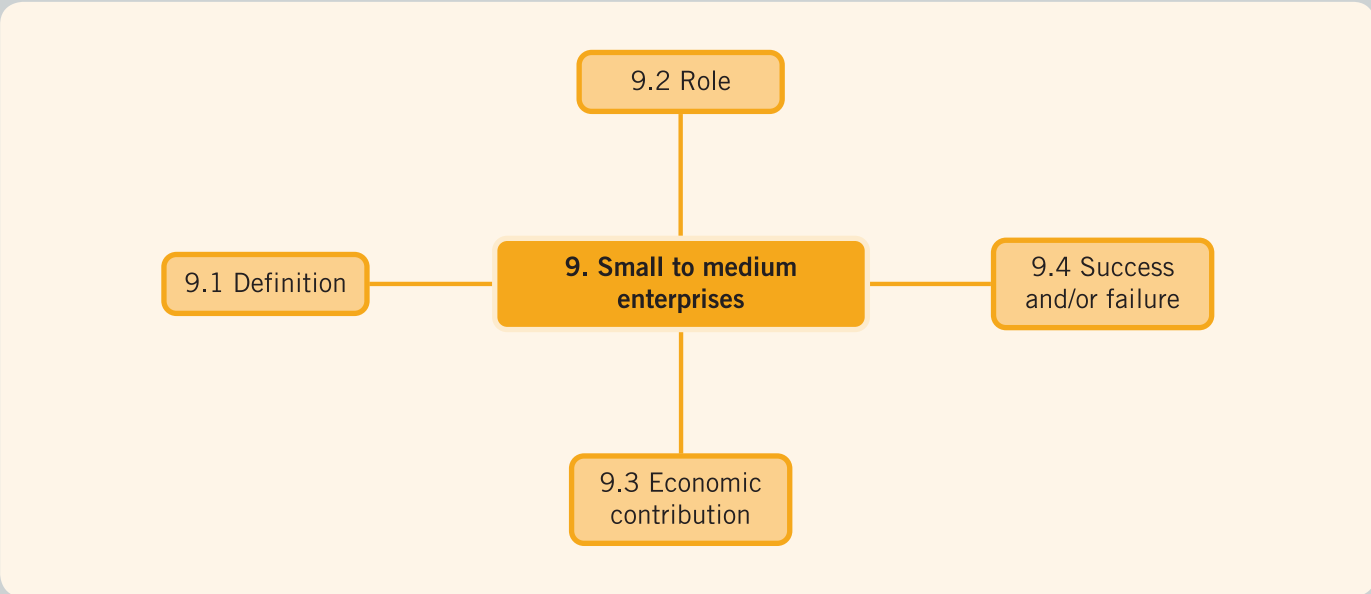
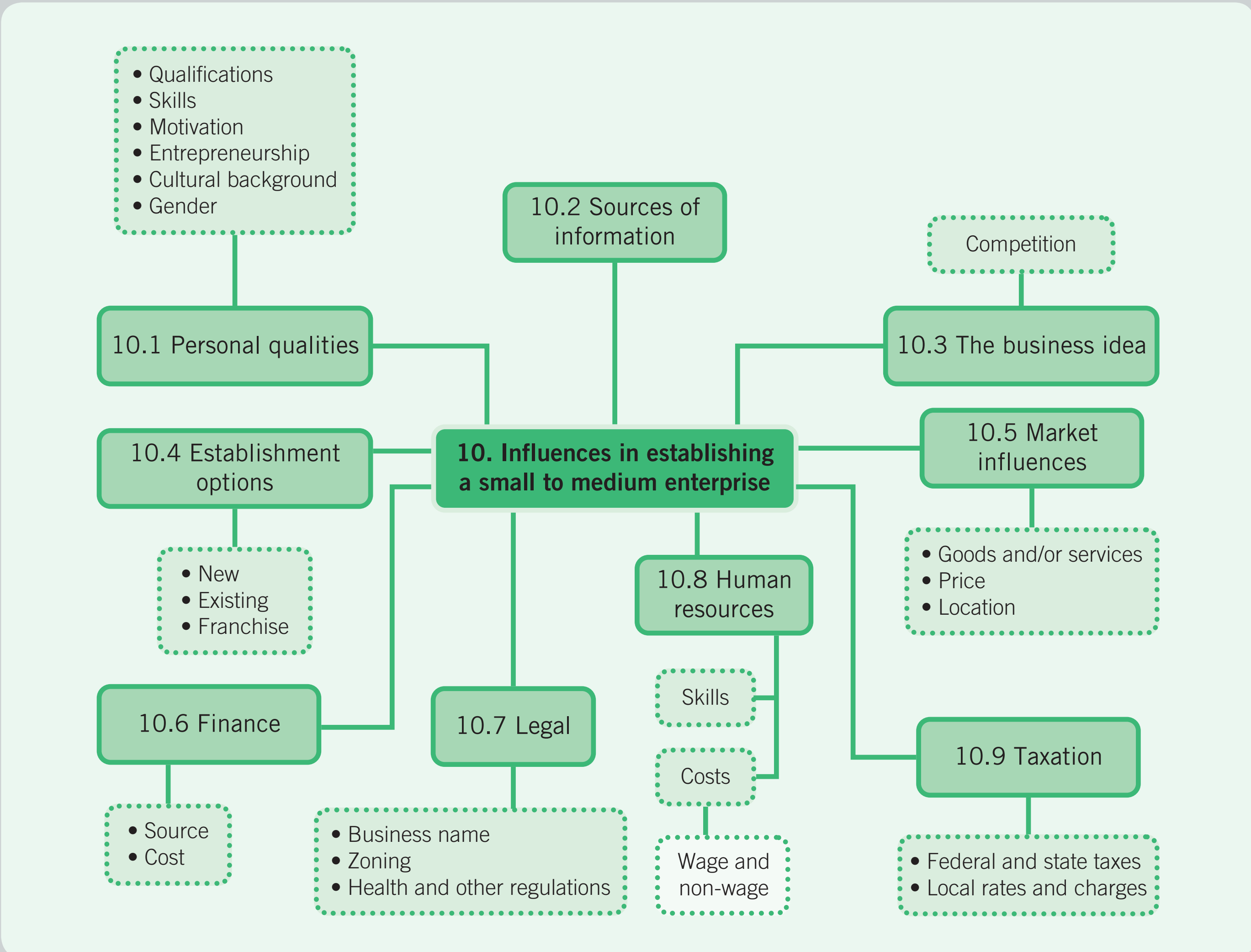
Business planning





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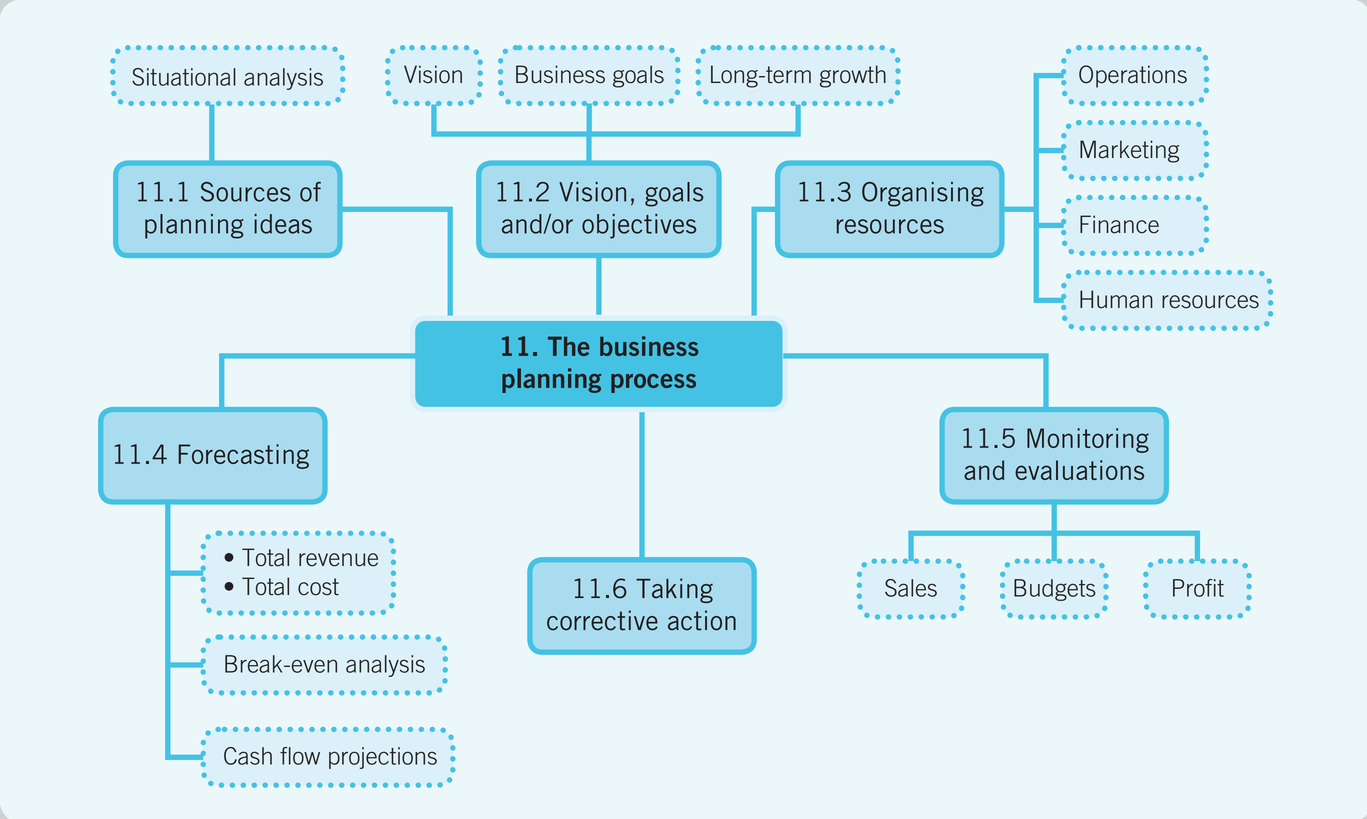

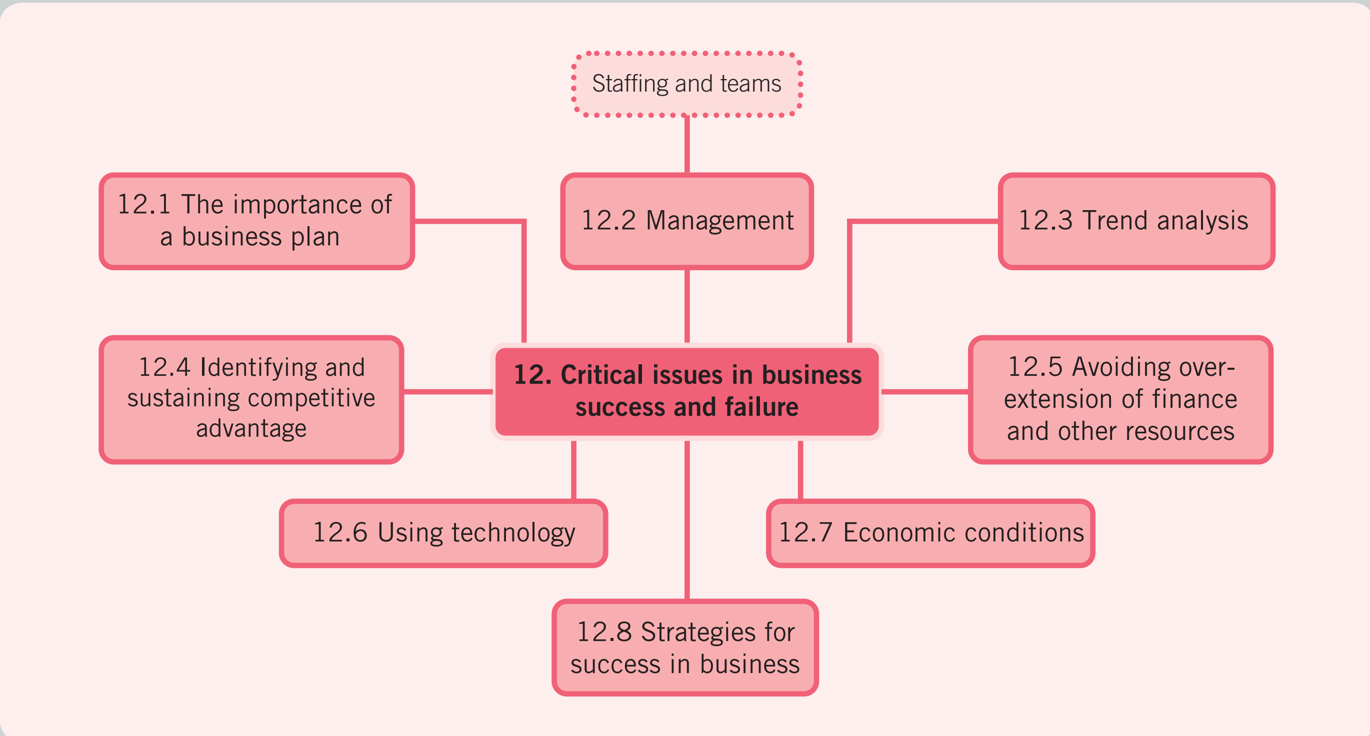

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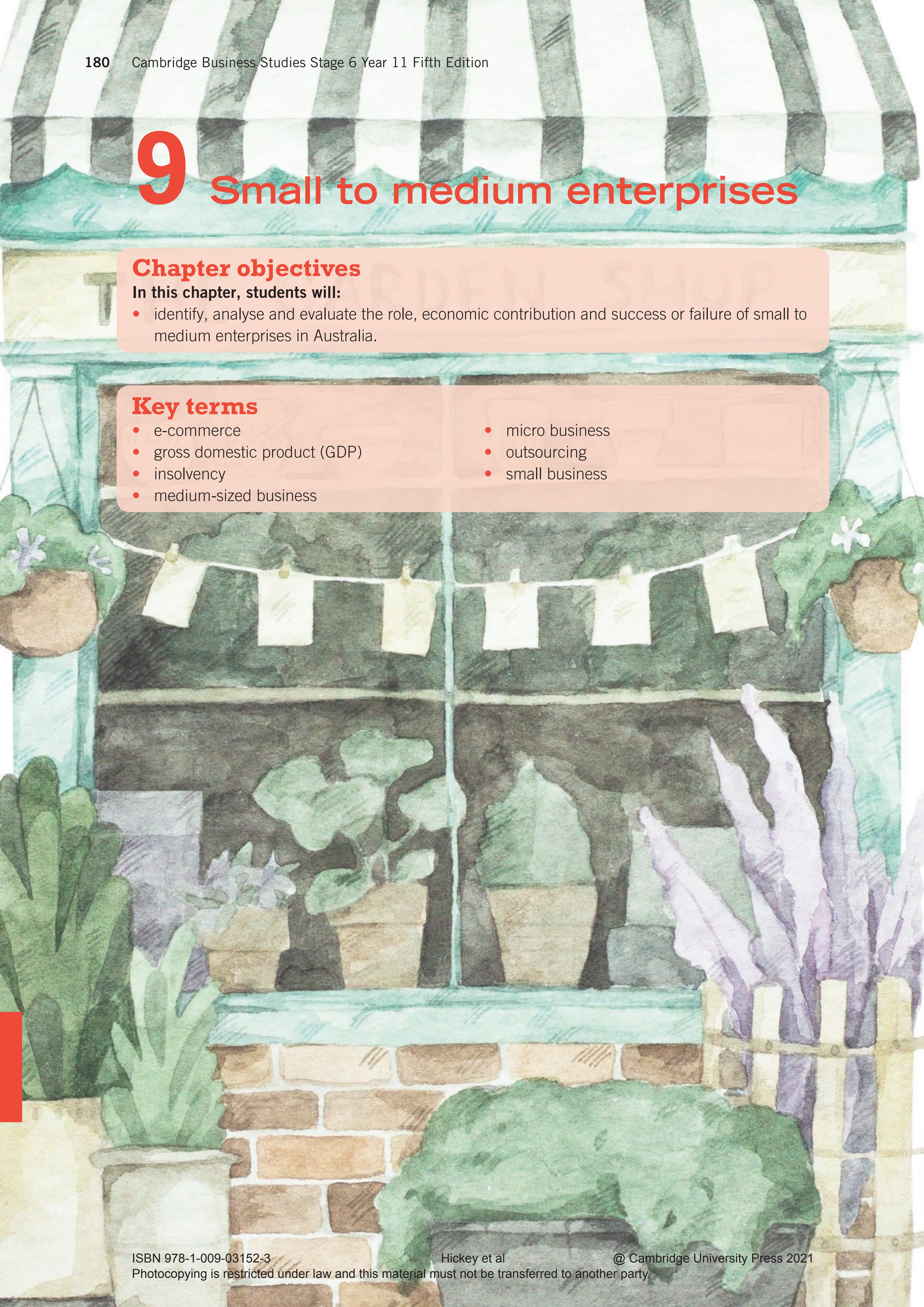

9 Small to medium enterprises

Chapter objectives

In this chapter, students will:

- identify, analyse and evaluate the role, economic contribution and success or failure of small to medium enterprises in Australia.

Key terms

- e-commerce
- gross domestic product (GDP)
- insolvency
- medium-sized business
- micro business
- outsourcing
- small business

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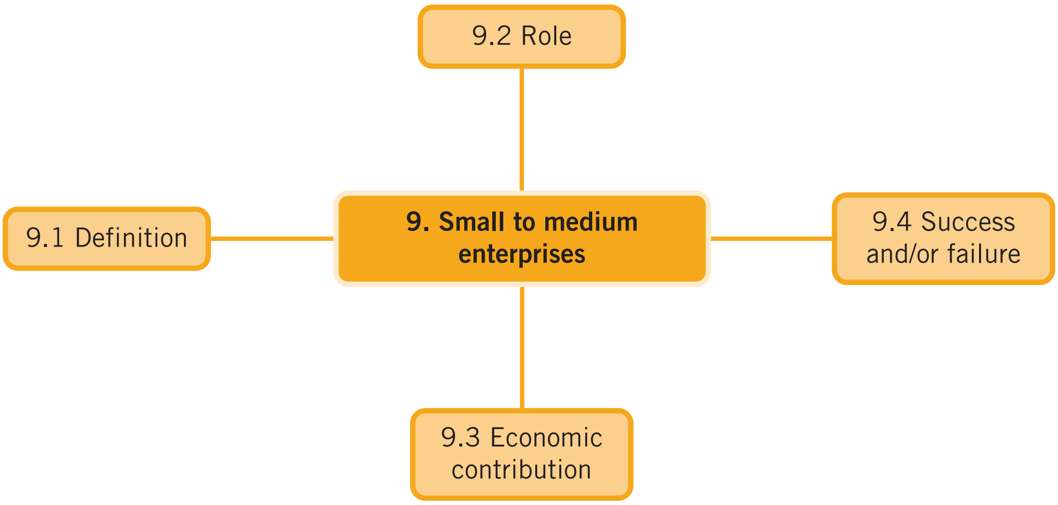
9.0 Introduction



Source 9.1 Small to medium enterprises

Small to medium enterprises (SMEs) are the most common businesses in Australia. These businesses play a key role in the provision of goods and services for the general public, provide employment, foster innovation and productivity improvements, supply inputs to larger businesses, serve the interests of local communities and facilitate growth in the Australian economy.

Many SMEs now take an active part in research and development. Their growth is no longer limited by the domestic market and they increasingly are engaging in international trade.

9.1 Definition

SMEs can be defined in several ways. The Australian Bureau of Statistics (ABS) bases its definition on the number of employees. According to the ABS, a **small business** is defined as a business that employs up to 19 people, including categories of:

- non-employing businesses – sole proprietorships and partnerships without employees
- **micro businesses** – businesses employing up to four people, including non-employing businesses
- other small businesses – businesses employing from five to 19 people.

A **medium-sized business** is one that employs between 20 and 199 people, and a large business is one that employs 200 or more people. However, other organisations do not use this definition. For example, the Fair Work Commission defines a small business as one with up to 15 full-time equivalent employees. Other definitions of size can be based on the value of the business's production or turnover, its asset value or total revenue. In the 2019–20 federal Budget, the small business entity threshold was adjusted to those incorporated businesses earning less than $50 million in turnover/revenue per year. Very small unincorporated businesses (sole traders and partnerships) were classified as having less than $5 million in revenue.

Businesses in Australia may also be classified according to legal structure. These include unincorporated entities such as sole traders and partnerships, as well as incorporated entities such as private companies and public companies, trusts, religious organisations, government-owned businesses and other legal providers of goods and services.

Most SMEs are unincorporated businesses and incorporated private companies. In each case, they tend to be closely controlled by the actual owners who manage the business, supply most of the capital to begin the business, and who also make the major decisions for the business's operations.

How a business is defined becomes important in legal situations, such as the application of unfair dismissal law, when a distinction is made between requirements for SMEs and large businesses.

Digital quiz Please see the Interactive Textbook to access digital activities.

Small business A business that employs fewer than 20 people (ABS classification).

Micro business A business that employs fewer than five people (ABS classification).

Medium-sized business A business that employs between 20 and 199 people (ABS classification).

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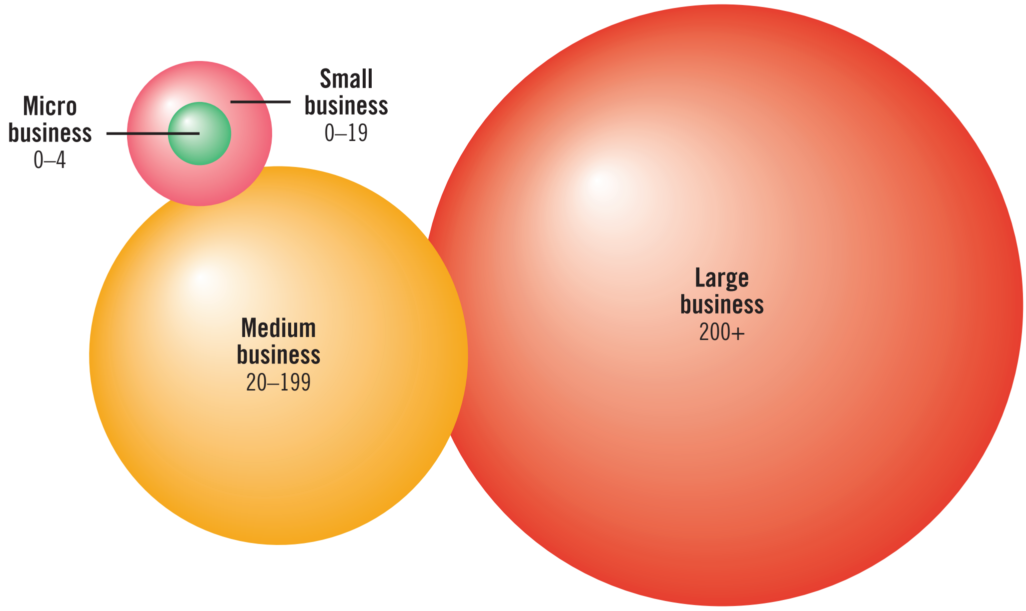

Source 9.2 The ABS defines businesses based on the number of employees.

Source 9.3 Number and size of businesses in Australia, 2019

Size	Employees	Number of businesses	% of all businesses	% private sector employment
Small (total)	0–19	2 314 647	97.4	44
– *Non-employing*	0	1 490 832	62.8	
– *Micro*	1–4	611 468	25.7	
– *Other small*	5–19	212 247	8.9	
Medium	20–199	56 835	2.4	23
Large	200+	4 271	0.18	30
Total		2 375 753		

Source: Australian Bureau of Statistics, cat. no. 8165.0, *Counts of Australian Businesses, including Entries and Exits, June 2015 to June 2019.*

Digital quiz Please see the Interactive Textbook to access digital activities.

9.2 Role

SMEs operate in many different industries throughout the Australian economy. ABS statistics are shown in Source 9.7 on p.185.

SMEs play a significant role in both agriculture and construction, where more than 99 per cent of employees in the industry work in SMEs. In professional, scientific and technical services, 79.6 per cent of the businesses are SMEs. Employment in health care and social assistance has increased by 9 per cent and there has been a 5 per cent increase in administrative and support services. Overall, significant employment growth may have resulted from recent issues such as drought, bushfires and the global COVID-19 pandemic.

Large businesses dominate sectors such as mining, where SMEs account for 23 per cent of total businesses, but account for only 2 per cent of employees. Mining has increased by about 6 per cent employment; however, agriculture, forestry and fishing has decreased by about 2 per cent. On the whole, SMEs tend to be more labour-intensive than large businesses, which generally require a large investment in equipment.

SMEs are also greatly influenced by the level of activity in the Australian economy, increasing in number in times of expansion or economic upswing and decreasing in times of contraction or downswing.

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Source 9.4 Nearly 96 per cent of businesses in the agriculture industry are SMEs.

Source 9.5 Average survival rates for businesses in Australia for the period 2015–19

Businesses based on annual turnover ($)	Survival rate as a percentage after 5 years
Zero to less than 50 000	52.2
50 000 to less than 200 000	62.4
200 000 to less than 2 million	73.4
2 million to less than 5 million	82.1
5 million to less than 10 million	84.3
10 million or more	83.9
Businesses based on employment size	
Non-employing	60.2
1–4	69.4
5–19	77.6
20–199	82.2
200+	86.6
Businesses based on legal structure	
Trusts	64.4
Total companies	55.4
Total partnerships	53.9
Sole traders	44.6

Source: Australian Bureau of Statistics, cat. no. 8165.0, *Counts of Australian Businesses, including Entries and Exits, June 2015 to June 2019.*

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Digital quiz
Please see the Interactive Textbook to access digital activities.

Together, SMEs account for about 99.8 per cent of all business in Australia. Approximately 63 per cent of these businesses have no employees, 26 per cent have up to four employees and about 9 per cent have between five and 19 employees. The majority of these businesses (97 per cent) are Australian owned.

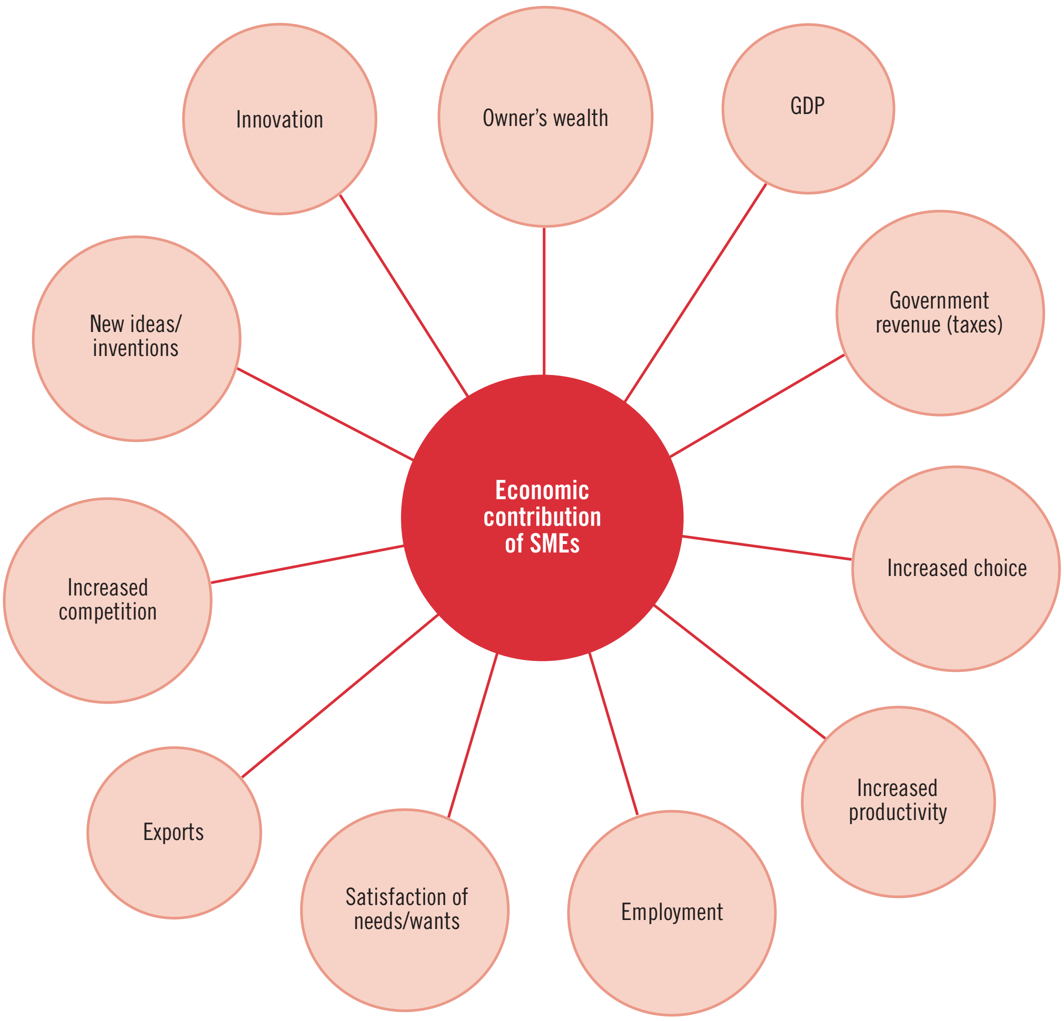
9.3 Economic contribution

Video 9.1
Gross domestic product (GDP)

The sheer number of SMEs, and the variety of industries in which they operate, provides a clear indication of their significant contribution to the Australian economy. Based on research, SMEs contributed approximately 57 per cent of Australia's **gross domestic product (GDP)** in 2019 and employed about seven million workers. This includes approximately 34 per cent for small business and 22 per cent for medium business of industry value added. Large businesses accounted for 44 per cent of value added. This production generates profits that add to government revenue through pay as you go (PAYG) and company taxation. Business profits also create wealth for their owners and encourage further investment into the business. SMEs are also growing in their involvement in the export trade. Exports earn income for Australia, which creates further job growth.

Gross domestic product (GDP) The measure of the total value of all goods produced and services provided within a country's domestic economy in one year.

SMEs are heavily involved in areas of construction, property and business services, and the retail trade. All industry sectors that are service-based and that regularly deal with individuals have high SME involvement. Their contribution extends beyond volume of production and level of employment. SMEs in Australia provide opportunities for entrepreneurs and for innovation. This has resulted in consumers having greater choice, and it serves the needs of local and regional communities.



Source 9.6 Some of the benefits provided by SMEs

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By establishing small businesses, entrepreneurs are able to develop new products and ideas, and can maintain creative input without the demands and restrictions imposed by senior managers. They are also able to respond more quickly to changes in the market, and therefore take advantage of rapid changes in technology that create new opportunities. SMEs act as an incentive for entrepreneurs to enter the commercial environment. The success and achievements of SMEs in Australia reflect the notion that a good business idea with a well-developed and realistic business plan has a high chance of success. Currently, about 40 per cent of SMEs are planning to introduce new products and services, and 30 per cent want to move online. Overall, about 63 per cent of SMEs use some form of social media, such as Facebook, to interact with their customers.

Source 9.7 Employment by sector and business size at end of June 2019

Industry sector (selected industries only)	Micro 0–4	Small 5–19	Medium 20–199	Large 200+	Total employment
	'000	'000	'000	'000	'000
Agriculture, forestry and fishing	283	76	66	26	451
Mining	7	7	28	136	179
Manufacturing	114	163	290	287	854
Rental, hiring and real estate services	221	93	60	43	417
Other services	212	109	132	61	514
Construction	499	249	205	165	1 117
Professional, scientific and technical services	341	219	309	286	1 155
Accommodation and food services	162	290	332	247	1 031
Transport, postal and warehousing	219	48	101	253	620
Arts and recreation services	45	24	68	80	216
Retail trade	189	156	328	658	1 331
Health care and social assistance (private)	198	158	348	615	1 319
Wholesale trade	79	118	193	167	557
Administrative and support services	176	82	251	445	945
Education and training (private)	49	55	136	189	430
Information, media and telecommunications	26	15	31	95	167
Electricity, gas, water and waste services	7	11	20	76	113

Source: Australian Bureau of Statistics, cat. no. 8155.0, *Australian Industry 2018–2019*.

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SMEs in Australia often operate in very competitive industries and need to develop a non-price advantage over their larger and better known competitors. This has resulted in increased innovation and improved productivity. These businesses will need to increase their efficiency, improve their outputs compared with their inputs and eliminate, or at least minimise, their waste. They often choose to offer products with features that differ from those of their competitors. SMEs are renowned for their service and their ability to tailor a product to their customers' needs. Larger businesses are unable to do this because of their size.

Smaller businesses can often exist in regions where their larger competitors find it unprofitable to operate. Because of their size, large businesses generally have higher costs, including rent, wages and insurance. While a smaller business still has these costs, they are not as great as those of their larger counterparts. For this reason, they are able to work in areas where there is a smaller market for the goods and services that they provide.

Improvements to technology and communication processes have enabled SMEs to take a more active part in **e-commerce**. This is the buying and selling of products using electronic methods such as the internet. It has allowed SMEs greater access to business stakeholders in general and also expanded their target market. Research shows that, in 2017, SMEs increasingly used social media and information technology, with micro businesses having 36 per cent social media presence, other small businesses 45 per cent and medium-sized businesses approximately 57 per cent. Currently, there are approximately 23 per cent of SMEs that are online-only businesses.

E-commerce Electronic commerce; the use of electronic communications (such as the internet) to carry out business.

SMEs also tend to have a higher degree of flexibility than larger organisations in the way they operate. Thus they are able to make changes more quickly with less cost, especially in response to economic fluctuations. This is because fewer levels of management need to consider and evaluate each decision. Communication between a few owners is much faster and the decision-making process is much shorter.

Review 9.1

Comprehension

Answer these questions on paper or in the Interactive Textbook.

Use the information provided in Source 9.7 (on p.185) to answer the following questions.

1. Identify the industry sectors that have significant small business employment.
2. Identify the sectors that appear to be dominated by larger businesses.
3. Which industry sectors would be classified as a primary industry?
4. Which industry sector would be classified under quaternary industry?
5. Identify an industry sector that you think would be experiencing the greatest growth.
6. Identify an industry sector that has recently undergone decreased employment.
7. Explain why some of the categories included in the list have the word 'private' included in brackets.

9.4 Success and/or failure

It should be remembered that just because a business closes down, this does not mean it has failed. Many businesses cease to operate because the owners have retired or want a change of lifestyle, or they may have become ill

Source 9.8 SsangYong Australia filed for bankruptcy just before Christmas 2020. Subsequently, the company announced that it had entered a private three-month rehabilitation program, allowing it to 'restructure the business as it works with creditors to try and complete the sale process which has been ongoing for some time'. Should a new financial backer not be found, SsangYong would then 'enter voluntary administration allowing for a forced restructure of the organisation'.

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or even died. They may exit the industry during the decline phase of the business life cycle before bankruptcy occurs. The concept of a business's failure suggests that the business has gone bankrupt. If businesses simply close down, the bills are paid, employees' entitlements are paid and the owner receives what is left over.

It is a totally different situation if an unincorporated business goes bankrupt or an incorporated business goes into liquidation. This is when a company's assets are sold off, money owed to the business is collected and the business is closed. If this happens, stakeholders – such as suppliers, employees, individuals and businesses that are owed money – may not receive full payment. Employees will need to find other jobs and customers will look elsewhere for what they need. Key reasons for failure may include economic conditions or the owners' lack of business skills, as well as insufficient capital (under-capitalisation) for their needs.

Business Bite

More than one-third of Australian small businesses fail within the first three years. In an article published in March 2016, journalist Samantha Menzies identifies 10 reasons for this:

1 taking on too much debt
2 spending all their start-up capital before they have a positive cash flow
3 choosing the wrong location
4 trying to do too much too quickly (over-expansion)
5 not having enough capital in reserve
6 poor customer service
7 the lack of a proper business plan
8 inability to be flexible and grasp opportunities
9 inadequate marketing
10 a lack of knowledge of the competition.

Generally, during a downswing, an economy begins to slow and consumers tend to spend less. As a result, businesses experience a slowdown in sales and decreasing profits. This places pressure on the business to meet its financial obligations. If the business's expenditure is greater than its revenue, the business may become **insolvent** and be unable to pay its bills. Closure may be the only viable option for some owners.

Insolvency When a business cannot pay all its liabilities, both current and non-current. A business that is insolvent will most likely fail because creditors will demand repayment and the business cannot afford to pay loans without selling assets.

Increasingly, small businesses are facing stronger competition from their large business counterparts. Australia's large grocery stores, including Woolworths and Coles, have moved into the supply of fuel and more recently into insurance to increase their market strength. They are also putting more of their own brand products on the shelves and making it more difficult for suppliers of brand products to get sales. Strong discounting and their ability to obtain lower prices by buying in bulk have seen these two industry heavyweights place considerable pressure on competing smaller businesses. More recently, competition has increased with the growth of the Aldi Australia supermarket chain and the third Costco wholesale store opening in Sydney, which puts pressure on small business growth as well as providing renewed competition for Woolworths and Coles.

Source 9.9 It is estimated that only 50 per cent of small businesses that entered the market between 2011 and 2015 are still open.

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According to statistical evidence collected (see Source 9.5 on p.183) between 2015 and 2019, of all new small businesses entering the market, generally 60 per cent will still be operating after five years, while 40 per cent will have closed. Of the total small businesses that fail, the vast majority are non-employing and micro businesses with only a small amount of capital invested in the business. Medium businesses in the same time period had a survival rate of 82 per cent and large businesses 86 per cent. Overall, about 25 per cent of businesses fail within the first 12 months, increasing to 40 per cent within two years and closer to 50 per cent over five years.

Outsourcing A firm making a commercial arrangement for another firm to perform one of the support services that it once performed itself – for example, advertising.

Generally, the older the business is and the more employees the business has, the greater the business's chance of survival. The actual failure rate for business is difficult to estimate, as some businesses are not registered with the Australian Taxation Office (ATO), may not have an Australian Business Number (ABN) and may not give information to the ABS. Several registered businesses may not be trading actively. However, it is fair to say that the first year of operation is the most difficult and many businesses cease operation in that time.

The growth in **outsourcing** has provided small businesses with opportunities to service the needs of many large businesses. Support operations such as payroll and superannuation, accounting, marketing and recruitment are all areas that increasingly are outsourced to SMEs to manage on behalf of larger businesses. This allows the larger organisation to devote its human and financial resources to its core/prime function area of operation – that is, producing a specific good or providing a specific service.

The future prospects of small business in Australia are somewhat mixed. While some industries will develop and flourish (such as the services sector – including aged care services, child care, home offices and franchises), others (such as corner grocery stores and small farms) may decline, unable to remain profitable within their competitive environments.

Ethical Spotlight 9.1

How many very large businesses pay tax in Australia? Small businesses have been given tax cuts; what about large businesses?

Business Bite

The rapid pace of globalisation and advances in information technology present both challenges and opportunities for SMEs. Trade is increasingly made up of digital services, with information flowing across the internet in addition to physical materials, produce and products. SMEs can now more easily compete across borders but are also open to challenges in their home market from foreign competitors.

Over time, digital disruption – driven by new technologies such as artificial intelligence, automation and cloud computing – will impact every industry and supply chain. As SMEs are smaller, more flexible and less bureaucratic than larger competitors, they can be better placed to navigate this speed of change. Research by Deloitte found that digitally advanced SMEs in the United States earned two times as much revenue per employee and were almost three times as likely to be creating jobs over the previous year compared to businesses that have low levels of digital engagement.

Research by the Commonwealth Bank, however, has shown many Australian SMEs are delaying technology adoption due to lack of knowledge about its long-term benefits and uncertainty around how it can enhance their business performance.

Continued →

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To remain competitive in the future, it will be increasingly important for SMEs to consider global impacts when developing their business strategy, seek to better understand how technology (such as data analytics) can improve their business outcomes, and invest in upskilling their talent to better identify opportunities and challenges from globalisation and technology.

Source 9.10 Some businesses may struggle due to the competitive market.

Activity 9.1
Research

Answer these questions on paper or in the Interactive Textbook.
Using the internet, research information for an Australian start-up business. Some examples could be Afterpay, Lendi and Prospa. In each case, answer the following questions:

1 When did this business begin operating?
2 For how long has it been operating?
3 Describe the business's product.
4 Describe the business's success so far.
5 What is the competitive advantage of the business?
6 What is your assessment of the future prospects of the business?

Activity 9.2
Debate/discussion

Conduct a class debate on the following questions:

1 Should free enterprise be allowed to determine the number of sellers of a good or service?
2 Should the government interfere with the free enterprise system to ensure that competition exists to protect the consumer?
3 Are Australian businesses over-regulated?

Chapter summary

The ABS defines an SME as a business that produces goods or services and has up to 199 employees.

Most SMEs include unincorporated entities such as sole traders and partnerships as well as incorporated private companies.

SMEs can also be classified according to turnover, asset value or total revenue.

SMEs account for 99.8 per cent of all businesses in Australia.

The three main SME industry divisions providing services in Australia are:

1 property and business services
2 construction
3 the retail trade.

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Small businesses currently employ approximately 44 per cent of people in the private sector in Australia.

Medium-sized businesses employ approximately 23 per cent of people in the private sector in Australia.

SMEs make a significant contribution to the Australian economy – currently, approximately 57 per cent of private sector GDP each year.

With improved education, government assistance and private sector support systems, more SMEs are developing and remaining in business.

SMEs provide entrepreneurs with an avenue to develop new ideas and products. They give consumers increased choice in the marketplace and often serve the needs of local and regional communities.

Economic conditions, lack of business skills and insufficient capital are the key reasons for SME failure.

Large and more dominant businesses are increasingly taking over sectors that traditionally have been the domain of SMEs. SME survival is often based on flexibility, awareness of market changes, adaptability and the need to gain a competitive advantage and to find a niche area of the market.

End-of-chapter tasks

Chapter revision task

Create a summary fact sheet listing statistics for small businesses, medium businesses and large businesses. Use the subsections from the syllabus to identify the relevant points needed, starting with definitions for size of business. You could include sections on characteristics, employment, contribution to GDP, industry sector and so on. Compare your list of subsections and summary points with those of other class members.

Multiple-choice questions

1 Non-employing business refers to those where:
   - **A** only the family is involved.
   - **B** only the owner of the business runs the business.
   - **C** the business has no employees.
   - **D** the business is not permitted to hire workers.

2 Most businesses included in the SME category are:
   - **A** sole traders, trusts and cooperatives.
   - **B** sole traders, partnerships and private companies.
   - **C** partnerships, public companies and cooperatives.
   - **D** sole traders, partnerships and public companies.

3 Ashkan's Confectionery World is a confectionery outlet that employs four people. Based on the definitions provided by the ABS, this business would be classified as what size?
   - **A** Large
   - **B** Medium
   - **C** Small
   - **D** Micro

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4 What is a major benefit of small to medium business to the Australian economy?

A They make insignificant contributions to the level of total output per year.
B They provide an avenue for entrepreneurs to release new products.
C They offer high levels of employment in all businesses.
D They provide strong competition to larger, better-known retail stores.

5 The contribution of SMEs to the level of private sector GDP is approximately how much?

A 16 per cent
B 27 per cent
C 57 per cent
D 86 per cent

6 According to current statistics, which of the following statements is true?

A Most businesses fail in their first year.
B Approximately 60 per cent of small businesses are still operating after five years.
C Approximately 80 per cent of businesses operate for five years.
D Only 5 per cent of businesses operate for two years.

7 The majority of businesses in Australia are:

A micro
B medium size
C large size
D non-employing

8 What is a reason why small businesses tend to be successful in regional and country locations?

A They have an established and loyal customer base.
B They are able to cater exclusively to the needs of the population within these areas.
C They are not restricted by the higher cost associated with operating a larger business and, for this reason, are not restricted to areas of high turnover.
D Larger businesses tend to avoid operating in these areas.

9 The Australian company tax rate includes:

A all companies pay 30 per cent tax on their revenue.
B all companies pay 30 per cent tax on their net profit.
C small businesses pay 27.5 per cent tax on their net profit.
D all businesses pay 30 per cent tax on their gross profit.

10 What does SME stand for?

A Similar migration employees
B Same moderate earnings
C Small to medium enterprise
D Small businesses

Short-answer questions

1 Distinguish between an SME and a large business.

2 Explain the significance of SMEs to the Australian economy.

3 Describe why SMEs offer entrepreneurs an opportunity to develop, test and implement new products and services.

4 How does the role of SMEs compare with the role played by large business in Australia?

Extended-response question

'SMEs are vital to the business environment.' Evaluate this statement with reference to the role of SMEs in Australia.

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10 Influences in establishing a small to medium enterprise

Chapter objectives

In this chapter, students will:

- identify personal qualities that affect the success of a new business owner
- identify and investigate the factors that influence the establishing of a small to medium enterprise (SME)
- explain sources of information and the business idea
- discuss a variety of establishment options
- analyse and evaluate the influence of the market, finance, legal, human resources and taxation issues.

Key terms

- advisory service
- business activity statement (BAS)
- business network
- business plan
- core or key business functions
- debenture
- debt finance
- demographics
- dividend
- equity finance
- formal qualifications
- franchisee
- franchisor
- goods and services tax (GST)
- goodwill
- high value-added goods
- intangible asset
- intellectual property
- intrinsic qualities
- inventory management system
- investment banks
- invoice
- low value-added goods
- non-core business functions
- patent
- quota
- renewal strategies
- retrenchment
- salary
- tariff
- trade show
- trading name
- turnkey
- venture capital
- wage
- word of mouth
- zoning

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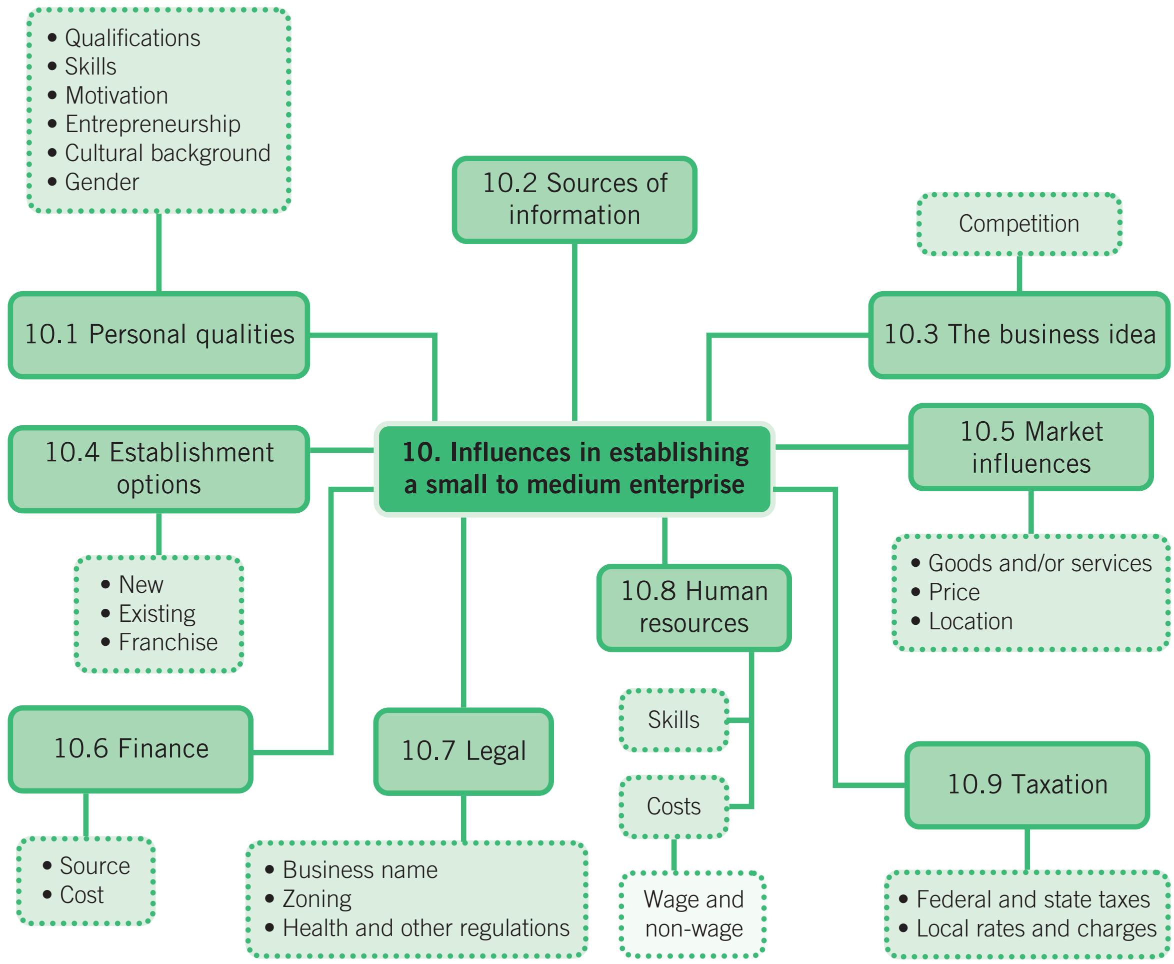
10.0 Introduction

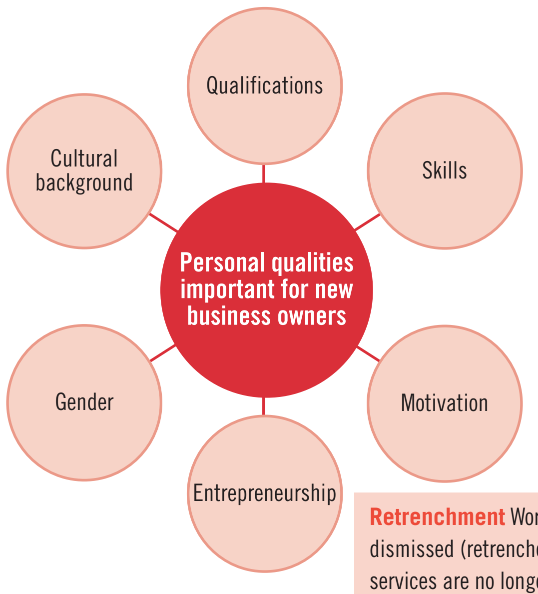


Source 10.1 Influences in establishing a small to medium enterprise

Digital quiz Please see the Interactive Textbook to access digital activities.

10.1 Personal qualities

There are many reasons why a person may want to have a business of their own. They may have been **retrenched** and may not be able to find another job; they may have taken early retirement and want a new challenge; they may want to fulfil a lifelong dream, be their own boss or turn their hobby into a money-making venture. Whatever the reason, there are many personal qualities that a person will need to have to be successful. Although there is no list of compulsory requirements or set criteria to meet, there are many things a person can do to increase the likelihood of success.



Source 10.2 Personal qualities that can increase the likelihood of success of a new business owner

Retrenchment Workers are dismissed (retrenched) when their services are no longer needed because the business for which they work has downsized, closed a division or outsourced a function and therefore requires fewer workers.

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Formal qualifications Official recognition (such as a certificate) that a person has achieved a certain standard by completing a course of study at a school, university, TAFE or private learning institution.

Qualifications

Although it is not necessary to have any **formal qualifications** to start a business, business owners are becoming better educated. The following information is based on Australian Bureau of Statistics (ABS) data on Australian business operators:

- 53 per cent had completed Year 12
- 26 per cent had completed Year 10 or equivalent
- 12 per cent had completed Year 11 or equivalent
- 6 per cent had completed Year 9 or below
- 1–2 per cent did not go to school.

Regarding non-school qualifications:

- 67 per cent of business operators had completed a non-school qualification
- 31 per cent achieved a certificate level of education
- 19 per cent achieved a Bachelor degree
- 7 per cent have postgraduate degree levels
- approximately 12 per cent achieved a diploma.

Business owners increasingly attend courses to improve their business skills. A key feature of any business course, including Business Studies at high school, is that it teaches potential business owners to consider every aspect of their business idea and the importance of a **business plan**.

Business plan A written document setting out the details of a business and its products, including its market and industry, as well as its goals and objectives and its strategies to achieve them. It is a complete analysis of the business.

This plan is a written document setting out the details of a business and its products, including its market, industry and goals, and its strategies to achieve those goals. It is a complete analysis of the business. It allows the prospective owner to identify their own strengths and weaknesses as well as analyse the business environment in which the business will operate. A business plan improves the chance of success for any entrepreneur.

Formal education in a business management course should lower the failure rate of small business in particular. This is because, apart from external factors, poor management ability is a principal cause of business failure. In New South Wales, basic small business management and accounting courses are offered by technical and further education (TAFE) colleges, community colleges and many private colleges.

Skills

Entrepreneurs must ensure that they have the technical ability and skills to transform a business opportunity into a real business. As well as management and communication skills, business owners need to have technical ability – that is, detailed knowledge of the product or service they are selling. This knowledge comes through experience, on-the-job training and familiarity with handling similar products and services.

Skills in marketing, human resource management, administration, accounting and information technology can be acquired through formal training, such as at a university, TAFE college or private college. TAFE, established and administered by state governments, provides hundreds of fully accredited award courses and a diverse range of short courses and training programs for students. Many of these courses take time and can be expensive. The government has also set up several online courses for small business owners to develop essential skills.

Source 10.3 Entrepreneurs need management, communication and technical skills.

Management experience helps business owners develop decision-making skills. Although experience is not essential – after all, there are many young entrepreneurs – some experience does increase the chance of business success. Successful business owners will usually have prior experience working in the same industry as their business, or in some sort of managerial position. Industry experience gives a person

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technical knowledge of the product and its market, and connections with suppliers and potential customers. Entrepreneurs will be aware that they must calculate and weigh up alternative courses of action to ensure that the benefits of a decision will outweigh the costs. Experience will also mean that owners are familiar with many management tools to assist with decision-making.

Increasingly, business owners also need computer skills. The number of businesses using computer-based accounting, planning and **inventory management systems** is increasing as the price of personal computers falls and user-friendly software packages become readily available. Computer programs have been written specifically to suit owners with limited computer experience. Government departments have online services available for business owners to use and to teach themselves business skills. The number of businesses in Australia that use the internet for e-commerce is increasing each year. Business owners and managers therefore need to have computer skills to establish and maintain websites and social media accounts for promoting, selling and ordering goods online, as well as for keeping a record of their business transactions (see Source 10.4). This technology has brought with it its own problems. In Australia in 2016, about 16 per cent of businesses encountered security problems. In 2018, Marriott International discovered attackers had had access to its customers' personal data, including 100 million credit card numbers and expiration numbers, for several years. A 2019 breach of the Australian graphic design website Canva exposed passwords and email addresses of 137 million users, and in 2020, in China, information for 172 million users of Sina Weibo (similar to Twitter) was posted on the dark web for sale.

Not everyone can operate a business successfully. Entrepreneurs have skills in running a business as well as many **intrinsic qualities** that make them successful. These personal or intrinsic qualities are those that are natural to a person; they are not learned and generally cannot be taught. However, some of these qualities can be enhanced. There are strategies available to improve organisational skills, much like a better diet and some exercise may boost a person's energy levels.

Inventory management system A method of monitoring the movement of inventory in and out of a business to determine what inventory is available and what has been sold.

Intrinsic qualities Attitudes, skills and abilities that are an inherent, or natural, part of a person.

Source 10.4 Information technology (IT) use by Australian business, by employment size, 2019–20

	Employment size				
	0–4 employees	5–19 employees	20–199 employees	200 or more employees	Proportion of all businesses
	%	%	%	%	%
Internet access	96.7	98.3	99.7	100.0	97.4
Place orders via the internet	62.4	77.7	81.0	83.9	68.1
Receive orders via the internet	44.9	57.4	60.3	61.2	49.5

Source: Australian Bureau of Statistics, cat. no. 8167, *Business Use of Information Technology, by innovation status, by key indicators, by employment size, by industry, 2019–2020.*

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Video 10.1
Starting a small business

These intrinsic qualities include:

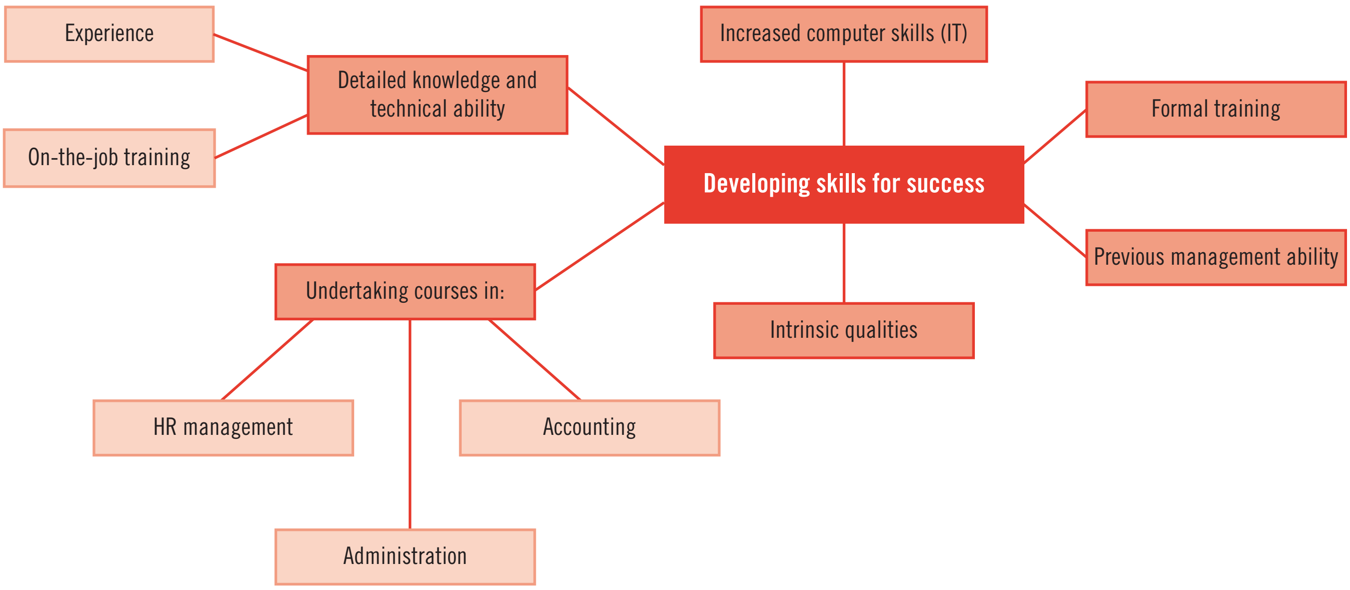
- being creative
- having vision
- having a high level of personal organisation
- enjoying a challenge rather than fearing change
- optimism, persistence and ambition
- social skills that make it possible to relate to different kinds of people
- good communication skills
- a willingness to listen to and learn new ideas and concepts
- the ability to work independently, but also a willingness to seek advice
- decisiveness
- the ability to tolerate uncertainty
- charisma and natural leadership ability
- resourcefulness and problem-solving ability
- good health and a high level of energy.

Although business skills can be taught, these personality traits and qualities that an individual naturally possesses can set successful entrepreneurs apart.

Individuals can perform a variety of tests to determine whether they have entrepreneurial qualities. The likely characteristics you will possess if you have entrepreneurial ability could include:

- the vision to see new opportunities
- enjoying being your own boss
- your parents or guardians having operated their own business
- no desire to follow a single career for your whole life
- an aptitude for market research
- a willingness to seek advice and to accept constructive criticism.

Source 10.5 The skills entrepreneurs should develop to be successful



Activity 10.1
Prepare a personal audit or self-evaluation

1. Imagine that you are seriously thinking about starting your own business. Prepare an evaluation of your personal qualities and experience to assess your potential as an entrepreneur.
2. Discuss and compare your evaluation with other class members.
3. Do other students agree with your assessment?
4. Try to identify your weaknesses.

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Source 10.6 Skills used in completing core business activities, by employment size, 2019–20

	0–4 persons	5–19 persons	20–199 persons	200+ persons	Total
	%	%	%	%	%
IT technical support	15.9	31.3	42.8	63.5	22.4
Marketing	20.1	28.8	43.6	61.6	24.4
Trades	25.9	31.3	38.0	32.9	28.3
Financial	24.4	33.3	47.0	66.0	28.7
Transport	12.6	18.0	28.7	31.4	15.3
Engineering	10.8	11.7	19.6	28.8	11.8
Business management	19.7	28.8	41.5	56.0	23.9

Source: Data selected from Australian Bureau of Statistics, *Data by Theme, IT Skills, 2019–2020*.

Activity 10.2
Comprehension

Refer to Source 10.6 to answer the following questions.

1 Identify the four most important skills required by micro businesses.
2 Identify the four most important skills used by small to medium enterprises (SMEs) in general.
3 For all businesses (total), identify the four most important skills required.
4 Identify the least-used skills for SMEs.
5 With reference to the skills included in Source 10.6, which skill areas would most likely become a specific management area/department function for a business as it grows?
6 For an SME, which skill requirements would most likely be outsourced?

Motivation

It is important for individuals to undertake a comprehensive self-evaluation of their reasons for running their own business in order to have a vision for their business.

The main reason why individuals become business owners is their motivation to make a profit and improve their current financial position. Most people, as a rule, do want to become wealthier and have a better lifestyle. There is also the opportunity to be your own boss. Many individuals have a strong desire to be independent, with the freedom to set their own hours of work, goals and ways of working. They do not want to take orders from someone else. Some individuals are unable to obtain suitable work as an employee and so they create employment by setting up their own business. After completing training, some individuals open their own business and others assume control of the business started by their parents or guardians.

Many people gain a great deal of satisfaction from taking a creative idea and turning it into a money-making enterprise. Others may enjoy providing local employment, superior goods or a community service that improves the quality of life of consumers. Many entrepreneurs enjoy the challenge of creating a successful business from nothing. There is also the boost to a person's ego from the social recognition of being an excellent business leader. The media seek opinions on important business issues from entrepreneurs. Some of the most successful entrepreneurs are treated like movie stars, and even host their own television shows to help others in business.

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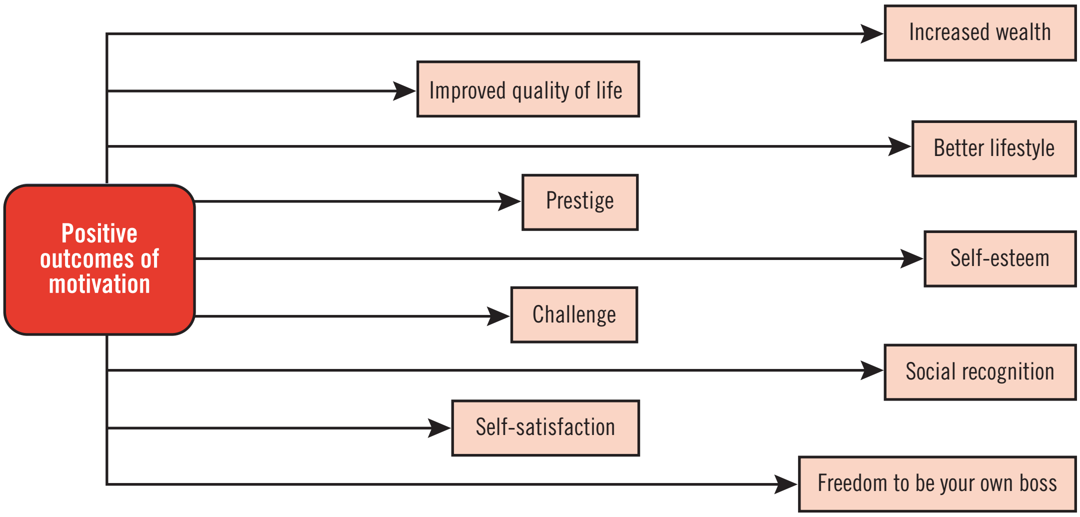

Source 10.7 Motivation can provide positive outcomes for a business owner.

Source 10.8 Running a business can be very time-consuming.

Some individuals want to benefit from their invention by creating a business to market it. An alternative would be to sell the rights to their invention to a large corporation, but doing so results in a complete loss of control of the invention/idea and allows the business to benefit from the invention. In many cases, financial backing has not been available, so many Australian inventors have had to go overseas for support, such as for power steering.

Certain features of owning a business are certainly not motivating factors. These factors discourage individuals from establishing a business. It can be quite lonely and stressful meeting the demands of customers, suppliers, financial institutions, government and employees. The constant pressure to make decisions can be overwhelming.

Running a business can take up much more time than being an employee. Long hours take

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time away from family, leisure and recreation. There is also the potential for significant personal financial loss if the business fails. An owner of an unincorporated firm may end up personally bankrupt and lose their house and car because of the failure of a business venture. In many cases, people may not wish to put their family's lifestyle at risk.

Business owners' expectations are based on their motivations for starting a business. Entrepreneurs need to be positive thinkers, and therefore expect their business to be financially successful. Owners are likely to hope that eventually their business will virtually 'run itself', requiring less ongoing decision-making from them, and that they will employ a manager to make day-to-day decisions. The owners may then be able to retire early, pass the business on to their children and live off the ongoing profits made by the business.

It is important that potential business owners consider the realities of ownership. Small to medium enterprises in particular need continuous direction and input from their owners. Lack of attention due to increased time away from the business could lead to the decline of a business.

Some individuals have unrealistic expectations about the amount of work it takes to run a new business. It is not uncommon to work 12 to 16 hours a day and on weekends, and to rarely be able to take a holiday. This is especially true of the establishment phase. This is why entrepreneurs need to have good health, energy and drive. Also, new entrepreneurs may not be prepared for the frustration and stress that business owners often experience.

Some entrepreneurs expect to have a major impact on the business world and possibly revolutionise a sector of the economy or industry. Some believe their invention or idea will be the next significant step forward for society. Entrepreneurs believe in themselves.

The expectations and goals of the owners need to be realistic and attainable to give internal stakeholders an achievable goal towards which to work. Goals that are achievable will give owners, managers and employees a greater incentive to achieve the business's objectives.

Business Bite

Cryptocurrency is a type of electronic money and does not physically exist. It is not government-issued currency and has many variations, such as Bitcoin, Ethereum, Litecoin and Ripple.

Cryptocurrency uses blockchain technology, where a decentralised database is kept that multiple parties share. The blockchain tracks ownership of each unit of currency and keeps a history of every transaction.

Source 10.9 In February 2021, Tesla announced that it would start accepting payments in Bitcoin in exchange for its products.

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Activity 10.3
Analysis

Victoria is the chief executive officer of her own small company, Support Productions Pty Ltd. Victoria specialises in corporate event management. Victoria and her team of five employees organise events for companies. She has run Christmas parties for major banks and new product launches for soft drink companies. She enjoys the challenge and excitement of the work. However, she has not received the wealth she expected. She recently stated, 'If you are not earning net $80 000 a year from your business, you may as well be earning a wage'.

Explain Victoria's reasons for making such a statement.

Entrepreneurship

To have entrepreneurial ability very basically means to be naturally good at business in the same way that some people are naturally skilled at playing sport, painting or playing music.

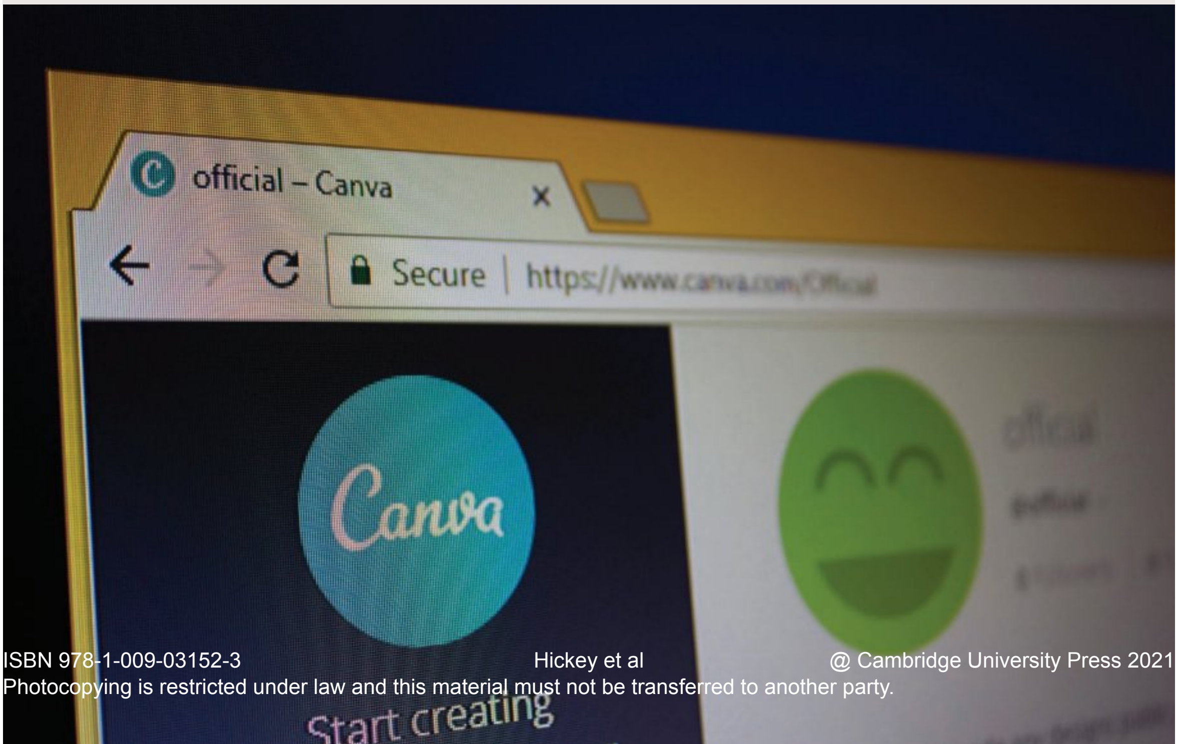
Entrepreneurial ability is also known as business acumen. It is having wisdom and expertise in establishing and running a successful business. An entrepreneur is someone who will take a calculated risk to turn an idea into a successful business operation. The risk is calculated because the entrepreneur will weigh up all the potential costs and compare them with the potential benefits of the new business venture. If the risk is too great, a sensible person will not make the decision to invest. Those with business acumen tend to succeed more often than they fail.

Activity 10.4
Analysis and class discussion

Use the simple entrepreneurial test in Source 10.11 to complete the following activities.

1 The next time you are at a friend's party, identify the person with the most entrepreneurial traits.
2 As a class, discuss which members of the class or year group have displayed the most entrepreneurial ability. They may have displayed their skills by fundraising for charity or for victims of a natural disaster, organising the Year 11 formal or even organising club jerseys for a sporting team.

Source 10.10 In December 2020, Canva co-founders Cliff Obrecht, Melanie Perkins and Cameron Adams were among the Top 10 Young Australian Entrepreneurs identified by *Business News Australia* after their company doubled in value from 2019 and reached two million paid subscribers.



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Source 10.11 A simple entrepreneurial test using the example of organising a party or event

Party test questions	Entrepreneurial quality
Who organised the party?	Self-motivation
Who has organised a party before and wants to organise another?	Experience
Who keeps the party going? Who is the 'life' of the party?	Energy and drive
Who always wants to have a good time, even when the party is boring?	Optimism
Who is generally liked by everyone and can even get along with the parents?	People skills
Who can identify problems, such as running out of food, and solves these problems before they occur?	Managerial ability
Who makes decisions about the music, food or party activities that everyone follows?	Leadership and decision-making ability
Who knows when the party is out of control and something has to be done?	Strength of character and self-discipline

Cultural background

Australia is a multicultural society. Today there is far greater acceptance of cultural style in business. When you look at the great variety of restaurants available in your local area or shopping centre, the significance of culture or nationality becomes apparent. Many other types of businesses illustrate this point.

Many business migrants to Australia have achieved success by working very hard to establish themselves and their business in their adopted country. They have made a very difficult decision to move here and are determined to make a better life and future for their families. They may, owing to their cultural heritage, possess certain entrepreneurial skills, such as persistence, a capacity for hard work and optimism. There may also be advantages from dealing with domestic and overseas suppliers and support service businesses owned by people of the same cultural background.

The shared experience among migrants establishing businesses in a new country can lead to a more supportive business environment. Some business people use their cultural heritage to their advantage when promoting their business, and find it easier to achieve success in their own community. However, difficulties can be encountered owing to language and cultural barriers.

Business Bite

Some examples of restaurants in Epping, a suburb of Sydney, are:

- Michelangelo Pizza & Pasta – Italian
- Sushi Aka – Japanese
- Rawsons Restaurant – Australian
- Ta One Thai – Thai
- Genesis – Vietnamese
- Galbi House – Korean.

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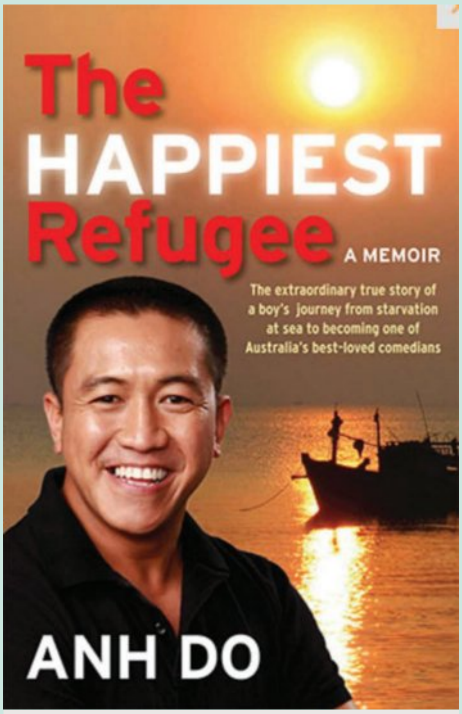

Source 10.12 In 2011, Anh Do's memoir *The Happiest Refugee* won several prizes, including Book of the Year at the Australian Book Industry Awards.

Business Bite

Anh Do was born in Vietnam in 1977. His family came to Australia as refugees in 1980. After finishing high school, Anh studied at the University of Technology in Sydney; however, with only six months left in his Business and Law degree, Anh made the big decision to take up comedy performance instead. Anh has diversified his career and also become a successful author, artist and actor.

Anh has shown confidence in his ability to market himself as a public speaker and as a professional actor, appearing in several films such as *Footy Legends* and TV series such as *Anh Does Vietnam* and more recently *Anh's Brush with Fame*. His painting of his father was a finalist in the 2014 Archibald Prize. Anh is also the author of *The Happiest Refugee*, as well as several children's books, including the *WeirDo* series, *Hotdog* series, *Ninja Kid* series and *Wolf Girl*. Anh has utilised his intrinsic qualities and cultural heritage to make his career successful.

Activity 10.5
Investigation

1. Construct a list of the businesses in your local shopping centre that exhibit a cultural identity. You could find information in the local newspaper or on the internet, take a walk around the shopping centre, or discuss your results with other members of your class. You could also survey students in the class for parents who own their own business or the types of businesses in which they work.
2. Have you noticed a change in the culture of your local area? Can you identify the change? Why do you think this change is occurring?

Gender

Social acceptance of women in the workplace has increased, as have pressure and expectations for women to achieve higher levels of promotion in their employment. Regardless of gender, people are striving for a successful career as well as a satisfying personal life. An increasing number of business owners are women.

In 2006, 31 per cent of business owners were female and 69 per cent were male. By 2016, 33 per cent were female and 67 per cent male. By 2019, 64 per cent were male and 35 per cent were female. The highest proportion of owners were between 45 and 59 years of age. The median age for business owners was 48 years. Of these, males averaged 48 years and females 47 years of age. Some survey data suggests that businesses with female operators and owners, who now comprise about a third of all business operators, have a lower failure rate than those operated and owned by males. Yet it is important to remember that an entrepreneur's gender does not determine whether their business will be a success.

Studies of successful women in business have concluded that one factor in their success has been their ability to form **business networks** of friends and associates to whom they can turn for assistance and advice. In comparison with their male counterparts, women are more likely to seek professional help sooner. Earlier intervention by an accountant, business planner or solicitor can prevent small problems escalating and causing failure. In many cases, women try to eliminate a lot of the risk through deeper research, asking more questions to improve understanding and thorough planning. They possibly choose the less risky alternatives and want a sound basis for more likely success. Many of these business owners are self-employed, operate from their own home office and take out very little debt finance.

Business network An organisation that provides a forum for business owners to share information and advice, and to support each other to improve their chance of success.

The types of businesses owned by men and women differ. Women are more commonly found in service industries, including retailing, property services (real estate agents) and business services (such as public relations). Men are more likely to own businesses as tradesmen and in construction, manufacturing and transport.

Business Bite

Janine Allis is the founder of Boost Juice, a retail outlet that specialises in selling fruit juices and smoothies. In 2000, Janine opened a juice bar in Adelaide, which has grown to 500 stores in 14 countries.

Janine began her business in her own kitchen. She researched her product and consulted with nutritionists and naturopaths to create her products, which were free from preservatives, artificial colouring and flavouring. Janine, along with her husband Jeff, signed 28 leases at Westfield shopping centres and expanded using franchising.

Janine did not have any formal business training, and used a common-sense approach for her business decisions.

Recently, she has been a mentor on *Shark Tank*. She is also:

- an honorary Professor with the Macquarie Graduate School of Management
- a director of Retail Zoo (parent company of Boost Juice)
- a director of Michael Hill Jewellers
- the first female director on the board of the Hawthorn Football Club
- a best-selling author of *The Accidental Entrepreneur*.

Source 10.13 Janine Allis is the founder of Boost Juice, which began operations in 2000.

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Age

Age is not a restriction. As life expectancy increases and people are more physically active and healthy, many may begin a business after their initial retirement. Many retirees are in a better financial position to 'give it a go'. There has been a definite increase in the average age of new business owners, with about 30 per cent now being over 55 years of age. It should also be noted that several people have started their businesses as young as 15 years of age.

In 2006, 2.5 per cent of owner managers were aged between 18 and 24 years. In 2016, this was 2.3 per cent. In 2006, 5.9 per cent of owner managers were aged over 65 years; however, by 2016 this had increased to 9.8 per cent. This increase can be attributed to regenerated energy and the accumulated knowledge of entrepreneurship. Ageing of the Australian population and the decrease in home ownership may also present problems as future generations may not have enough security to borrow for loans to start their own small business.

The government has been revising the age at which people are entitled to the age pension, and from 1 July 2023 this will be 67 years. There is no compulsory retirement age in Australia. For many people, such as the 1.3 million 'baby boomers', compulsory superannuation has not been in operation long enough to provide sufficient funds for retirement. Others see the concept of retirement as being well into the future.

Source 10.14 Proportion of owner managers, by age, 2019

	Males	Females
	%	%
Employed persons: Owner managers 20–74 years	2.0	2.7
Incorporated enterprises	3.0	4.4
Unincorporated enterprises	2.8	3.4
Employed persons, proportion who are owner managers		
Age group (in years)		
15–34	4.3	6.3
35–44	3.7	5.2
45–54	3.1	4.6
55–64	3.0	5.1
Total 15–64	**2.0**	**2.8**
65+	3.9	8.0
Total 15 years and over	2.0	2.7
Total 15 years and over ('000s)	2.0	2.8

Source: Australian Bureau of Statistics, cat. no. 4125.0, *Gender Indicators, Australia, November 2019.*

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Business Bite

Hero HQ is a registered training organisation (RTO) offering first-aid courses including Provide First Aid, Provide CPR, Child Care First Aid, Asthma and Anaphylaxis. It was founded by Nikki Jurcutz, a former paramedic, and her sister Rachael Waia, who had an education and training background. Nikki had seen too many instances where bystanders in emergency situations couldn't remember any first aid skills, and she came up with the idea of offering first aid training that was fun and engaging so that people would be more likely to remember it when they needed to.

Nikki's idea drew on the expertise the sisters had developed in their separate careers, although it took some time to complete the process of the business becoming an RTO. Nikki and Rachael then began to develop a corporate client base by cold-calling large businesses, and quickly gained some big clients such as Kmart and KFC. Now they have a training team of over 30 women, more than half of whom are trained paramedics or nurses. They have also created Tiny Hearts Paediatric First Aid, which provides courses for new parents.

Nikki and Rachael became the youngest ever women to own an Australian RTO. They won New Business of the Year in 2014, and at the 2015 NAB Women's Agenda Leadership Awards, Nikki was named Emerging Entrepreneur of the Year. More recently, they have jointly received the Young Female Entrepreneur of the Year award at the Female Entrepreneur Awards.

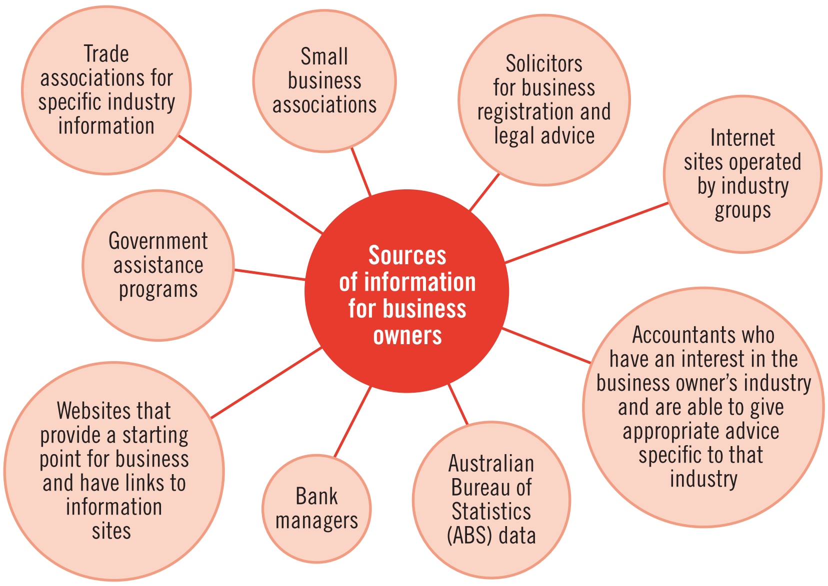
Digital quiz
Please see the Interactive Textbook to access digital activities.

10.2 Sources of information

'Information is power' should be the motto, or catchphrase, of all entrepreneurs. Armed with accurate and up-to-date information, an entrepreneur can make better plans to establish a business and gain an advantage over competitors. There is an enormous range of information sources to suit all needs and all budgets. Much of the information is provided free of charge. Fees tend to be charged for professional advisers, such as accountants, solicitors and management consultants, who provide specialised information.

More generalised information to assist business owners and operators is available from libraries and booksellers. Most bookshops have a section dedicated to business management, with guides for time management, leadership and franchising, and accounts of other entrepreneurs' business success stories. These are available to read and learn from.

The most important asset potential business owners can have is up-to-date information. The more information they have about the market they plan to enter, the greater their chance of success. What seems to be an absolute 'winner' of a business idea may actually prove less promising once additional information has been obtained.



Source 10.15 There are a number of sources of information for business owners.

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As well as information about the market, entrepreneurs need to find out about:

- legal issues and requirements, such as licences
- financial issues, such as the costs of finance
- general management assistance, such as business mentors
- potential suppliers of inputs and business services, such as contact phone numbers
- technology, including suitable equipment or computer programs
- unique features of the industry, such as unusual procedures that must be followed
- any government assistance that is available, such as financial grants
- government regulations.

Where can an entrepreneur obtain appropriate, unbiased, accurate and up-to-date information? The first person a new business owner will meet is a bank manager. The bank will have an interest in establishing a long-term professional relationship with the business because it will earn fees and interest on any loan it provides to the business. A bank manager should therefore take the time to analyse the business and identify its information needs. Usually, the manager will try to sell to the business the **advisory services** and banking products that the manager believes will assist in securing the long-term success of the business.

Advisory service Professional business advice provided by an expert business consultant for a fee.

The websites of the ABS, a federal government organisation, and the Commonwealth Department of Industry, Science, Energy and Resources provide detailed summaries and analysis of statistics about consumers in Australia. For example, data from the Census can be used to give a complete demographic profile of people who live in every suburb in Australia by providing statistics on age, sex, family size, income, employment, education and other characteristics. This will allow an entrepreneur to locate where a target market lives and shops.

Data is also available on the top 2000 public companies in Australia, so businesses can analyse their competitors to discover their strengths and weaknesses – that is, what the competitors do well and the areas where they perform poorly. Analysis of what is likely to happen in each industry over the next five years may also be obtained from this information. This will give entrepreneurs an indication of whether the market they wish to enter is growing or shrinking.

A number of television programs have been developed to assist businesses, such as *Dragon's Den* and *Shark Tank*. The federal and state governments in Australia have policies to assist businesses, especially new small businesses, to become established. This is because small business is an increasingly important source of employment.

Source 10.16 Access to assistance from government and private sector organisations

Organisation*
Small Business Grant NSW
NSW Small Business Commissioner
NSW Department of Planning, Industry and Environment
Digital Business Guide for website development
Business Enterprise Centres (Cth)
Australian Bureau of Statistics
Hospitality magazine
Business Franchise Australia and New Zealand
Nielsen
Innovation and Research program, NSW Department of Planning, Industry and Environment
Commonwealth Department of Industry, Science, Energy and Resources

* More information about these organisations is available on their websites. Go to Cambridge GO for links.

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A federal government initiative has established its own Small Business website; it provides simple and convenient access to all government information needed by people considering how to plan, start and grow their business. The NSW Department of Planning, Industry and Environment also maintains a comprehensive Our Business website to assist small business. These websites assist small businesses to get started and operate on a day-to-day basis; they also provide search engines to locate government business information, search for application forms and make payments to government departments.

Activity 10.6
Discussion

Large businesses that have found themselves in financial trouble have called upon the government to help them out. According to ABC News, the federal government has given the automotive industry about $3.4 billion in support. Approximately $2.17 billion has been given to General Motors Holden in the form of support payments over a period of 12 years. Even so, Holden ultimately found it unprofitable to continue to operate in Australia and closed down its six manufacturing facilities in 2017.

In pairs, discuss the following:

1. Should the government provide financial assistance to floundering large businesses?
2. Should small businesses have the same assistance?
3. Are some businesses/industries more important to our global economy than others?
4. Research the assistance given to businesses due to the COVID-19 pandemic. This could include assistance such as JobKeeper and JobSeeker.

The federal government has also set up a Digital Business Guide, which helps businesses to get online and create their own website, and provides tips on marketing, e-commerce, legal matters and security.

The federal government Business Enterprise Network currently has 50 Business Enterprise Centres (BECs) around Australia, of which 21 are in New South Wales. BECs provide information on what a new business owner needs to know. They have been set up as shopfronts as well as online services so that owners can 'walk in' and consult a business expert for low-cost business advisory services. These centres are within easy reach of their customers, as they are located in local shopping centres. In New South Wales, the state government has set up NSW Small Biz Connect.

Many BECs provide networking events where business owners can meet other entrepreneurs and suppliers to form business relationships. These events could take the form of a **trade show** or business breakfast, to bring these people together so they can talk and share their experiences. From these events, a business person may find a new supplier or contact, or someone with whom they can join forces. They are funded by the New South Wales Government and are staffed by trained business consultants.

The New Enterprise Incentive Scheme (NEIS) is a program funded by the Department of Education, Skills and Employment and is targeted at unemployed people who wish to start a business. It is a mentoring system whereby an experienced business expert is assigned to assist an individual through all stages of setting up a business.

New Business Assistance can help by providing:

- accredited small business training
- personalised mentoring and support from an NEIS provider in the first year of the new business to help the individual put their business idea into practice
- NEIS Allowance for up to 39 weeks and NEIS Rental Assistance for up to 26 weeks (if eligible).

Trade show Brings business owners together to display, demonstrate and promote their products to other business owners and the general public. Also called a convention.

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Hospitality magazine was established in 1967 and remains a valuable resource for the food service industry. The organisation targets chefs, restaurants, caterers and other professional members of the industry in Australia. Their resource hub provides information based on:

- support and advice
- venue initiatives
- partner content
- products on offer
- government news
- profiles.

Information about franchising can be obtained from the Franchise Business website. This is a comprehensive website with an online advisory service and franchise information for specific industries.

There are also private industry consultants – usually individuals who have owned and managed a business. They have discovered a business opportunity in charging other firms for advice, experience and wisdom. They provide assistance that is specific to the industry in which the new business has been established. Their services and systems to make management easier and less stressful may include:

- staff training for better performance
- marketing ideas
- customer service improvements.

Activity 10.7
Research and analysis

1. Describe three goods or services that have been successful due to the changing circumstances and needs of society. Many of these successful businesses have been established to provide goods and services to time-poor individuals and families. People work long, inconvenient hours and families have limited time together as, in many cases, both parents work full-time. (Hint: Many of these have emerged in the quinary sector – businesses such as dog washing and home cleaning.)
2. Analyse the decision by an entrepreneur to outsource market research to determine whether a viable business opportunity exists.
3. Research Australia's top 10 selling new products for the previous year. The Nielsen website is a useful starting point.

Digital quiz Please see the Interactive Textbook to access digital activities.

10.3 The business idea

For entrepreneurs, business opportunities are everywhere, so finding them is the key. Entrepreneurs carefully research the market to identify business opportunities. Opportunities can exist because they have been deliberately overlooked by larger organisations. Smaller operators can capitalise on these opportunities.

Business opportunities can be created by new technology, which creates new products and services – for example, mobile phone ringtones, protective covers, earphones, games, apps and music downloaded from the internet.

Tariff A tax on imported goods that earns revenue for the government and increases the price of the import, making it less attractive to buy when compared with locally made alternatives.

Quota A limit on the quantity of a product that can be imported. It is a trade barrier that reduces the competition faced by a domestic producer.

Political changes can also present opportunities. For example, the deregulation of the telecommunications sector allowed new network providers such as Optus, Amaysim, Dodo, Southern Cross Telco, Virgin Mobile, Woolworths Mobile and iPrimus to enter the market. A change in the law or government policy, such as lowering **tariffs** and eliminating **quotas**, will change the balance of competition and eliminate inefficient competitors. Changes to workplace regulations and control of industrial issues have opened the way for increased dispute-resolution negotiators and consultants.

Opportunities will be created by the departure of a business from a market. The loss of a competitor, such as the collapse of Napoleon Perdis, Thomas Cook Travel, McWilliams Wines and Kikki.K, which have all at one point or another been placed in administration, receivership or

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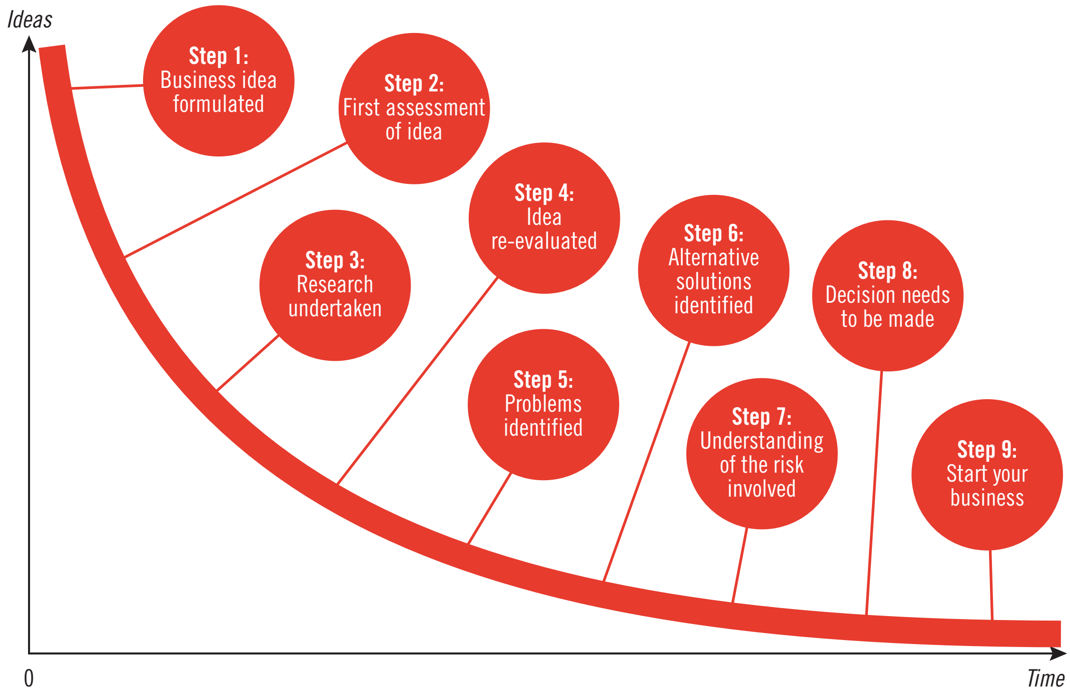
Source 10.17 The business idea challenge. Over the concept period, fewer and fewer of the original ideas are deemed to be viable. Out of hundreds of ideas, maybe two or three are realised.



liquidation, can allow a new 'player' to enter the market. Investigation should be undertaken to find out why the business has left the market. Perhaps the market has reached saturation for that product, new technology has made it unprofitable, the product is outdated or the market may be shrinking.

Consumer tastes and social attitudes change. For example, growing interest in a healthy lifestyle has meant the demand for alternative remedies such as vitamins and herbal medicines, health spas and fitness centres has escalated. The importance of staff to a business has made way for many more motivational speakers to find work. To discover and explore business opportunities, entrepreneurs need information gained through research.

Before a business can be established, an entrepreneur needs a business idea. The entrepreneur needs to decide what type of product the business will provide in order for the business to be financially successful. The idea forms the basis of business planning.

Some individuals have the idea that they would like to earn a living from what they enjoy doing most. The most satisfied entrepreneurs

Source 10.18 Social entrepreneurs aim to combine commercial and social issues. Robert Luo is the co-founder of Mi Terro, a US biotechnology company that tackles the global problem of fashion being the second most polluting industry by developing plastic-alternative biomaterials made from agricultural waste.

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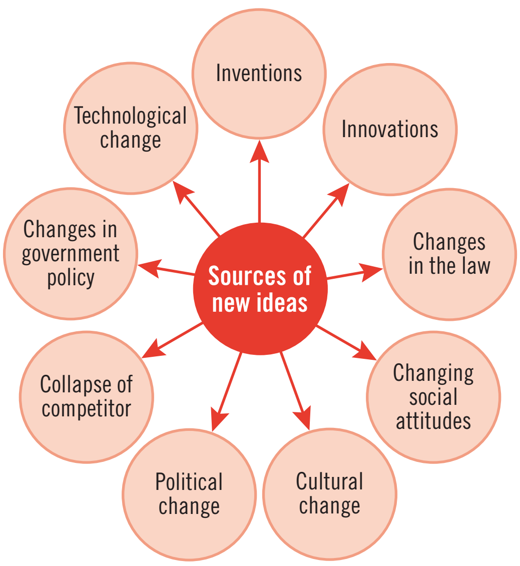
are those who have turned their personal interest, passion or hobby into a successful business. They receive profit from their passion in life.

Entrepreneurs also develop business ideas from visiting exhibitions, trade shows and conventions. These events concentrate a huge amount of market information in one place, which allows an entrepreneur to source new ideas, meet suppliers and investigate each potential competitor.

Often, being dissatisfied with the quality or features of existing products will drive entrepreneurs to develop new, better-quality products that meet their needs. A business idea may emerge out of consumers' frustration. Complaints such as, 'Why don't they make it easier to . . . ?' and 'Why can't I find a good quality . . . ?' may provide the inspiration for a new business idea. Products are developed that suit the demands of customers. Entrepreneurs may find that dissatisfied customers are willing to switch to a new product, resulting in sales for the new business. With increased overseas travel, magazines and television shows, people experience different lifestyles and goods and services available in foreign countries, and try to adapt them to the Australian market.

Competition

A business opportunity will also depend on the level of competition that exists in the market and



Source 10.19 Sources of new business ideas

the strength of potential competitors. Strong, well-established competitors may be sufficient to effectively prevent a new business entering the market.

In a monopoly, one large business dominates the market. It has more than 95 per cent of the market share and generally sets the price for the products sold. There are a variety of significant cost barriers to the entry of new firms. One barrier can be the very high capital cost of infrastructure and equipment required to achieve sufficient economies of scale, such as in heavy industrial iron and steel manufacture.

A duopoly is where two businesses have a major degree of control of the market. For example, Woolworths holds 35.7 per cent of the supermarket industry market share, while Coles has 33.2 per cent of the Australian market (in 2018); Aldi has 13.2 per cent and IGA (Metcash) has 9.3 per cent. Mitre 10 and Bunnings dominate the timber and hardware market.

If the market is controlled by a few very large businesses, such as breweries, petroleum retailers and shipbuilders, it is an oligopoly. In Australia, pay TV was originally provided by Foxtel and Austar. There was very little real competition and with sufficient financial backing these businesses were able to dominate the entry of new firms into the market. Changes to government policy to allow free-to-air channels to become HD multi-channelling, as in the rest of the world, have enabled competitors such as Telstra, Optus, IPTV (Internet TV), Google TV and Apple TV to compete and greatly change Foxtel and Austar's position in the marketplace. Foxtel acquired Austar in 2012. Changes to the government policy of restricting foreign ownership of Australian commercial television (originally limited to 20 per cent) have opened the market to greater competition. Subscription video streaming services Stan, Presto and Netflix entered the market and provided Foxtel with increased competition, although in 2016 Presto was absorbed by Foxtel. More recently, Foxtel Now and Amazon Prime have also entered the market. Technology allowing downloading of movies through home computers, as well as smart televisions using computers to operate through your television,

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pose additional threats to pay TV. Australia became known for having the highest illegal downloads of *Game of Thrones*, followed by *Chernobyl* and *The Mandalorian*.

In a highly competitive market, a new business will need to do something different and better than all its competitors to gain market share. This difference may be as real as the business's products having more features and providing better value for money. Alternatively, difference can be created through clever marketing, such as advertising and promotion. The success of one business in this type of market will usually occur at the expense of another. A competitive market presents the best opportunities for a new business.

Example

Jessica has always been interested in skateboarding. During her senior years at high school, she competed in the Australian junior women's skateboarding championships, aiming to become a professional skateboarder. Unfortunately, injury forced Jessica out of professional competition. However, she still wanted to be a part of the sport once she had left school. She never saw herself working in an office.

Following advice from her Business Studies teacher, and with the help of a loan from her parents, she was able to open a small skateboarding school, Just Girls Skateboarding. The school targeted teenage girls who wanted to be competent in skateboarding. She also taught them how to safely ride on the road and footpath, and follow the road rules. Research had indicated that this was a growing market not catered for by the more established skateboarding organisations. Jessica was able to adjust existing methods of teaching skateboarding to specifically suit girls.

Jessica found that each day it was a pleasure to go to work. She was still able to skateboard as she always had, and could pass on to the other girls the joy she experienced from this sport. Jessica says, 'I get to do what I love most and get paid for it. What could be better than that?'

Source 10.20 A good new business often meets the needs of a new and growing market.

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Business Bite

Virgin Australia Airlines Pty Ltd, formerly known as Virgin Blue Airlines, has become the second largest airline in Australia. Virgin was launched in August 2000 as a two-aircraft operation with 200 new employees. The airline made seven flights a day between Brisbane and Sydney. Within 12 months of operation, the airline expanded to 14 routes and carried one million passengers.

Today, Virgin has grown to be an international carrier operating over 84 aircraft on domestic, regional and international flights. Virgin is the budget-priced leader in the industry and was the first to introduce a web-based check-in system in 2005 and a successful Velocity rewards program for its customers. Coles Flybuys points are now able to be converted to Virgin Velocity points.

Virgin now has formed partnerships with airlines including Virgin America, Delta Air Lines, Virgin Atlantic Airways (Britain), Air Berlin, Air New Zealand, Etihad Airways, Singapore Airlines and Hawaiian Airlines. It also has codeshare arrangements – where the same ticket covers several parts of a journey that are provided by different airlines – with Alaska Airlines, Delta Air Lines and Horizon Air. This has enabled Virgin to travel to 400 international destinations.

Even so, Virgin could not survive the COVID-19 pandemic and its competitive stance with Qantas. Carrying too much debt and suffering huge losses, Virgin was taken over by US private equity group Bain Capital in July 2020.

Ethical Spotlight 10.1

Should the government create laws and regulations to prevent firms from developing a monopoly in order to prevent exploitation of consumers or should entrepreneurs have the opportunity to create a successful business that is able to control the market?

Are there any circumstances where a government should foster the development of a monopoly?

Discuss the disadvantages and advantages of government interference in the free market.

Review 10.1

Comprehension

Answer these questions on paper or in the Interactive Textbook.

1 Identify the direct competitors of fast-food outlets such as Pizza Hut and McDonald's.

2 Analyse the advantages of entering a market where a number of competitors exist.

3 Assess why it may be just as difficult to penetrate a market with many competitors compared with a market that is a duopoly (that is, two main suppliers with almost identical products).

10.4 Establishment options

There are many decisions to make when setting up a business, some of which will be more important than others. An entrepreneur will need to weigh up all the advantages and disadvantages of establishing a new business from scratch compared with purchasing an existing business or entering into a franchise agreement. Other important decisions will concern the location of the business, financing, legal issues, supply networks, promotion of the business, human resources and other costs that must be anticipated. Key decisions will therefore cover each key business function: marketing, operations, human resources and finance.

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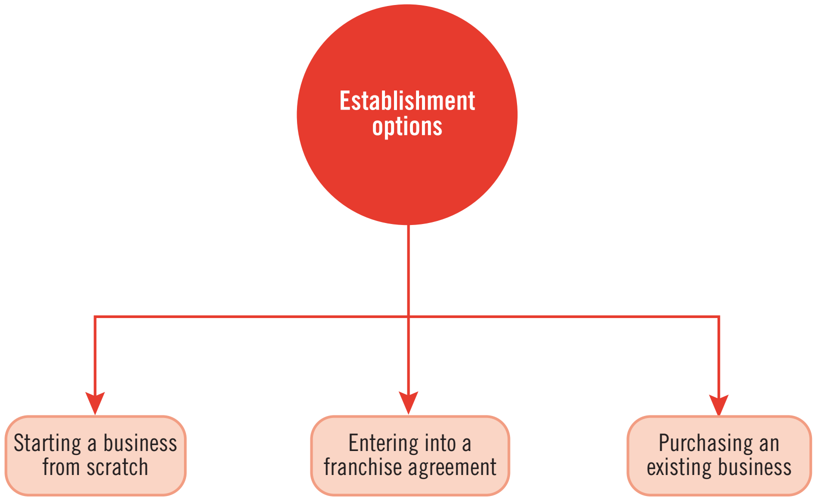
Source 10.21 Three main establishment options



Establishing a new business

For many entrepreneurs, the option to create a new successful business from nothing is the ultimate challenge. There will be hundreds of decisions to make and planning will be crucial. For example, fitting out a new shop or factory ready for opening can be as complex as building a new house. Once trading, the owners will be greatly rewarded with something they have created entirely by themselves to suit themselves. One of the best times to start up a new business is:

- when the economy is growing and confidence is high
- when the market is expanding
- when existing businesses cannot keep up with demand
- when existing businesses are inefficient or providing a poor-quality product
- when you have a new product – one that is not currently being provided to the market.

Starting a new business from scratch has many advantages but also disadvantages, as outlined in Source 10.22.

Changes in the external environment have made it easier for entrepreneurs to establish a

Source 10.22 Advantages and disadvantages of starting a new business from scratch

Advantages	Disadvantages
Owner is free to make every decision.	Harder to obtain debt finance without a past record of sales.
Less expensive to establish than an existing business or franchise.	Can take months or years to break even and earn a profit; slow to build a customer base.
Can choose an ideal location.	Need time and energy to recruit and train staff.
Can select own name.	No network of suppliers established; no goodwill with customers.
No goodwill to pay for.	Time delays in building, setting up the workplace, gaining licences/permits, business registration.
No hidden problems from the previous owners.	No past records of business performance.
Can recruit suitable staff.	No procedures in place.
Can set up procedures and policies.	Existing and potential clients are unknown.

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new business. Since 1990, new business start-ups have increased for the following reasons:

- Private capital is now easier and cheaper to obtain. Wealthy retirees may be keen to provide **venture capital** for the exciting business ideas of family and friends.

Venture capital Capital acquired from a specialist venture financial institution that seeks to become a part-owner (shareholder or partner) in the business.

- Venture capitalists have organised themselves into businesses that seek out new inventions, screen them for their potential as marketable products, and provide capital and business management expertise so that inventors can focus on their invention, such as Tiger Global Management, Accel Partners and Iconiq Capital.
- Entrepreneurs no longer need physical assets. Many businesses begin as a small home office using the internet as the means to market and distribute their products.
- There is much less union involvement in Australia's workforce. In 2017, private sector union membership was at 10.1 per cent of workers. Today, entrepreneurs have access to a flexible, highly efficient and productive workforce.
- Social attitudes and consumer tastes have changed in the last decade. Consumers are no longer as loyal to brands and are more willing to try new products and ideas.
- There are numerous government programs and policies to support innovation and encourage entrepreneurs with financial assistance and advice. Industry Innovation and Science Australia (part of the Department of Industry, Science, Energy and Resources) is an independent statutory body set up to assist, monitor, register (and reject, if necessary) innovation and venture capital programs to support innovation. Large companies also have mentoring programs and programs to encourage young entrepreneurs.

Purchasing an existing business

Alternatively, it may be easier to purchase an existing business that already has a good reputation, links with suppliers and a strong track record of sales. A business may be ready for sale, waiting for a new owner to inject new energy into it.

Purchasing an existing business has both advantages and disadvantages. Several of these are summarised in Source 10.24.

Source 10.23 Purchasing an existing business may be easier than starting something completely new.

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Source 10.24 Advantages and disadvantages of purchasing an existing business

Advantages	Disadvantages
Business can be purchased as a **turnkey** operation, where all systems, procedures, policies and operations are in place and no changes are needed to improve the business.	Higher cost than establishment owing to goodwill (value of the business's reputation) as well as the purchase of existing assets.
Loyal customers already exist, generating income immediately.	Inefficient systems and operations can be difficult to change.
Advice and assistance may be sought from existing trained staff and former owners.	Existing employees can be resistant to any change and may personally conflict with new management.
The business has already passed through difficult establishment and possibly growth phase.	Business may be in the decline stage and difficult to renew; existing image may be hard to change.
Total cost is known.	Existing problems may not be obvious – for example, a high level of bad debts.
Easier to obtain finance, as it has past records of performance and established cash flow.	Restrictions in size, procedures and layout.
Suppliers are already established.	Past success may be based on personality/ talent of previous owner – for example, chef.

If you are considering buying an existing business, you should ask why the business is for sale:

- The location could be poor.
- New competition may have opened nearby.
- There may be high future costs, such as the need to update old and over-valued equipment.
- The seller may have over-stated the business's profits by understating operating costs, trying to convince you that the business really takes in more than is recorded in the accounting books.
- The lease may need to be renewed, perhaps at a significantly higher rate.
- The market may have reached saturation point.
- The product may be in urgent need of innovation.
- The market may be shrinking.
- The estimated value of goodwill may be excessive and beyond its real value.

Before making the decision about whether to establish a new business or buy an existing business, it is essential to carry out market research. The level of potential competition may have an influence on the decision to establish a new business or purchase one that already exists.

In a highly competitive market, it may be better to purchase an existing business than to attempt to penetrate the market with a new business. If the business involves a new product or concept, a new business may be more suitable. The business will be more efficient and effective if all systems, procedures, policies and operations are set up specifically to suit the new product or idea.

Turnkey A business that is ready to open and begin operating. A new owner merely has to turn the key and immediately start the business.

Entering into a franchise agreement

A franchise is defined as a business where a **franchisee** pays for the right to use an established business's trade name and business formula. The **franchisor** is the seller of the business concept. The franchisee is buying a tried and proven business idea that has been developed by an entrepreneur who took a risk to establish the original business. Many franchises are found in the fast-food industry and the services sector, such as Subway and Jim's Mowing.

Franchisee The individual, entrepreneur or business that buys a franchise.

Franchisor The individual, entrepreneur or business that sells a franchise.

Franchising is very popular in Australia. Hundreds of new franchise systems are

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Source 10.25 Advantages and disadvantages of buying a franchise

Advantages	Disadvantages
Reduced risk of failure – only about 12 per cent of franchises fail.	Will cost more to establish a franchise than to start a new business.
Expert backing and advice provided by the franchisor.	Ongoing fees and charges paid to the franchisor (often a percentage of sales).
Research and development carried out by the franchisor.	Less independence – have to follow set methods/procedures.
Suppliers and materials (inputs) already established.	Franchisor has control of the range of products to be sold and may make changes to the range.
It is easier to obtain start-up finance for a known product and a reputable franchise.	Too many franchises may already exist, creating competition between franchises.
Assistance is given with site selection, shop outfitting and design, and purchasing of equipment.	Products may become 'out of date', resulting in decreased sales and profits.
Well-established procedures, inventory control systems and operating manuals exist.	Franchisor may misrepresent the support/ opportunities available through the franchise.
The franchise is selling a proven, well-established, profitable product.	Poor service and products provided by one outlet may adversely affect other outlets.
Exclusive access is granted to a geographic area. Other franchises are not allowed close by.	May need approval for franchisee to sell the business.
	Franchise arrangement may be for a limited term.

registered each year and it has now become the fastest growing area of small business in Australia. The franchisor maintains some control over the franchisee to ensure that the franchisee follows the operating system correctly.

The franchisor will provide training and marketing support to the new franchisee. Using this strategy, each franchisee will have the same quality of products and service so that consumers will receive the same value and benefits from all franchise outlets. In this way, the goodwill of each franchise is enriched.

Marketing costs are a key consideration when deciding whether to buy a franchise. The entrepreneur needs to answer the following questions:

- How much marketing is done by the franchisor and what financial contribution must each franchisee make to marketing?
- Is there freedom to tailor marketing strategies to suit local markets or are franchisees locked in to the system?

Franchises are quite restrictive when it comes to entrepreneurial creativity.

Business Bite

Well-known franchises in Australia include:

- Bakers Delight
- Boost Juice
- Poolwerx
- Battery World
- Foodco
- Coffee Club
- Jim's Group
- Gutter-Vac
- Gelatissimo
- Skinny's Grill.

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Before taking on a franchise agreement, the entrepreneur needs to find out about the interview and application process for new franchisees. It is important that the franchise system is able to prevent individuals with poor managerial ability from acquiring a franchise. The main advantages and disadvantages of buying a franchise are listed in Source 10.25.

Business Bite

John O'Brien founded the Poolwerx business in 1992. Today, it is the largest pool and spa maintenance franchised network. It has over 500 territories, with 150 retail stores selling pool equipment and chemicals and 400 mobile vans for servicing. The business has expanded globally and operates in Australia, New Zealand and the United States.

Other options

As well as establishing a brand new business, buying a franchise or purchasing an existing business, a person may inherit a business. Alternatively, a business may be acquired by its employees.

Parents may wish to pass their business on to their children. These businesses often have a higher chance of success because the children have prior experience from working in the business under the guidance of their parents. Even after the parents have retired, they are usually available to provide ongoing advice.

A buyout by employees will result in new owners. The previous owner may wish to retire or leave the business and agree to sell the business to a suitably skilled and experienced employee. There should also be a higher success rate for such a business because existing employees will be very familiar with how the business works, as well as its strengths and weaknesses. They may also possess the energy to introduce **renewal strategies**.

Renewal strategies Strategies used by a business to boost falling sales and profits.

Review 10.2

Comprehension

Answer these questions on paper or in the Interactive Textbook.

1 Outline the circumstances under which an entrepreneur may prefer to purchase a franchise.
2 Explain two advantages and two disadvantages of taking over an existing business compared with starting a new business.
3 Discuss the influences in the current business environment that may encourage entrepreneurship and increase the probability of the success of a new business.

Source 10.26 Business owners may pass their business on to their children.

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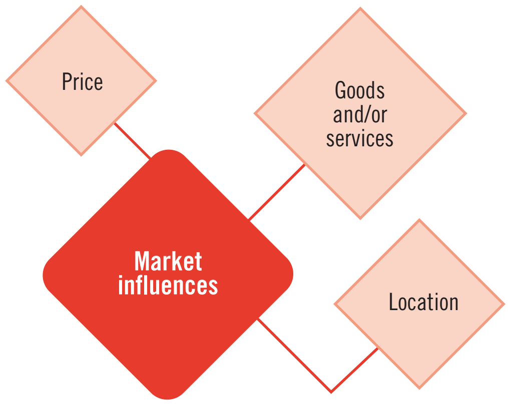
10.5 Market influences



Source 10.27 The main market influences affecting a business

Goods and/or services

When going into business for yourself, it is very important that you are familiar with the good or service that you wish to sell. The knowledge and expertise that you have in this area could make the difference between success and failure.

The first thing you should establish is what you are going to sell. Then you must conduct research to determine the size of the market for your product and where the actual target groups are located. For example, if you are an eye specialist, it would be reasonable to locate close to a hospital where many other medical specialists will have their offices. Your research should also identify your target market. If you wish to specialise in lawnmower repairs, you would not locate in the central business district but rather in a suburban area with houses and large yards. Advertising would be directed to the local area surrounding your business, possibly through the local newspaper or letterbox pamphlet deliveries. Your target market needs to be large enough to make your product viable.

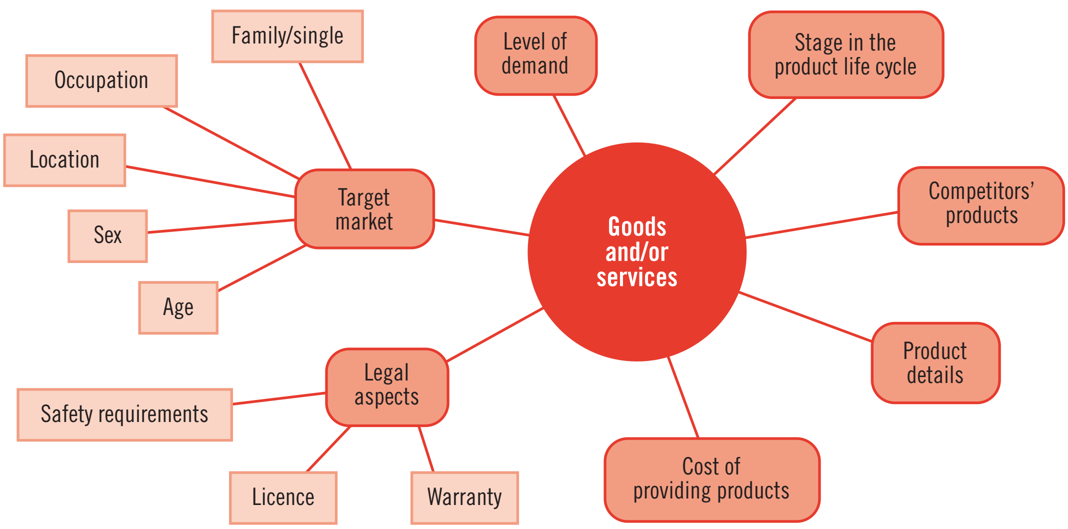
Research could also tell you about the age, sex and occupation of the population of your local area to determine the possible level of demand for your product and therefore the viability of your business venture. An older population with grown-up children (empty nesters) who are mainly in the senior executive/administration occupations may require lawnmowing services rather than a mower-repair service. Government statistics from the Census and even local newspapers would provide you with additional information about possible clients and the number of existing competitors in the area.

A new business owner should make sure that the product is not a ‘copy’ of another product, as the business could be in breach of trademark or patent laws. If your product has a special characteristic that was previously unknown, you may need to take out a patent or have it tested to ensure that it meets Australian safety standards and is acceptable to the general public.

Your product may also be near post-maturity in its life cycle, and may soon be overtaken by more modern technology. Before beginning operations, you may need to innovate your product.

A new business owner should also investigate the need for a licence or permit to manufacture or sell the product or to provide a warranty.

Source 10.28 It is important that you are familiar with the goods and/or services you are selling when going into business.



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Business Bite

Max Brenner completed his six-year apprenticeship in Paris. He became a master of toffee, marzipan and nougat. Max wanted to renew the best traditional concept of chocolate as well as highlight its relationship to life itself. Max opened his first store in Israel in 1995 and produced his own chocolate, adding personal touches and art to his work.

In early 2000, Max successfully presented his concept of chocolate at the Fancy Food Show in San Francisco, California. In July 2000, he opened his first store in Australia. Max's success was based on his ability to communicate his love of chocolate to his customers.

Max Brenner:

- offers specially spiced hot chocolate drinks made from cocoa beans from exotic places around the world
- developed innovative utensils specifically made for drinking chocolate – for example, the Hug Mug and the Suckao
- places special emphasis on the personal relationship with his customers and excellent service
- worked with companies around the world that are renowned for quality and prestige, such as British Airways Corporation, Club Monaco and Harrods
- developed gift boxes and gift packs, including a variety of flavoured pralines and chocolates, which are sold both in store and online
- extended his product range into his Body Collection, including cocoa butter and moisturisers
- set up a very interesting website for company information and online sales
- had 20 stores in Sydney and 41 stores Australia-wide
- as well as outlets in Australia, has stores in the United States, Israel, Japan, Singapore, Russia and Korea.

In October 2018, Max Brenner announced that it was going into voluntary administration in Australia. The business closed more than half of its stores and hoped to find an investor or buyer for the business. The remaining stores, nine in New South Wales, four in Victoria, eight in Queensland and one in the ACT, have continued to trade as of 2021.

In late 2018, the business was sold to a private owner who employed a new marketing manager to rebuild the brand. An online store was launched, retail stores increased to 21 and a mobile app was developed.

Source 10.29 A Max Brenner shop in Israel

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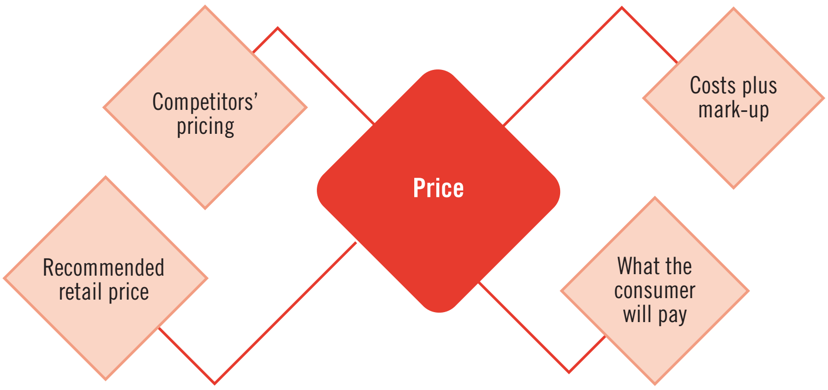
Price

A new business owner will need to establish an appropriate price for the product offered to the market.

- To a large extent, the price the business can charge will be determined by the prices of similar competitors' products.
- The business could rely on the manufacturer's or wholesaler's recommended retail price (the business cannot be forced to use this price).
- The business could use the cost plus mark-up concept. As a business person, you will need to know what it actually costs you to produce the good or provide the service. When using a percentage mark-up, the new business would still need to take competitors' prices into account. If competition is strong, the mark-up used would probably be lower.
- If the product is unique, the business would consider pricing based on how much it thinks people would pay.

As a small business starting out, it is unlikely to affect the market greatly. However, the new business will need to differentiate its product to give it a competitive advantage over existing competitors and to entice people to purchase it. In each case, you will need to have a price high enough to make a profit. Price-cutting in order to compete would probably result in a loss, and subsequently the closure of your business.



Source 10.30 How will the business determine the price of its products?

Location

The choice of location is one of the most important decisions that a new business owner faces. The cost to rent or buy the site is always a key consideration, but depending on the type of business that is being established, the owner may also want to consider visibility, the proximity of suppliers and support services, and even whether or not the area chosen will lend the business an air of professionalism.

Businesses operating in the retail or service sector need to be located in areas that afford them high visibility and high traffic levels, such as a shopping complex, a main road or the central business district. These businesses will often need to develop attractive signs or displays to entice customers. This is especially the case in areas with many other businesses competing for customers' attention, such as large shopping centres.

For some businesses, passing trade makes up the bulk of their income. Customers of these stores will rarely have planned to shop there, but rather will be attracted by the signs and display, and will then make a purchase on impulse. The correct location is crucial to the success of this variety of business. As well as shopping centres, street corners are highly sought-after sites, as traffic converges on these locations from a number of directions at once.

Retailers that sell a wide range of bulky goods (for example, electrical or outdoor goods) have different location requirements compared with small retail businesses. A popular location for these stores is in outer suburban shopping estates, where it is possible to obtain large areas of land for a lower cost compared with more densely populated areas. As with smaller outlets, the number of passers-by remains a concern for

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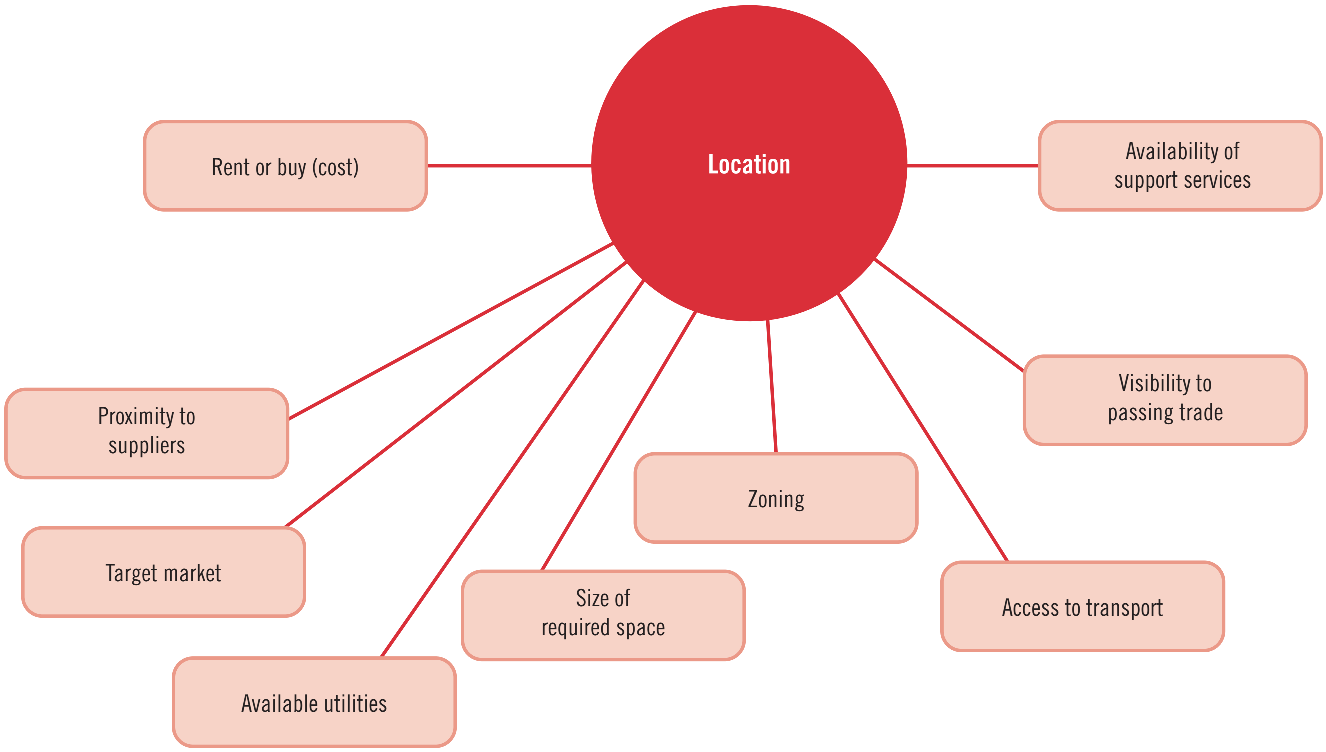
Source 10.31 Factors that influence the choice of a business's location



these larger stores. For this reason, locations at the entrances of shopping complexes are highly desirable. Unfortunately, these locations can be prohibitively expensive. However, large retail outlets rely less on impulse shoppers because they have more drawing power as stand-alone stores. Instead, the most important considerations are display space, parking facilities and being close to populated areas. This is true for hardware and furniture stores such as Bunnings and IKEA.

For some businesses, such as wholesalers – because they either make direct deliveries or sell direct to tradespeople – passing trade is not a concern at all. Nonetheless, location remains fundamental to the success of this type of business. In particular, the proximity of transport options such as main roads and railways reduces costs and saves time.

When choosing the site of a manufacturing business, proprietors are guided by the need to reduce costs. The distance to suppliers and markets, the accessibility of transport options such as railways or airports, and the availability of essentials such as power, water and gas are all important factors in the cost of any manufacturing business.

The **demographics** of the target market are another important consideration. Some retail stores, such as luxury car dealerships, need to locate themselves in areas where there are high incomes. In lower-income areas, these businesses will not succeed, as the locals will not be able to afford the products.

Demographics The study of particular features of the population, such as age, sex, income and cultural background.

Some types of businesses tend to cluster together to offer customers a kind of one-stop shopping experience. A good example of this is food courts, or the grouping of clothes shops in many shopping districts. In this way, a certain district can become known as the clothes district, the restaurant district or the car district. Customers are attracted to these areas because they offer competitive prices and variety; businesses are attracted to these areas because there is more likely to be a significant volume of customers passing through. Parramatta Road is well-known for car dealerships for new and used cars, Manly for surf shops and Balmain for its restaurants.

Some businesses may provide support services to other businesses. A business will use other

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Core or key business functions The main activities of a business, including operations, human resources, marketing and finance.

Non-core business functions The activities of a business that are not directly related to its main activity but need to be performed, such as security and IT support.

Zoning Legally restricts where certain business activities can be located in a city or town.

High value-added goods Goods created by significantly changing and processing raw materials and inputs to produce a product with a high value or price.

Low value-added goods Goods in which there is only a small difference between their value or price and the cost of the raw materials and inputs processed to create them.

businesses for services such as deliveries, copying and printing, catering, IT support and computer repairs, maintenance and cleaning, and security.

Outsourcing its non-core functions allows a business to reduce costs (as contractors are often quicker, have expertise and are frequently cheaper) and to focus on its **core or key business functions**.

The functions of business are divided into operations, marketing, finance and human resources. Operations deals with producing the good or providing the service from which the business receives its revenue. It is the core or prime function of the business. Core business functions are the main activities of a business. **Non-core business functions** are the activities of a business that are not related directly to its main activity but need to be performed, such as security and IT support.

It is more convenient for the required support services to be close by to save time and money (although improved technology, including IT and mobile phones, has made this less important).

Manufacturers do not need to be next to their final consumers. Owing to their requirements for space and local government **zoning**, factories are usually located on the outskirts of cities. The high transport costs of bulky raw materials and other inputs mean that some factories will need to be located as close as possible to their suppliers and transport infrastructure. Factories need wide roads for semi-trailer truck access, rail networks or port facilities with bulk cargo-handling facilities nearby to move inputs into the factory and move outputs from the factory to a warehouse. Iron and steel producers, for example, locate adjacent to supplies of coal or iron ore.

Industrial estates are purpose-built and zoned areas for manufacturing. The transport costs of delivering finished goods will be a very small percentage of these high value-added finished goods. A **high value-added good** is one that requires considerable transformation of inputs to produce the final product. A car is a high value-added item. The steel to make a car is a **low value-added good**. Low value-added goods are those in which there is only a small difference between their value or price and the cost of the raw materials and inputs processed to create them. Government incentives, such as cheap power and water delivered to industrial estates, will lower costs, attracting businesses to locate there.

Source 10.32 Companies outsource export and import services, as well as freight handling.

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Advances in communication technology have resulted in a growing number of online stores. Some service-based businesses can locate in cheaper regional areas and deliver their product online – for example, architects and advertising. Existing businesses are also moving into this area. Websites provide easy access to product information; orders and payments can be made via the internet and consumers can email sellers with additional enquiries or answers to questions. In this way, consumers do not have to deal with travel, waiting in lines and salespeople. This has also provided opportunities for additional delivery-service businesses.

Many micro businesses, including non-employing businesses, are home based, operate using mobile phones and the internet, and bring their equipment to the customer. Electricians, plumbers and carpenters often operate their businesses in this way.

Example

Matthew owns and manages Premier Games & Consoles. The business sells and rents out game consoles, such as PlayStation, and games and is located in a local shopping centre. Matthew has set up several consoles for customers to try games for 15 minutes before they buy. He has also set up a coffee shop on his premises that allows parents and friends to settle back and allow time for the purchaser to make their selection. Being located close to the cinema, the business does a brisk trade during the late afternoons, evenings and during school holidays. Matthew finds that managing the shop involves more than serving customers and making sure there are enough copies of the latest games and console upgrades.

Matthew attended the local high school and offers work experience opportunities through the school's career adviser for Year 10 and 11 students. He is very community-minded and also assists with the school's fund-raising activities. He relies on other businesses located in the shopping centre to provide the support services he needs to run Premier Games & Consoles. He uses a local courier company to return faulty games and consoles to the suppliers and to obtain replacements, as well as deliver special orders to customers. For less urgent deliveries, he uses Australia Post, which is located a few minutes' walk away.

The local outlet of Snap Printing can produce 1000 promotional flyers within a few hours for delivery in the local area to stimulate sales. Matthew usually sends a junior staff member to pick up the flyers as soon as they are printed, which means the letterbox drop can be started the same day. Matthew is also considering printing the pamphlets himself using his own computer and special software.

Matthew also has a choice of three banks at which to do the business's banking. The closest is three shops down from Premier Games & Consoles. Matthew deposits the day's cash sales between 3 p.m. and 4 p.m. each day by walking down to the local bank with the money inside an inconspicuous shopping bag. Many of his customers use credit cards and bank transfers to pay for purchases. Whenever the console system fails, Matthew is able to contact George's Console Repairs. George operates out of a mobile van, has a very good working relationship with Matthew and can usually respond within an hour of Matthew contacting him.

Continued →

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Matthew is considering purchasing a vending machine that requires a customer to provide a credit card and email address for hiring overnight games. He will need to research the costs involved in his spare time.

Source 10.33 Matthew needs a range of skills to manage his business successfully.

Each night, after the store closes at 10 p.m., a contract cleaner cleans the store. The cleaner usually finishes within half an hour. During this time, Matthew is able to clear up and secure the cash received during the evening in a safe that is located in the store.

Matthew also contributes to a fund set up by all the local shop owners to pay for night security. Two security guards patrol the shopping centre during the night, allowing Matthew to get a good night's sleep.

Activity 10.8
Analysis

1. Discuss the advantages and disadvantages of the following retail locations:
   a. next to a school, hospital or fire station
   b. alongside a train station.
2. Identify two poor locations for a newsagency.
3. Describe the most ideal location for a surf shop. Give reasons for your answer.
4. Explain why manufacturing activities are usually located outside the centre of cities and towns.

Digital quiz Please see the Interactive Textbook to access digital activities.

10.6 Finance

Equity finance Internal sources of finance – that is, finance provided by the owners, who can give the business start-up capital or can contribute cash by buying shares. It also refers to any net profit reinvested in the business.

Debt finance Funds borrowed from a bank, an investor or another firm. It involves a contractual agreement that specifies the need to repay the principal as well as interest, and states the set period of time over which the debt must be repaid.

Finance is the money that a person will need to fund the operations of the business. This finance can come from two main sources, and each source has associated costs.

To begin a business, a person will need to provide money of their own and possibly borrow money if they do not have enough. The owner's contribution is referred to as **equity finance** and the initial money put into the business is called start-up capital. Borrowed money is referred to as **debt finance**.

What is being financed?

Start-up costs concern every new business owner, and in their calculations the owner will have many things to consider. Some of the major questions may include:

- Should they start from scratch, purchase an existing business or enter into a franchise agreement?

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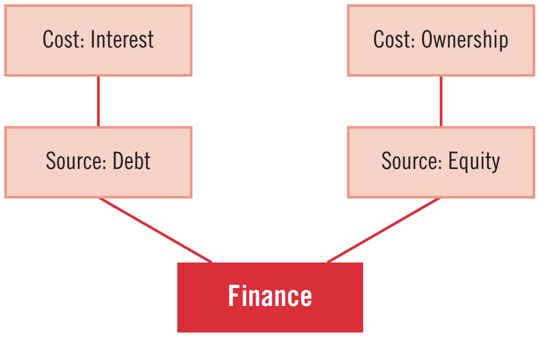


Source 10.34 Sources and costs of finance

- How much will it cost to obtain premises?
- How much inventory or stock is required?
- Will they need to employ staff?
- If they have to borrow money, what will be the interest payable on the loan?

The choice of whether to lease or to buy premises will have a large effect on these calculations. Purchasing premises gives the business greater freedom because the owners can alter the premises however they desire, and allows them to sell the building to recover capital if the business fails. The business can also lease out part of the premises should it not require all of the space. The strongest negative is that the purchase of premises normally requires an enormous outlay of expenditure.

Leasing has many benefits, the most significant being that capital is available at the crucial establishment stage and can be used to pay for inventory, staff or expansion. On the other hand, it will be harder for the business to alter the premises to suit its needs.

It is important to consider the cost of **goodwill** when making the decision to start or purchase a new business. Buying an established business means that there are pre-existing customers and suppliers, but these advantages add to the purchase price.

Goodwill An intangible asset valued according to the image or reputation a business has acquired over time.

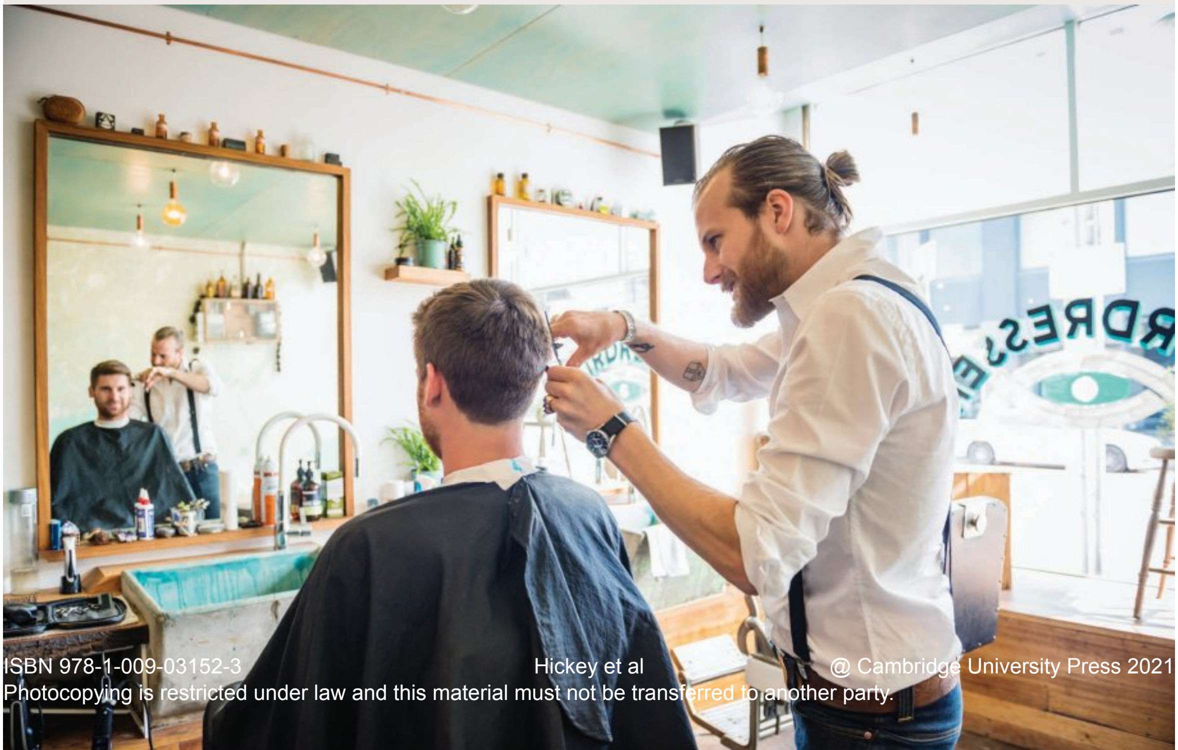
Intangible asset An asset that does not physically exist and therefore is not written on a business's balance sheet; however, it is of value because the business can earn revenue from the asset. Intangible assets include a business's good reputation, trademark, design and brand name.

Goodwill = Purchase price – Asset value

When calculating the purchase price of an existing business, the value of the **intangible asset** goodwill must be added to the value of its physical assets.

Compared with a stand-alone business, a franchise has not only the goodwill built up by the operation of that one outlet or store, but also the goodwill built up by the entire chain, which could be a national or international chain. This means that purchasing a franchise can be a very expensive exercise – perhaps costing hundreds of thousands of dollars.

Source 10.35 Investing in a business with an established customer base is a good idea, but it does add to the cost of the business.



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Business Bite

There are many opportunities for a commercial undertaking based on a franchise agreement. Listed below are franchise costs in 2020 for some franchise business opportunities.

- Aussie Pooch Mobile Dog Wash $15 000 to $40 900
- Bakers Delight $450 000 to $550 000
- Donut King $280 000 to $360 000
- Wendy's Milk Bar $100 000 to $250 000
- Just Better Care $105 000 to $155 000 plus GST
- Baskin-Robbins from $190 000 plus GST
- Pizza Capers $375 000 to $450 000
- Gelatissimo from $350 000
- Oporto $350 000 to $700 000 plus GST
- McDonald's $1 million to $2.2 million
- ScopeIT Education $60 000 to $100 000
- Jim's Dog Wash $32 000 plus
- Cheescake Shop $400 000 to $1.25 million
- Kwik Kopy $210 000 plus
- Subway $195 000 to $360 000
- Poolwerx $110 000 to $500 000 plus
- Jim's Mowing $38 000 approximately

Activity 10.9
Research

1. You have been asked to research the prices for the furniture and fittings needed by a new business, which is a comic book store. Use the internet to research an office furniture or supplies store to find out the costs of the following items:
   a. display stands
   b. display cabinet
   c. computer
   d. cash register
   e. lockable filing cabinet.
2. Can you think of other items the new business may need?

Sources and cost of finance

Starting a business does not require as much finance as many people may think. Many entrepreneurs begin with less than $5000 and many businesses are started in the entrepreneur's home. There are approximately a million people operating a home-based business in Australia. Initially, a new small business owner should continue to work part-time to have a reliable source of income or have a partner who is in full-time work to pay basic living costs such as groceries and household bills until the business makes a profit. The owner may need to include provision for running costs of the business for at least six months as the business may take a while to build up a customer base.

For some people, even $5000 is a lot of money. Where can an entrepreneur source this capital? There are two options: equity and debt.

Equity finance

Equity finance can come from internal sources, such as the owner's savings and profits reinvested in the business, or external sources, such as from shareholders in a private company (called private equity). The advantage of equity is that no interest is charged on this finance. This start-up capital may come from:

- the owner's savings
- a gift from family members
- an inheritance
- a redundancy payment when the owner left a full-time job

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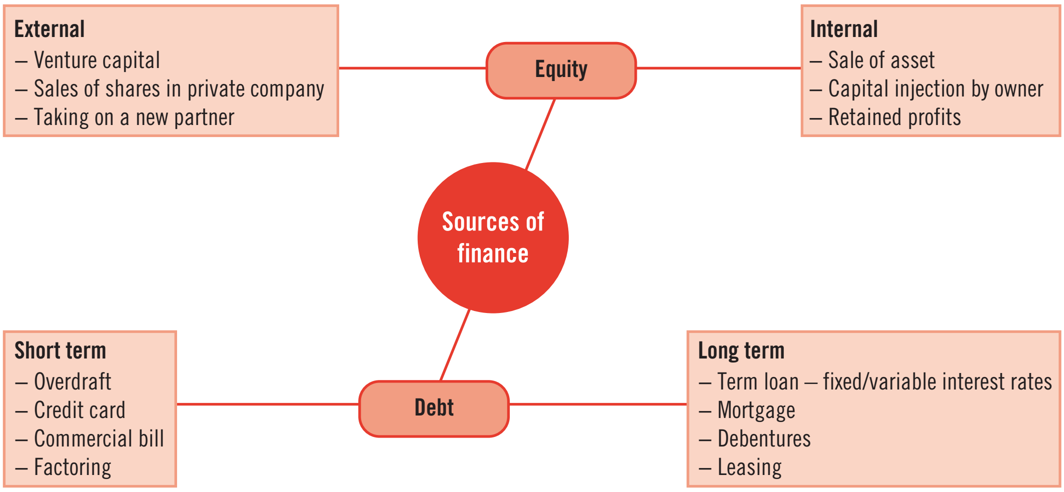
Source 10.36 Sources of debt and equity finance



- shares in the business purchased by other people
- sale of a personal asset such as a second family car
- personal loan or mortgage loan, with the money then invested into the business.

Equity finance carries an obligation of a return to the investors and shareholders (in the case of a private company) who have provided finance for the business. A business that does not offer a good return will find it difficult to attract investors. The return on investment for owning shares in a company is called a **dividend**.

Dividend The income earned from owning shares in a company. It is usually paid every three or six months, and is based on the profits the company makes.

Any profits not distributed as dividends (known as retained profits) can be reinvested into the business for future growth. This money can be used to buy more assets, pay off liabilities or expand operations.

Source 10.37 Once the business breaks even, the supplier of equity finance may be entitled to a share of the profits.

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A venture capitalist, such as Business Angels and in the *Shark Tank* television series, can provide finance in exchange for part-ownership of the business. The owners of a new business may have an innovative, potentially highly profitable idea but lack the capital owing to their high risk and inability to acquire a loan. They will present their business innovation to the venture capitalist, who will review the business plan. If they consider the risk worthwhile, the venture capitalist will provide the capital needed by the business.

Venture capitalists may wish to have very little say in the day-to-day management of the business. The advantage of this type of finance is that it gives the business money to establish and grow without interest obligation. However, the venture capitalist may want to have some control over major decision-making because of the risk being taken with the money provided. Once the business breaks even, the supplier of capital will be entitled to a share of the profits.

Debt finance

Loans may be provided by a number of financial institutions outside the business. Major banks (such as NAB, Westpac, ANZ and Commonwealth) are the biggest providers of finance and financial products for SMEs.

Debt finance – or a loan – is more difficult to obtain without a track record of sales or profits. However, a bank may provide a small loan and an overdraft based on the strength of the business plan. The websites of banks and finance companies provide comprehensive information on the variety of financial services they offer. **Investment banks**, including Macquarie Bank, provide finance for large businesses as well as investment advice, takeover and merger assistance, debenture issues and foreign exchange transactions for businesses trading with other countries.

Investment banks Specialist financial institutions that only deal with corporate and business customers.

The cost of debt finance is the interest rate charged. Variable interest is charged daily and must be paid by the business as an interest expense each month, quarter (three months) or year. The business will benefit from having a variable interest rate loan if interest rates fall, but not if they rise. Fixed-interest loans are also available to businesses to purchase non-current assets, and these require property as security. Despite having a higher cost than variable-interest loans, the advantage of a fixed-interest loan is that the interest expense remains the same regardless of the change in rates.

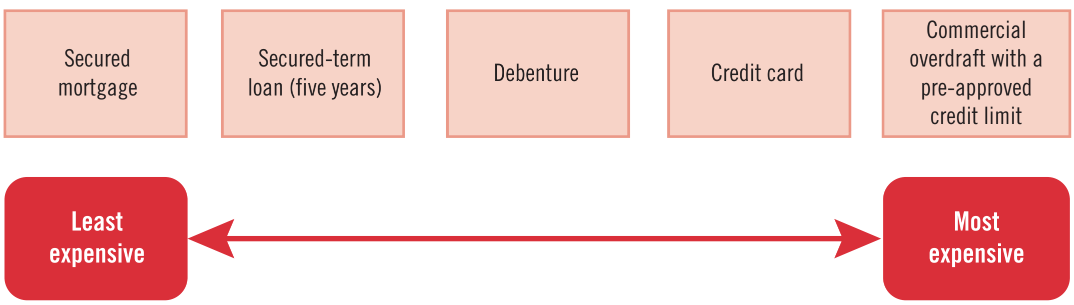
In addition to the interest charged, the following fees and charges may apply to debt finance:

- loan establishment fee and other bank charges
- legal fees – legal transfer of property, conveyance, starts at about $900
- loan insurance – varies with amount borrowed
- stamp duty (estimated at $40 000 for $1 million property and nearly $96 000 for a $2 million property)
- loan account-keeping fees.

Business credit cards help businesses manage small expenses, such as office supplies and staff travel. They require less paperwork than some other forms of debt finance, which saves time and money. Credit cards usually have an interest-free period and businesses can take advantage of this.

A commercial overdraft with a pre-approved credit limit allows businesses to access funds as

Source 10.38 The relative interest costs of debt finance



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they need them to pay creditors while waiting to receive payment from customers. Overdrafts have a high variable interest rate owing to the convenience of this financial tool.

Another option for short-term finance once a business has commenced operating is cash flow finance. This financial tool will involve a bank being willing to advance cash to the business based on **invoices** the business has issued. The advantage of this type of debt finance is that a business can acquire finance within 24 hours of an invoice being approved rather than waiting for the customer to pay its account.

A business may also sell its accounts receivable through factoring. In this case, another business (sometimes a bank) may purchase the accounts owing at a discounted rate and then collect the debt itself. Alternatively, firms may organise another business to collect the debt for a fee or commission. This is a growth area for banks and factoring businesses.

Ethical Spotlight 10.2

Is it ethical for the owner of a business to use their personal credit card to pay for business expenses and to purchase inputs in order to earn frequent flyer points and personal rewards?

Companies can acquire debt finance in the form of commercial bills. A commercial bill is a document expressing the commitment of a borrowing firm to repay a short-term debt at a fixed date in the future. Often a commercial bill is a lower-risk loan for the lender (which is usually another company) because repayment is guaranteed by a bank. Commercial bills are usually in multiples of $10000 and can be used by companies to purchase large amounts of inventory or to pay a supplier.

Invoice A bill sent to a customer requiring payment by a specified date. Invoices are primary documents in accounting because they are records of credit sales.

Business Bite

Dave Roper and Will Miller initially started their business as messenger couriers, providing a mail and parcel delivery service. They needed a satchel to carry their delivery items between city locations. Developed by Stuart Crumpler, the satchel itself proved such a success that they eventually formed Crumpler Pty Ltd, which specialised in the supply and design of bags.

Crumpler Pty Ltd did not take out any debt finance. The business growth has been funded directly from revenue coming into the business – that is, from its cash flow. Crumpler has not had to bear the cost of interest on loans and has used expense-minimisation techniques to ensure that it does not have liquidity problems.

The business has expanded overseas and entered into joint ventures with long-standing distributors of its products. It has also expanded its range of products to include suitcases, backpacks and camera bags. All growth has been financed through savings, which means that profits (equity) have been reinvested continuously into the business. In 2018, Crumpler introduced a customisation option so that customers could personalise their bags.

Today, Crumpler has over 30 stores globally and has expanded across Asia, the fastest growing market outside of Australia. Crumpler Asia has five distributors and six stores.

Source 10.39 Australian baggage brand Crumpler was appointed the official luggage supplier to both the 2016 and 2020 Australian Olympic Teams.

Debenture A long-term loan where a company writes a document expressing its commitment to repay a debt at a fixed date in the future; sometimes known as bonds. Debentures require assets of the borrower as security for the loan.

A **debenture** is a long-term loan where a company writes a document expressing its commitment to repay a debt at a fixed date in the future. Debentures are sometimes known as bonds and require assets of the borrower as security for the loan. The finance is raised from investors, who will receive a return on maturity of the loan. Debentures cannot be traded on the Australian Securities Exchange (ASX).

A finance lease is more suitable for accessing new technologies, such as computers and office equipment, with a short lifespan. Leasing allows a business to update to the latest technology without a huge cash outlay.

Mortgages require property as security for the loan. Mortgages have variable interest rates, and therefore their cost varies over time as repayments change with increasing and decreasing interest rates. Chattel mortgages are loans that require equipment or a movable asset as security for the repayment of the loan – for example, a car or valuable painting. Mortgages are secured long-term loans.

Government organisations provide finance through grants and low-interest loans to businesses that have export potential or will contribute significantly to the economy and employment.

Source 10.40 Business finance sought, by employment size, by type and status, 2018–19

	0–4 persons	5–19 persons	20–199 persons	200 or more persons	Total
	%	%	%	%	%
Businesses that sought debt or equity finance	10.9	17	23.5	30.4	13.9
Type of finance sought by businesses					
Debt	91.5	91.8	93.8	92.7	92
Equity	27.1	37.4	37	37.2	32.4
Debt finance that was:					
Obtained	82.4	79.6	88.7	96.4	82.5
Not obtained	7.7	8.9	3.1	0.2	7.4
In progress	11.9	12.3	10.1	4.7	11.7
Equity finance that was:					
Obtained	48.1	35.8	42.2	59	42.1
Not obtained	47.5	53.2	52.1	36.9	50.5
In progress	5.6	12	6.6	4.1	8.4

Source: Australian Bureau of Statistics, Data Sets – *Business finance sought, by type and status, by employment size, by industry, 2018–2019.*

Digital quiz Please see the Interactive Textbook to access digital activities.

10.7 Legal

Business name

It is often a legal requirement for a person operating a business in Australia to register its business name. If you are a sole trader using your own first name and surname, or your partner's first name and surname in a partnership, then you do not have to register the name of the business. However, a business will generally have a **trading name** – that is, the name by which it is known and that it uses in its advertising, which may not be the owner's name. This name must be registered with the Australian Securities and Investments Commission (ASIC).

Trading name The name by which a business is known to its customers.

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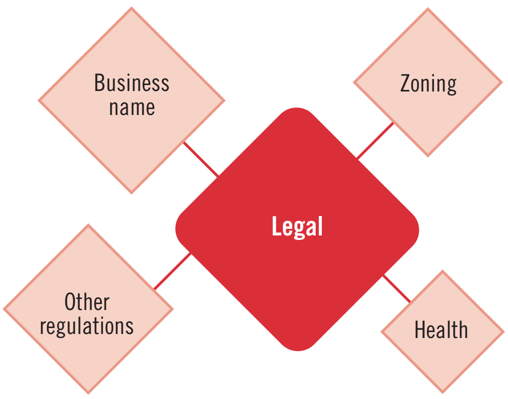
This is a legal requirement under the *Business Names Registration Act 2011* (Cth) and has been compulsory since 2012. The business must have an Australian Business Number (ABN) obtained from the Australian Business Register before it can apply to register its name. The ABN must be on all transactions, letters and documents. Many owners frame their certificate and display it prominently in their business premises. Business owners must apply for a business name on the ASIC website. If their selected business name is already taken, they will be asked to select another name for their business.

As well as names already used, owners cannot select a name that is obscene, that makes consumers think the business is something other than it really is – such as a charity – or that is associated with a well-known brand name.



Source 10.41 Legal requirements

Businesses cannot use the name ANZAC or anything associated with the royal family.

Video 10.2 Registering a business name

Zoning

Local governments have the legal power to restrict where certain businesses can be located. Zoning regulations create areas, or zones, where land can only be used for particular purposes. This is to ensure that residential areas are quiet and free from pollution, and to allow local governments to plan the growth of communities through regulations on land use. Businesses cannot locate in areas zoned residential, and noisy factories are restricted to industrial areas. Unfortunately, the most ideal business location may not be accessible due to zoning regulations. The typical zones are residential, commercial, light industrial and heavy industrial, open spaces and recreation.

Conflict can occur when communities grow. Older homes adjacent to retail zones and shopping centres may be rezoned and converted into shops or service-based businesses such as solicitors, accountants and doctors. Other residents may experience new problems because of these changes, such as difficulty finding parking, increased traffic and noise. The local government can close down a business if it is located in a residential zone.

The state government may also work with local government to further develop infrastructure such as freeways. In many cases, local government plans will need to be changed and land rezoned.

Business Bite

Many businesses will outsource the job of making up an effective website to a specialist agency. They will need to enter into a website development contract and make sure that the business and not the agency owns the copyright to the website. The website developer will also need to provide the business with a warranty that they are not using a third party's copyright material. The business will need to register the URL and the business name, and ensure that it actually owns the site.

There are several sites on the internet that can help you build your own website. Some refer to 'four simple steps', 'build in under 10 minutes', 'free of charge', 'beginners' guide' and so on. There are also government sites that can assist with this.

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Source 10.42 Zoning determines where a business can and can't operate.

Health regulations

Local governments require businesses in their region to be registered and to hold all relevant permits and licences. To be registered means that the the local council has been informed about the business that is operating and provided with details of the owner's, manager's and licensee's names.

Health regulations exist to protect consumers from diseases and food poisoning. Every business in Australia is covered by work health and safety (WHS) legislation. The *Work Health and Safety Act 2011* (Cth) is supported in New South Wales by the Work Health and Safety Regulation 2011 and all the other states are developing their own sets of regulations. This Act provides the legal framework for safe employment, and establishes the obligations that must be followed by employers and employees.

Many industries have specific requirements for health, such as those businesses involved in food preparation and service. Cafés and food stalls must ensure that any food and drink served is fit for human consumption. As part of their licensing requirements, they must have clean, hygienic premises and safe food-handling practices to prevent the spread of disease and food poisoning.

They must:

- have a clean kitchen that is free from vermin (such as rats and cockroaches)
- use clean cooking utensils
- prepare food in a hygienic manner (such as the use of hair nets and plastic gloves)
- cook and store food at appropriate temperatures.

Any premises dealing with food must be registered and its licences renewed annually. The business must pass a physical inspection by an employee from the local government's health department. The NSW Food Authority now has an offences register that names and shames offenders acting in a way that results in public health issues.

Other examples of health and safety regulations are those affecting the building industry. Toxic materials and chemicals must be stored and handled in a safe manner to protect the health of employees. Certain dangerous products (such as asbestos) have been banned because of their severe and potentially lethal impact on workers' health. Work must also be performed in a safe manner – for example, using safety harnesses

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to prevent falls when working at heights and wearing hard hats on building sites.

It is the responsibility of the owner to ensure that the business complies with all health and safety requirements stated in government laws and regulations. The business could be sued for negligence if a person's health were affected. The business would face legal action and fines, and may also be prevented from trading by the government or local council until it made the necessary changes. Government or council inspectors can make unannounced inspections to determine whether the business is complying with the law.

Regulations also include smoke-free zones, operating hours, food standards, the accumulation and disposal of rubbish, overgrown vegetation, air conditioning cooling towers, public swimming pools, environmental issues and pollution levels.

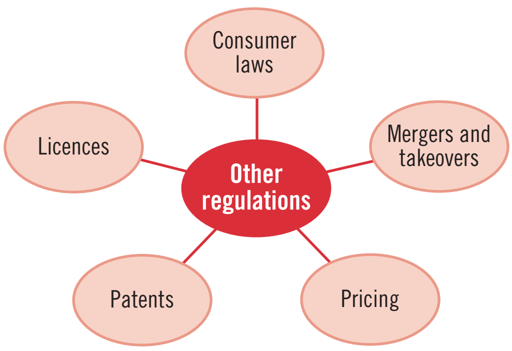
Other regulations

There are many other regulations that affect SMEs.

Consumer laws

The Australian Consumer Law (ACL), operational since 1 January 2011, is part of the *Competition and Consumer Act 2010* (Cth), formerly the *Trade Practices Act 1974* (Cth).

This is a federal government law that applies to nearly every aspect of the operation of a business. The aim of the Act is to prevent businesses from gaining an unfair advantage over competitors and the protection of consumers. Businesses can improve their profits by using legal competitive advantages, such as through being innovative, providing better quality products and superior services, and establishing a good reputation.



Source 10.43 Other regulations that affect business

Under the *Competition and Consumer Act 2010* (Cth), all businesses and consumers in Australia have the same rights and obligations, including the following:

- Products must be safe.
- Businesses cannot take part in misleading or deceptive conduct. For example, only products that are grown, produced or made in Australia can display the Australian Made, Australian Grown logo. This logo is currently available under licence from Australian Made Campaign Limited, unless used on food products in accordance with the new Country of Origin Food Labelling Information Standard 2016. Under that Information Standard, most foods that are grown, produced or made in Australia will need to carry new country of origin graphic labels that include the Australian Made, Australian Grown logo. These labels, known as 'marks', must also indicate the proportion of Australian ingredients in the food. The information standard will be mandatory for most foods offered for retail sale in Australia that are labelled after 30 June 2018.
- Goods must be priced openly. Prices cannot be fixed to prevent fair competition. It is illegal for sellers to agree among themselves to set prices at a specific level.
- Warranties and refunds must be provided to cover faulty manufacturing.
- Businesses cannot unduly harass or coerce customers when collecting outstanding debts.

In summary, the Act prohibits any anti-competitive and unfair business practices that take advantage of consumers.

There are high penalties if a business acts illegally and contravenes the *Competition and Consumer Act 2010* (Cth). Companies can be fined a maximum of $10 million and individuals up to $500 000 and a possible prison term for anti-competitive practices. They may also have to print retractions and undertake a compliance program to avoid future problems. In 2009, criminal sanctions were introduced for serious cases. The Australian Competition and Consumer Commission (ACCC) enforces the Act and works with offending businesses to reach a suitable settlement and appropriate restitution.

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Court action is seen as a last resort by the ACCC. This federal government organisation has specific regulations for each industry and monitors prices. A new business can consult the ACCC website for information, publications and up-to-date news relating to legislation administered by the ACCC.

Mergers and takeovers

Mergers and takeovers are another means by which a business can increase its size and profits. A business can buy out a competitor to control more of the market rather than trying to push the competitor out of the market. The ACCC, also known as the competition watchdog, can prevent anti-competitive mergers and takeovers. It will determine whether a business may gain too much market power and dominate the market to the potential detriment of consumers through higher prices and reduced service. In such cases, the merger or takeover will not legally be permitted to proceed.

Business Bite

In August 2018, TPG and Vodafone Australia took steps to merge the two businesses. This was to create competition to the current market leaders Optus and Telstra. The newly merged business would be called TPG Telecom Limited. Together, these two businesses would control 27 000 kilometres of fibre networks and have eight million subscribers across Australia. The merger was due to be completed in 2019. In May 2019, the ACCC blocked the $15 billion merger on the basis that competition in the market would be lessened as a result. TPG challenged this decision with legal action in the federal court.

Source 10.44 TPG Telecom owns Australian brands Vodafone, TPG, iiNet, AAPT, Internode, Lebara and felix as well as nationwide mobile and fixed networks.

In June 2020, after a positive High Court decision, the merger took place and the business started trading as TPG Telecom, now better able to compete with Optus and Telstra.

Some industries in which the ACCC is involved in regulation and the prevention of price-fixing are:

- water
- energy – electricity and gas
- aviation and airports
- wheat export
- fuel pricing
- postal services
- railways
- communications
- shipping and the waterfront.

Patent By taking out a patent, the owner of an invention, innovation or production technique has exclusive rights to sell, market, license or make a profit from it. A patent lasts for a set period of time.

Ethical Spotlight 10.3

Can a government regulatory body ethically review government businesses?

Patents

A **patent** is the legal protection an individual or business can use to protect a new idea or invention for a limited time from being copied by competitors. It is important for new business owners to protect their unique idea quickly before competitors discover the new concept and use it in their own business. A business that develops a new product or process can protect this **intellectual property** by completing a patent application and paying a fee to the federal government.

This gives the business the exclusive right to use its idea to make a profit. A patent can protect a sustainable competitive advantage. Other firms that wish to use this innovation may do so with the permission of the patent holder and a fee, and/or by paying a percentage of their sales, called royalties. In Australia, specialist lawyers are available to assist when making patent applications to IP Australia, the federal government agency responsible for patents. There are several incidents of designs from Australian jewellery designers being copied by large corporations when unprotected by current patents.

Intellectual property The research and ideas that a business has developed into a product, trademark, design, name or artistic work that is unique to the business and can earn income. It is illegal to copy intellectual property without permission. Intellectual property is an example of an intangible asset.

Business Bite

Australia has been the home of many inventions. Below are some of the more significant inventions by Australians.

- Baby safety capsule
- Bionic ear – cochlear ear implant
- Black box flight recorder (in all aeroplanes and used after emergencies to find out what happened)
- Boomerang – a curved piece of wood that returns to the thrower once it has been thrown
- Calyx drill (used to drill through rock for the underground road tunnels in Sydney)
- Dual-flush toilet
- Electronic pacemaker (for the heart)
- Google Maps
- Hills hoist – a circular washing line that spins around on a pole
- Humidicrib for premature babies
- Inflatable aircraft escape slide and raft (for emergency evacuations of planes)
- Latex gloves
- Mechanical shears (for shearing sheep and goats)
- Polilight (forensic lamp) to detect latent fingerprints
- Polymer banknotes (Australia exports these to other countries)
- RaceCam – live television broadcast
- Refrigeration
- Spray-on skin for burns
- Two-stroke lawnmower
- Vaccine to prevent cervical cancer
- Wi-Fi (CSIRO)
- Wine cask

A logo or trademark should also be registered because it identifies the business's brand. Brand names themselves can guarantee sales of products. A competitor that copies a logo or trademark, or creates one that is very similar to another, can take sales away from the business from which it has copied and increase its own market share unfairly. Customers are also misled by 'knock-offs' if they inadvertantly purchase such products from a business. There are patents available on the IP Australia website for items such as the Dynamic Lifter, Cochlear Bionic Ear and Victa Lawn Mower.

Licences

In some cases, business operators also need to have a licence to trade. Some of the businesses requiring a licence include importers, liquor-related businesses, taxi owners, auditors, chemists and butchers.

Digital quiz Please see the Interactive Textbook to access digital activities.

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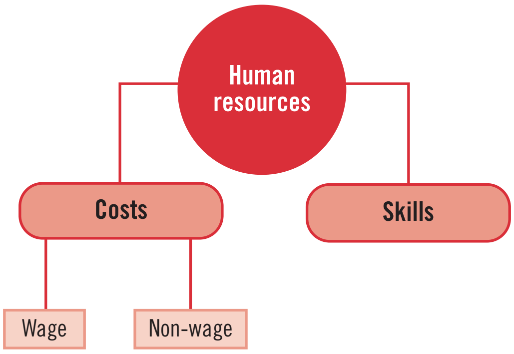
10.8 Human resources

Having the right staff is very important to the success of a business. It is the employees who are the face of the business when dealing with customers, and they perform the tasks planned by management.



Source 10.45 Human resource influences

Skills

A business needs to recruit employees who will be an asset to the business. They need to be hard working, share the vision of the business and be able to handle any changes within the organisation. A business needs the right number and combination of staff with the appropriate experience and skills to perform the tasks required.

Quite often, new staff take time to become productive within the business. Newly qualified accountants and lawyers often have a 'learning' period before they are fully productive. The owners/managers of the business need to spend a lot of their time instructing juniors on how to complete a job. Larger firms will have a human resource department to organise training and development of new as well as current staff to enhance and improve their skills. Some firms may utilise a mentor program, in-house courses or even tertiary study courses for their workers.

Wage An hourly rate of pay; may include overtime payments for work done outside normal hours.

Salary An annual rate of pay, divided into equal pay periods.

Word of mouth The spread of information by people talking to each other. Satisfied customers will promote the business in conversation with friends.

Video 10.3 Minimum wages

It must be remembered that a new business may only employ one or two people. In these cases, employees actually take on multiple jobs. When work needs to be done, they would be expected to be multiskilled and flexible, to help other members of staff wherever possible. In a small retail store, sales assistants would be expected to clean and pack shelves as well as serve customers. If the staff in a small business did not work together, then the business would run into operating problems. This does not imply that they would need to perform offensive or dangerous work – just what is reasonable. As the firm grows, jobs will become far more task-oriented, individualised and skill-specific.

Costs

Recruitment

It is important for businesses not to over-spend their recruitment budget. Businesses should match the cost of recruitment for a position to the **wage** or **salary** paid for the position. It would not be worthwhile to spend thousands of dollars to hire casual labourers, nor would it be effective to place a photocopied 'help wanted' sign in the local newsagency when seeking executive staff.

To acquire the most suitable staff, managers need to have written detailed job descriptions, analysing the skills, experience and qualities required for a particular position. Staff may be recruited by recruitment agencies, direct from TAFE or university, through trade journals, and **word of mouth** or referral by other employees.

Recruitment and the selection of appropriate staff must be completed as quickly as possible. For managers, the time needed to read applications, conduct interviews and perform checks is time taken away from performing other core duties. This also represents a cost to the business in lost productivity of the people involved in the employment process. Hence this is often outsourced to employment agencies.

Wage

Staff are paid a wage or salary. A wage is a weekly payment based on hours worked and an hourly rate of pay. A salary is an annual rate of pay, divided into equal pay periods. Wages may be determined by the award for that occupation. An award sets out the minimum wages and conditions for an occupation. The Fair Work Commission is responsible for reviewing and setting awards. As from 1 January 2010, those reviewed awards have been referred

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to as modern awards. An example of wages under the General Retail Industry Award 2020 is provided in Source 10.47. For other work types, check the Fair Work Ombudsman's The P.A.C.T. website.

In some cases, wages and salaries are determined through contractual agreements between the employer and employee. These must, however, be above the award rate and are legally enforceable contracts.

Activity 10.10
Research

Research modern awards on the Fair Work Commission website – go to 'Find an award', look down the list or use the search box for the award you wish to research.

Source 10.46 Businesses should match the cost of recruitment for a position to the wage or salary paid for the position.

Source 10.47 General retail industry award for full-time work (38 hours) as at September 2021

Minimum weekly wages	
Classification	**Per week $**
Retail employee level 1	827.80
Retail employee level 2	847.60
Retail employee level 3	860.80
Retail employee level 4	877.60
Retail employee level 5	913.70
Retail employee level 6	926.90
Retail employee level 7	973.40
Retail employee level 8	1012.90
Junior rates – full-time, level 1	
Age	**Hourly pay rate**
16 years of age	10.89
17 years of age	13.07
18 years of age	15.25
19 years of age	17.43
At 20 years of age, employed by the employer for six months or less	19.61
20 years of age, employed by the employer for more than six months	21.78

Source: Fair Work Ombudsman, General Retail Industry Award 2021.

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Non-wage

The cost of hiring full-time and part-time staff is not merely their salary or wage. Additional costs, or on-costs, include non-wage costs that must be included as a result of government laws and regulations. Employee entitlements are the extra costs of employing staff in addition to their wage or salary. They are therefore another business expense.

A full-time employee, after completing 12 months of continuous work, is entitled to four weeks' paid holiday leave a year. This is in addition to public holidays.

Holiday leave loading is an additional payment made to employees on top of their wage or salary. It is similar to a bonus and is equivalent to 17.5 per cent of four weeks' pay. This is to cover the extra costs of being on holiday. (Some occupations have traded this entitlement for increased wages.)

The length of paid parental leave depends on the award under which the parent is employed, and varies from industry to industry. There will be an additional cost of employing temporary staff to perform the work of the individual who is on leave.

Most workers receive a minimum of 10 days of paid personal and carer's leave a year. Businesses may also need to pay a casual worker to take an employee's place when they are sick. Many new businesses weigh up these additional costs and may prefer to hire casual staff during the establishment phase.

Digital quiz
Please see the Interactive Textbook to access digital activities.

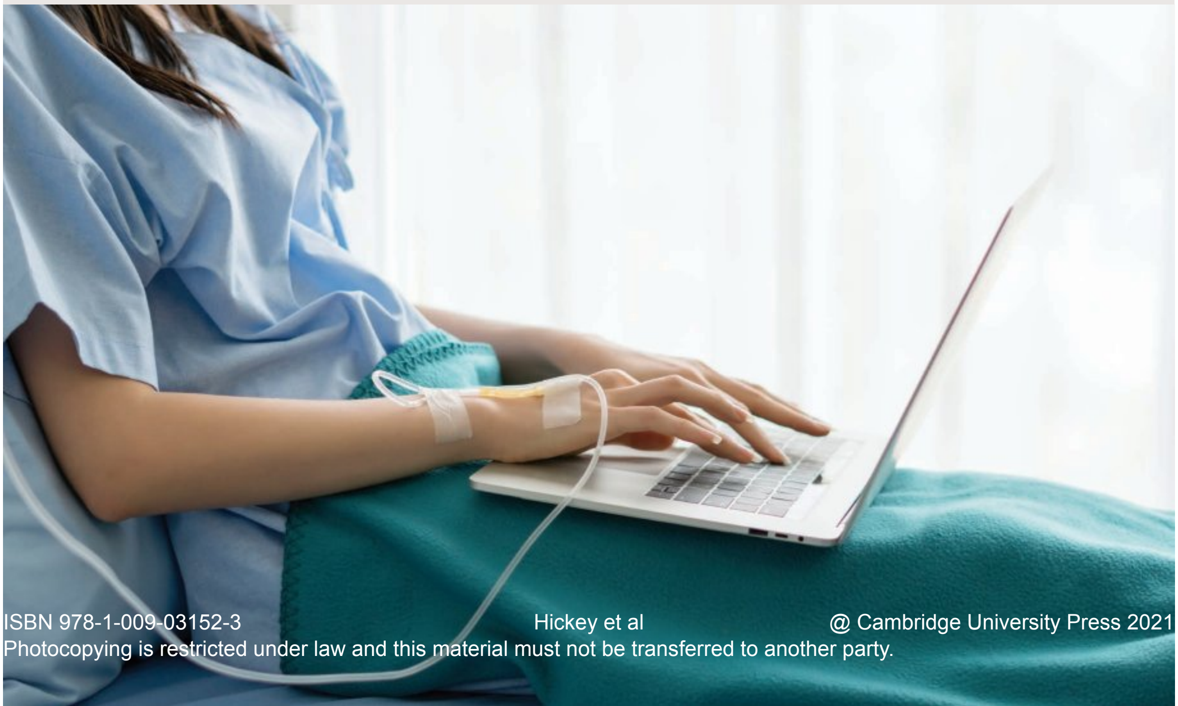
An employer must pay superannuation for all eligible employees, including casual staff who are over 18 years of age and earn at least $450 per month before tax (this amount varies with occupations). Superannuation also applies to workers under 18 years of age being paid $450 or more before tax per month and who work more than 30 hours in a week. The amount that needs to be paid is 9.5 per cent (from July 2013 until 2021) of the employee's total yearly earnings. From June 2021 until June 2028, this is set to increase by 0.5 per cent per year until it reaches 12 per cent. This is deposited into a superannuation fund chosen by the employee.

Another legal requirement is that employers must take out workers compensation insurance to cover workers for a work-related accident or illness. Some employers need to pay travelling costs related to work – for example, for a company car, petrol and maintenance.

Many businesses have to pay the cost of vocational training of staff as well as the costs of recruitment through employment agencies. There are also costs involved in facilities at work, such as car parking, tea rooms and bathrooms, and staff may also be provided with uniforms and morning tea. Self-employed business people (such as sole traders or partnerships running their own small business) can also deposit money into a superannuation fund if they wish; however, they are not required to do so.

These employee entitlements are liabilities for a business, and future expenses must be planned for by withholding finance in the business and allocating it to fund employee entitlements.

Source 10.48 A person who is self-employed will not receive sick leave or other entitlements.



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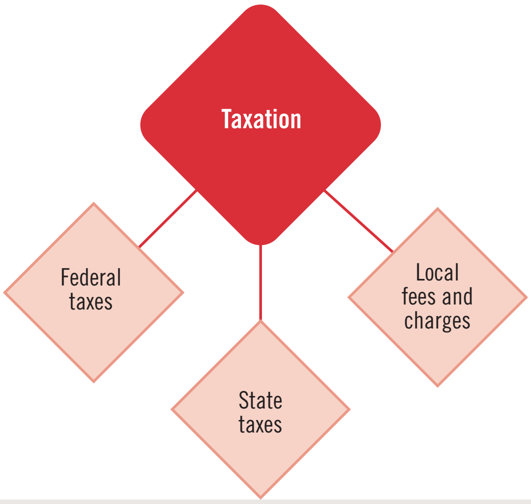
10.9 Taxation

The net profit of a business does not entirely belong to the owners. Taxes must be paid to local, state and federal governments.



Source 10.49 Some taxes that affect business

Federal taxes

All businesses have to pay tax on their profit. The 2018–19 federal Budget declared company income tax at 30 cents in each dollar of profit made for businesses with revenue of more than $50 million per annum. For businesses with less than $50 million of revenue, the tax rate was 27.5 per cent, and it was set to be reduced to 26 per cent in 2020–21 and to 25 per cent in 2021–22 onwards. Owners of unincorporated businesses, such as sole traders and partnerships, pay tax as individuals. Their business profit is added to any other income they earn and tax is payable at personal income tax rates; this allows them a tax-free threshold of $18 200 of taxable income per annum.

The average rate of taxation has fallen since the introduction of the **goods and services tax (GST)** in 2000. To comply with more complex taxation law, businesses must now complete considerably more paperwork, such as a **business activity statement (BAS)**. BASs are used to report on and pay taxes to the ATO including GST, pay as you go (PAYG) instalments, and withholding and fringe benefits tax. Time, money and frustration at having to meet the administrative requirements of taxation law are concerns for business. Software programs such as MYOB and Xero have been developed to assist owners with this work. Non-payment of tax can result in fines and penalties from the ATO.

Businesses must be aware of PAYG tax, which is a tax based on the wages or salaries of employees. The business must calculate the appropriate amount of tax and then deduct it from the employee's pay, reducing their disposable income. This withheld tax must be passed on to the ATO.

Some businesses may also have to pay luxury car tax and capital gains tax. However, a business may receive tax credits from such items as fuel tax.

Video 10.4
Federal taxes

Activity 10.11
Research

Research the current rates of taxation for individuals on the ATO website. If you have a job, calculate the amount of tax you will be required to pay this financial year.

State taxes

Payroll tax is a tax imposed by state governments. It is based on the total amount that employers pay in wages. This tax is paid by the employer, not the employee. Effectively, it is a tax on employing workers once the employer's total Australian wages bill exceeds the exemption threshold.

In New South Wales in 2019–20, the tax was 5.45 per cent once a business spent over $900 000 on its total yearly wage bill. This threshold was set to increase to $950 000 in 2020–2021 and $1 million from 2021 onwards. This tax has gradually fallen from 7 per cent in 1994. Religious institutions, charities, schools and non-profit hospitals are exempt from this tax. Other state taxes, such as stamp duty, gaming machine taxes, land tax and car registration, may also apply to businesses.

Local fees and charges

Local councils also charge businesses fees. They do this so residential ratepayers will not have to cover the cost of commercial activities. Each council assesses

Goods and services tax (GST) A tax introduced by the federal government in 2000. It is a tax of 10 per cent on the cost of all inputs used in production.

Business activity statement (BAS) A report that all registered businesses must complete to record and pay their taxation obligations (including GST and PAYG) to the federal government.

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its land rates based on its locality and socio-economic factors.

Fees are charged for:

- development applications
- building certificates
- inspectors' fees – for example, water-cooling towers, premises that serve food and mobile food vendors
- use of public property
- parking permits
- waste removal
- venue hire.

Water and electricity rates and charges vary for residential and commercial premises, and may also apply.

Source 10.50 A residential water bill

MEREDITH YUEN
76 KING STREET
NEWCASTLE NSW 2300

PREVIOUS BALANCE	RECEIVED	BALANCE
$298.20	–$298.20	$0.00

Date of Issue
10 JUN 2021

Due Date
30 JUN 2021

Account Number
0000 000 000

Total Due
$290.33

SUMMARY OF NEW CHARGES

Water Service	$13.86
Sewer Service	$107.35
Environment Improvement	$18.33
Water Usage	$125.73
Sewer Usage	$23.27

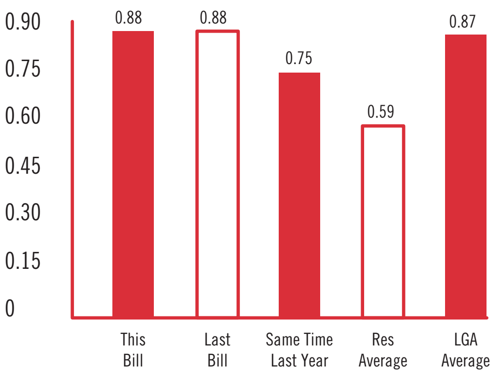
ADJUSTMENTS OR CREDITS

Other	$1.79

Total Due **$290.33**

Please pay your account by the due date to avoid interest charges

Your Average Daily Water Usage in Kilolitres



1000 litres = 1 Kilolitre

USAGE CHARGES

Water Usage Charges are for period 06-02-2021 to 29-05-2021
Water Usage Charges – Tier 1 (99 KL at $1.27 per KL) = $125.73
Sewer Usage Charges are for period 06-02-2021 to 29-05-2021
Sewer Usage Charges (99 KL at $0.47 per KL) = $46.53
Sewer Usage Charges SDF 50% of $46.53 = $23.27

ADJUSTMENTS/CREDITS

10-06-2021 Interest Charges for this Bill Period $1.79

Digital quiz
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Chapter summary

There are several key personal qualities that can be attributed to people wishing to start their own business. They are likely to be educated to Year 12 level, and often have additional non-school qualifications and some computer knowledge.

Not everyone can operate a business successfully. An entrepreneur is someone who will take a calculated risk to turn an idea into a successful business operation. Entrepreneurs have skills in running a business as well as many intrinsic qualities that help to make them successful.

The primary motive for individuals to become business owners could be a desire for profit. There is also far more freedom in being your own boss. Others enjoy the challenge of creating a successful business from nothing.

Although experience is not essential, some experience increases the chance of business success. Entrepreneurs who have experience in a managerial position or working in the relevant industry have an advantage.

It is important for entrepreneurs to have realistic expectations about their business. Opening a new business is hard work and success is not guaranteed. Having realistic expectations will provide an achievable goal to work towards. Entrepreneurs also need to be positive thinkers.

Having a certain nationality or cultural background does not guarantee success. Some entrepreneurs may possess certain qualities that they have learned from their cultural upbringing. Others have used their cultural heritage to their advantage when promoting their business.

An entrepreneur's gender will not determine whether the business will be a success. There are suggestions by business analysts that women tend to be better at networking than men and are also more willing to seek professional advice. Increasing numbers of women are starting small businesses.

Data shows that men and women tend to own different types of businesses.

Business owners are increasingly attending formal courses to improve their business skills.

With accurate and up-to-date information about the market, trends in consumer spending and legal advice, an entrepreneur can make better plans and decisions to gain an advantage over competitors. Information is available from sources such as the ABS, the internet, professional magazines and government organisations.

Business owners need to have detailed knowledge of the product or service they are selling and need to learn specific skills in marketing, human resource management, administration, accounting and information technology.

Many business ideas come about through changes in the external environment. Developments in technology are a common source of new business ideas as new products and processes are developed. All business ideas need to be investigated with comprehensive research.

Some business ideas come from the personal frustration of entrepreneurs. They find that a product they need or want is not provided by the market, so they develop it themselves.

In the market, a new business will need to do something different and better than its competitors to gain a competitive advantage.

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An entrepreneur must choose whether to establish a new business from scratch, purchase an existing business or enter into a franchise agreement. A business may be inherited or an employee may buy out the employer and take over the business as the new owner. Each option has advantages and disadvantages.

The business must establish a price that will be competitive and still high enough to provide an acceptable level of profit.

When selecting a location, an entrepreneur must consider visibility, costs and location of suppliers and customers. The relative importance of these variables depends on whether the business is a retailer, wholesaler or manufacturer. Manufacturers prefer to locate near their suppliers, while retailers with physical stores will locate near their customers.

Financial considerations involve selecting an appropriate source of finance for the business. Owners can choose to invest their own money as equity by contributing capital themselves and selling shares. Loans or debt finance may also be used to purchase assets and stock.

The cost of debt finance is the interest rate charged. There are additional fees and charges imposed by the lender when funds are borrowed. Debt finance must be repaid and includes loans, overdrafts, commercial bills and debentures.

Investors providing equity finance (including venture capital) will expect a return that is better than other investment choices they could make as well as a share of the ownership.

Businesses must ensure they comply with government laws and industry-specific regulations, such as registering their name with the relevant federal government department.

Zoning restricts where certain types of businesses can locate.

Businesses must comply with all health and safety regulations to protect employees, customers and the community.

All businesses must comply with the *Competition and Consumer Act 2010* (Cth), which makes it illegal to engage in anti-competitive behaviour.

Entrepreneurs need to protect their intellectual property using patents and copyright.

When recruiting staff, an employer must ensure the employee has the appropriate skills, experience and professionalism. The selection process must comply with all relevant anti-discrimination and equal employment opportunity laws.

Taxation and non-wage costs are the financial costs of employing staff in addition to their wage or salary. In Australia, non-wage costs may include paid maternity and sick leave, annual leave and superannuation.

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End-of-chapter tasks

Chapter revision tasks

1 Read the following profile and evaluate Richard's chance of running a successful business. Identify the possible strengths and weaknesses of this business idea. Discuss the finance and location factors that could influence decisions he will need to make.

Richard has just turned 57. He is a qualified chartered accountant and has run his own accountancy practice for the last 25 years. His hobby has been photography and he likes to take landscape shots in various parts of the world. He wants to set up his own photographic gallery in the local shopping centre, selling his own work.

2 Identify some of the establishment costs that you would expect Richard to have – for example, business cards.

3 Compare the advantages and disadvantages of using equity finance versus debt finance.

4 Select terms from the box that best fit the sections that relate to the influences in establishing a small to medium enterprise.

franchise	qualifications	competition	background
entrepreneurship	existing	idea	new
gender	information		

a Personal qualities: __________, skills, motivation, __________, cultural __________, __________

b Sources of __________

c The business __________; __________

d Establishment options: __________, __________, __________

5 Outline the six main personal qualities of an individual wishing to establish an SME.

Multiple-choice questions

1 Which of the following is an advantage of setting up a new business?

A Cheaper, as goodwill is not included
B Have to follow a specific set of procedures
C There is an immediate cash inflow from customers
D There is a lot of time needed to undertake research for decision-making

2 Which of the following types of businesses tend to attract female owners?

A Mining, forestry and fishing
B Manufacturing
C Product-based industries
D Service-based industries

3 Which of the following are two internal sources of finance for an SME?

A Bank loan and personal savings
B Equity and debt
C Equity and bank loan
D Personal savings and sale of an asset

4 Which of the following is an intangible asset based on the reputation of a particular business?

A Inventory
B Goodwill
C Cost of goods sold
D Accounts receivable

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5 Which of the following is a tax levied by the NSW Government?

A GST
B Pay as you go tax
C Payroll tax
D Fringe benefits tax

6 Which of the following is true of SMEs in Australia?

A SMEs play only a minor role in the economy
B Many SMEs are listed on the Australian Securities Exchange
C Most SMEs sell mainly to overseas markets
D SMEs play a major role in the Australian economy

7 The *Competition and Consumer Act 2010* (Cth):

A only affects the internal operations of a business.
B is a law to make businesses act fairly in the market.
C is an ethical issue.
D is the responsibility of the employee.

8 Which of the following is NOT a cost of employing staff?

A Company tax
B Payroll tax
C Four weeks of paid holidays
D Maternity leave

9 Australia Post must decide the price for postage for letters as there are no other competitors in the market. Which type of market concentration is this?

A Private enterprise market
B Monopoly
C Duopoly
D Oligopoly

10 Who provides the funds in debt financing?

A Customers
B Government grants committee
C Banks and financial institutions
D Shareholders

Short-answer questions

1 Discuss the importance of location for a newly established business.

2 Outline the advantages of purchasing an existing business.

3 Analyse the effectiveness of entering into a franchise agreement as a choice for a young, inexperienced entrepreneur.

4 Explain the difference between debt and equity finance of a business. Discuss the financial options available to a person wishing to begin their own business.

5 Suggest two reasons why government departments have set up their own websites to assist SMEs.

6 Describe the essential skills of an entrepreneur.

Extended-response question

Evaluate why it is important to obtain accurate and current information about the business and market environment when evaluating a new business idea.

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11 The business planning process

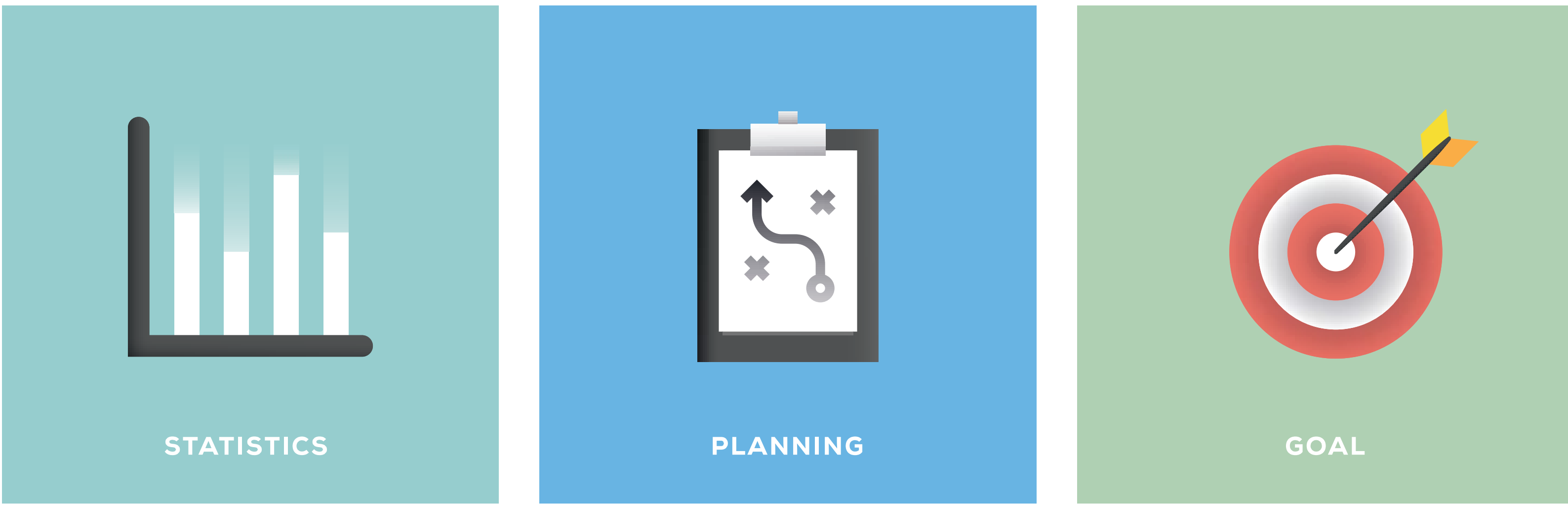
Chapter objectives

In this chapter, students will:

- investigate the source of planning ideas
- investigate the vision, goals and objectives of large businesses
- investigate how resources for the key business functions are organised
- analyse the importance of forecasting
- explain the importance of monitoring and taking corrective action
- investigate, analyse and evaluate the business planning process.

Key terms

- accounting
- brand
- break-even analysis
- debt finance
- equity finance
- evaluate
- finance
- financial accounting
- financial goals
- forecasting
- goals
- lead time
- mission statement
- monitoring
- objectives
- packaging
- positioning
- sales reports
- situational analysis
- social goals
- supply chain
- venture capital
- vision statement



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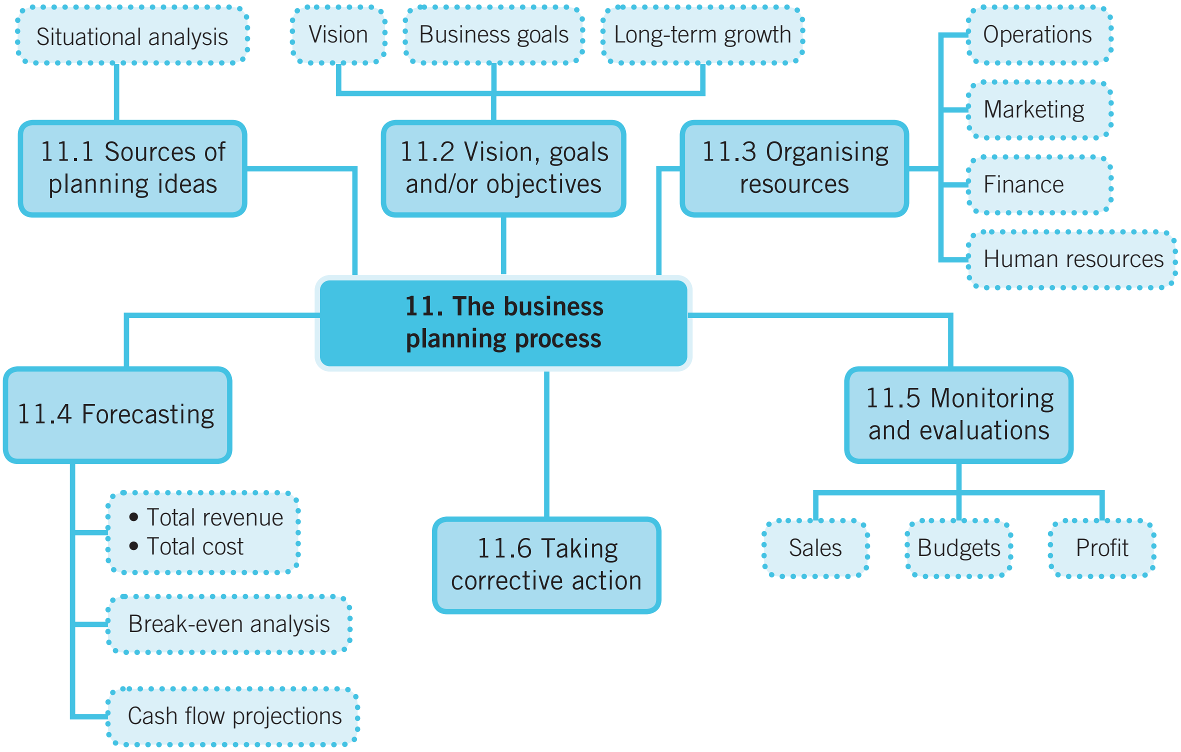
11.0 Introduction



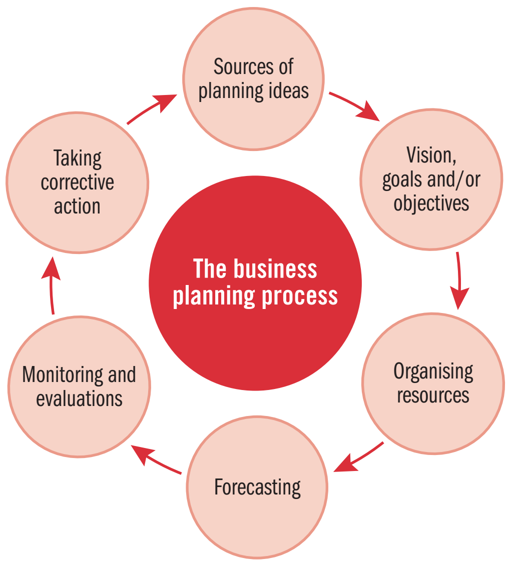
Source 11.1 The business planning process

A business plan is a detailed, well-considered guide to running a business. It assures that the business has made a realistic assessment of its current position within the industry. The plan contains the goals (long term) and objectives (short to medium term) of the business, directions to follow in order to achieve them and ways of measuring the business's success or failure.

A business plan that is comprehensive and thoroughly researched provides a useful guide for operating the business. Once made, the plan needs to be updated constantly to stay in line with the changing business environment in which it operates.

For many businesses, planning begins with the creation of a business idea. Those who have never had a business before will need to evaluate the likelihood of success (or viability) of their idea of having a business of their own or, alternatively, whether they should sell their business idea to someone else. Even for an existing business, a new idea may mean an additional good or service, the viability of which must be assessed to determine whether it will be a profitable, successful addition to the business's product range. In each case, a good idea does not necessarily mean there will be enough market demand to make it worthwhile.

A firm may need to set aside an idea for the time being and reintroduce the idea when market influences are more favourable. It may be better for the business to use its resources in a more profitable manner.



Source 11.2 Steps in the business planning process

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Some situations where this may be the case are listed below.

- Over the years, new inventions may threaten current systems – for example, the invention of improved battery technology made electric cars viable when all production was geared to internal combustion-engined cars.
- A company may merge with or take over a competitor, or buy the rights to the invention in order to protect itself.
- The organisation may delay the introduction of the newer product as it still has vast stocks of the older product.
- Manufacturers will make a profit from small incremental improvements to its products rather than introducing a radical new device.
- An organisation that has decided to restructure as a public company will wait for the most favourable economic conditions before making this change.

Business Bite

G.J. Coles opened the first Coles variety store in Victoria. The business survived the Depression and World War II. During the war, many married women joined the workforce and Coles successfully began supplying ready-made food products to the market.

1946 – expansion into electrical items

1948 – introducing cosmetics

1950s – converted into self-service stores

1960 – became a supermarket selling practically everything on a family's shopping list

1982 – the first electronic scanners were introduced with itemised printed receipts

1980s – expansion into Liquorland and Vintage Cellars, Bl-LO and then Myer

1985 – name changed to Coles Myer Ltd

1993 – Coles launched the Flybuys program (loyalty points)

1999 – online shopping was trialled in Melbourne

2004 – established Coles Express service stations across Australia

2006 – Coles sold off Myer

2007 – Coles was bought by Wesfarmers

2018 – Wesfarmers demerged Coles and Coles became an independent publicly listed company on the Australian Securities Exchange (ASX)

Digital quiz
Please see the Interactive Textbook to access digital activities.

11.1 Sources of planning ideas

The ideas for planning may come from both the internal and external business environments. The internal environment relates to an existing business that already has an organisational or management structure, which outlines the levels of planning and who is responsible for each. Ideas may come from employees, managers and owners of the business – that is, from inside the business.

In a large business, senior management is responsible for strategic planning. It will determine the long-term goals for the whole business and the strategies that will be used to achieve these goals. Middle management has responsibility for the tactical level of planning. As well as planning for their individual departments, managers need to coordinate the various departments so they work interdependently towards achieving the strategic goals of the business. For example, marketing's budget is set by the finance department. Lower-level managers or supervisors formulate operational plans for day-to-day activities, such as those on the factory floor.

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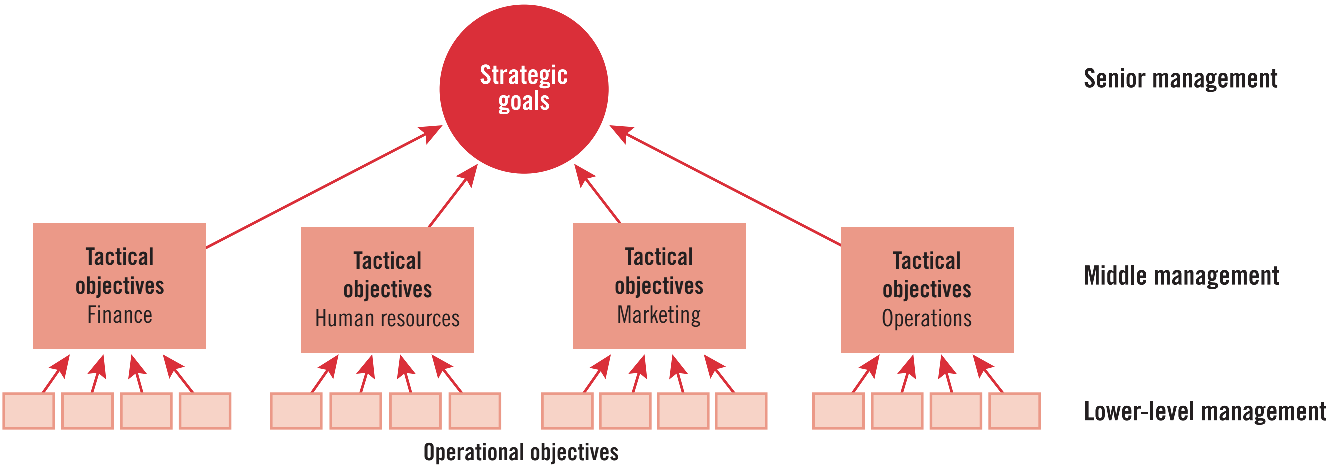

Source 11.3 Different levels of management have different planning responsibilities, and different types of goals, namely operational objectives, tactical objectives and strategic goals. These differences are discussed further on page 255.

Employees are increasingly taking an active part in higher levels of planning. Benefits of this interaction include improved staff morale with a clearer understanding of and commitment to the business and its success. A firm may establish special committees including employees from different levels to investigate new ideas.

Stakeholders in the external environment (from outside the business) may also be a source of planning ideas. There are several professional services available for firms to obtain assistance with their business concept. Assistance is provided by accountants, tax agents, solicitors, business or management consultants, financial advisers, bank managers and several educational institutions, as well as various state and federal government agencies.

Many management professionals specialise in advice for particular industries, as does the NSW Department of Planning, Industry and Environment. The state government assists business by supporting economic growth in the regions through an advisory service, especially to develop the export capabilities of business, and promote competitiveness and job creation. The federal government assists business through Austrade's Export, Study, Buy From and Invest In Australia programs. Many large businesses have their own research and development departments that specialise in gathering updated information. Firms often subscribe to journals and specialist magazines. Also, many industry associations organise trade shows that are well attended and provide insight into the latest trends in the market.

Increasing numbers of businesses are set up specifically to complete market research for their clients. Technology enables vast amounts of information to be made available on the internet, and news channels present updates on global developments.

All available information can help a business with its planning ideas. Loyalty schemes, such as Coles' Flybuys and Woolworths' Everyday Rewards, allow retailers to create a profile of

Source 11.4 There are many sources of ideas for business planning.

customers' buying habits: what you buy, when you shop, how much you spend and how you pay. This information allows retailers to identify which items are being bought together, and enables managers to change store layouts to increase sales. However, the information available needs to be evaluated for accuracy and application to the specific business. Not all the information will be appropriate for a particular firm's size or structure or the market area in which it operates.

Source 11.5 Strategic, tactical and operational planning timeframes

Source 11.6 A situational analysis considers matters such as competitors, trends and identity factors.

Situational analysis

An existing business must identify and assess its present situation before it can plan how it will move forward. The business must not only assess its own position but also the present state of the market and its customers. This requires a **situational analysis**, and involves investigation of both the internal and external environments to identify factors that affect the firm directly – those over which it has no control and those it can influence. The analysis will:

- identify factors that limit present operations
- identify the competitive advantage of the business's products over those of its competitors – that is, the firm's special qualities
- assess market share and examine where the business sits among its competitors – for example, whether the business is the market leader
- identify competitors
- identify trends in the market
- assess the effectiveness of marketing strategies, such as the current advertising campaign.

Situational analysis An examination of a business and its internal and external environments to identify factors that affect the firm directly, those over which it has no control and those it can influence or control. It establishes the current position of the business.

There are two main methods of completing a situational analysis: a SWOT (strengths, weaknesses, opportunities, threats) analysis and a market analysis.

Activity 11.1
Discussion

Discuss the relevance of external business environment influences on the possible introduction of a new product – for example, a luxury item when economic factors indicate a downturn in the business cycle, changes in Australian standards that could apply to a new toy, or testing requirements for new medications.

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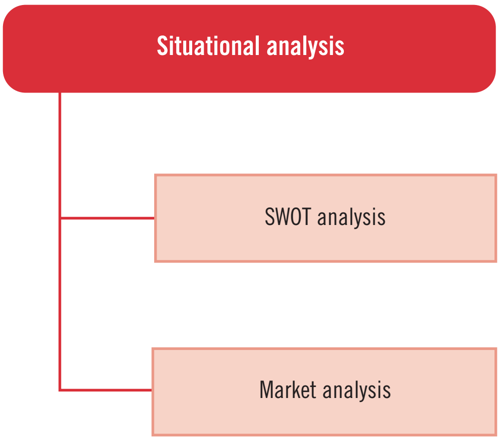

Source 11.7 Main methods of completing a situational analysis

Source 11.8 Components of a SWOT analysis

Internal
Strengths (S)
What the firm does well. Tasks a firm completes better than competitors, giving it a competitive advantage – for example, a good reputation, excellent sales assistance or superior product.
Weaknesses (W)
What the firm does poorly. These areas need to be improved as they may provide competitors with an advantage – for example, inadequate after-sales service or the receptionist having a poor phone technique or inadequate maintenance of floor stock.
External
Opportunities (O)
Changes in the external environment that may present the firm with a benefit or an opportunity for improvement or expansion. Opportunities are factors of which a business should take advantage – for example, a new housing development and a local landscaping business.
Threats (T)
Changes in the external environment that present problems for the firm. For example, if new product safety laws make a firm's stock of finished products unlawful, the products will need to be adjusted before they can be sold. This could cause delays in filling customers' orders and additional costs in manufacture.

SWOT analysis

Video 11.1
SWOT analysis

A SWOT analysis is a type of situational analysis that determines the current position of the business in the marketplace and enables the business to identify both internal and external areas of influence. Management will need to identify as many influencing factors as possible. It will need to analyse these influences on the business and apply this updated knowledge to the business plan. For instance, an identified factor involved in changes in product safety laws could be a threat from the external environment. The strengths of the business cannot be assumed to remain an advantage if competitors are improving their products.

The plan will need to improve on the business's strengths, or at least maintain them; eliminate or minimise its weaknesses; take advantage of opportunities; and minimise the effect of threats to the business. In fact, as an example, the business could turn a threat into an opportunity by being first on the market with an innovative product that complies with new safety laws.

Internal analysis reveals a business's ability to compete in the market. It is concerned with the elements inside the business over which management has direct control. These are its strengths and weaknesses. External analysis looks at outside influences over which the business has no or very limited direct control – these are its opportunities and threats.

The main internal and external influences are shown in Source 11.9.

The SWOT analysis cannot be completed in isolation: in order to identify strengths, it is necessary to compare the firm with its competitors.

Market analysis

Another type of situational analysis is market analysis. Market analysis looks at the market in which the firm already operates or intends to operate. The aim of this analysis is to identify the target market, the needs of the customer and how these needs are currently being met by firms in the market.

Market research involves collecting and interpreting information about the market, enabling the firm to provide the type, quality and

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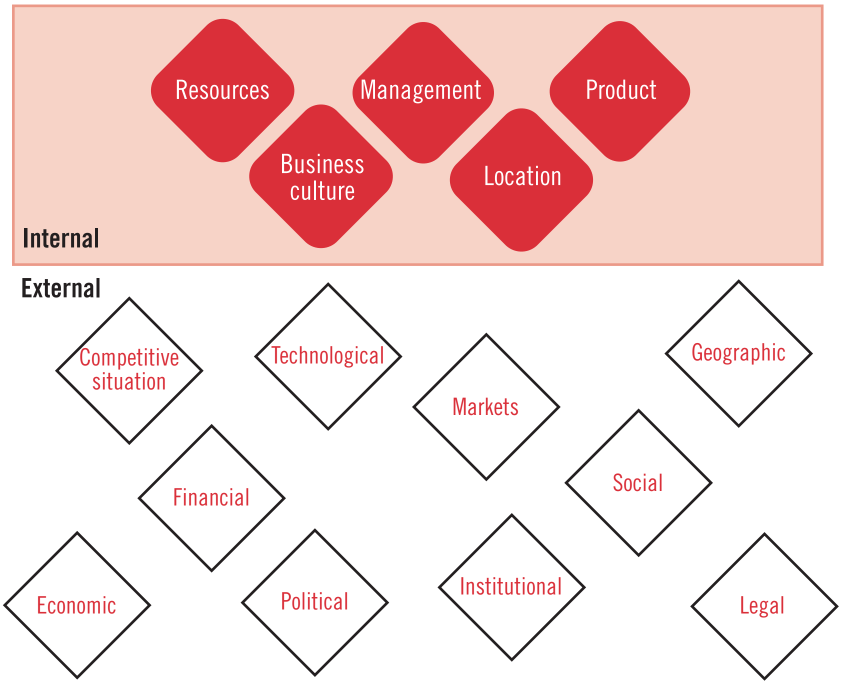
Source 11.9 A SWOT analysis looks at internal and external environment factors that affect the business.



quantity of product that the market demands. It provides information necessary for price determination as well as information about the characteristics of products most in demand, key features that customers look for and the size of the market demand. Market research can also monitor changes that occur in such areas as fashion or social trends, economic conditions, competitors' actions, government policy, technology or international influences. Thus market analysis looks at factors from the external business environment. Armed with this knowledge, the firm can analyse how well it fits into this market.

Digital quiz Please see the Interactive Textbook to access digital activities.

Activity 11.2
Discussion

Julie Coates and Co. produces lightweight raincoats for the Australian market. They used to be generally considered the best quality raincoats in the marketplace because of their light weight and excellent waterproof material. Recent research has verified the reason for falling sales. Consumers do not feel the need to have an older style raincoat anymore and want something that is easy to carry, foldable and more modern in appearance. Julie has decided to change the style of raincoat to a lightweight poncho-coat. This would allow people to protect their backpacks and carry bags. The coat will be easy to fold, take up very little space and come in a small pouch. Julie has developed a fabric that can be folded wet and dries itself. She has also improved the colour range and now includes black for businessmen, red and blue for businesswomen and yellow for children, keeping beige for the older generation. The poncho-coat has an average lifespan of eight years of normal use and will be the first of its type with the newly developed drying feature.

1 Through class discussion, try to identify the strengths, weaknesses, opportunities and threats that could affect this business.
2 Assess the advantages a more detailed SWOT analysis could provide for the business.
3 What is the relationship between the depth of research and planning and the likely success of the business?

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Ethical Spotlight 11.1

Some firms may have produced a product that was within legal requirements at the time of production, but has since proved to be unsafe under specific conditions. The product may be badly affected by weather conditions or used by children or people who do not read all the instructions. Is the manufacturer legally or ethically responsible for the present-day use of its product and for any damage caused?

How do you know the effects of your product in the years ahead? How much testing is considered reasonable? Research products that were originally thought to be excellent but turned out to be a disaster for consumers and the community – for example, asbestos, chlorofluorocarbons, thalidomide, DDT insecticide and Takata air bags.

11.2 Vision, goals and/or objectives

Vision

Vision is what the owners see for their business in the future. It is like looking five to 10 years ahead and seeing their ideal position of the business. It is the overall inspirational and memorable image of what the owners wish their business to achieve and where they desire it to be positioned.

Vision statement A written statement that expresses the inspirational image that the owners desire for the business in the future.

Mission statement Outlines clearly what the main goals of the business are and what it hopes to achieve for its stakeholders.

Vision is often expressed in the form of a written **vision statement**. It is related to strategic planning and where the business wants to be in the future – that is, its desired position in the future. An effective vision statement is about three to four sentences long; it is therefore focused and to the point. It should be easy to understand and should improve stakeholders' understanding of what the owner hopes to achieve. A vision statement provides a clear picture of the business's priorities and purpose, and reflects its values. The main purpose of a vision statement is to inspire its stakeholders.

A **mission statement** outlines clearly what the main goals of the business are – what the business hopes to achieve for its stakeholders. It also identifies how the business will get to what it wants to be, making its purpose and ambition clearer. It is more precise and pragmatic than a vision statement and may refer to the business's bottom line, if aimed at investors.

Source 11.10 A vision for the business looks to the future.

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The main purpose of a mission statement is to provide a framework for all decision-making regarding the firm's future. Employees see that the firm is not only interested in profits but takes all stakeholders into consideration.

Employees may also be members of the local community and society, be consumers and possibly own shares in the business. The mission and vision statements can motivate and assist staff to carry out the business plan in order to achieve the overall goals of the business.

Business Bite

The mission statement of Amazon is 'To be Earth's most customer-centric company, where customers can find and discover anything they might want to buy online, and endeavours to offer its customers the lowest possible prices.'

The vision statement and business idea for IKEA is: 'At IKEA our vision is to create a better everyday life for the many people. Our business idea supports this vision by offering a wide range of well-designed, functional home furnishing products at prices so low that as many people as possible will be able to afford them.'

Activity 11.3
Research

Research four big businesses, such as JetBlue, Nike, Tesla, PayPal, LinkedIn and American Express, to identify their vision and mission statements. Which of these vision statements do you consider would meet the criteria of being short, focused, clearly expressed, easy to understand and something that you would remember?

Business goals and objectives

Once a business has carefully analysed its position in the market through a situational analysis, it should be able to determine what it hopes to achieve in the future and clearly identify its priorities.

Goals are the overall accomplishments that an organisation plans to achieve in the future. The strategic or long-term plan will outline the goals for the whole business.

Goals should be designed as:

S – specific
M – measurable in terms of quality
A – achievable for all workers and owners
R – realistic
T – timely

and preferably:

E – extend the capabilities of all in the business
R – be rewarding for all in the business.

These strategic goals will be set by senior management, and must be consistent with the vision for the business's future.

Often the owner's reasons for going into business are reflected initially in the firm's goals and may include such factors as satisfaction in their work, financial rewards, long-term security of lifestyle and increased self-esteem or self-worth through personal achievement. Most goals can be divided into financial goals, social goals, including environmental goals, and personal goals.

Goals Targets to work towards in the longer term; the overall accomplishments that an organisation plans to achieve. Goals are realistic, achievable and measurable.

Source 11.11 Goal setting should follow a SMART or SMARTER approach.

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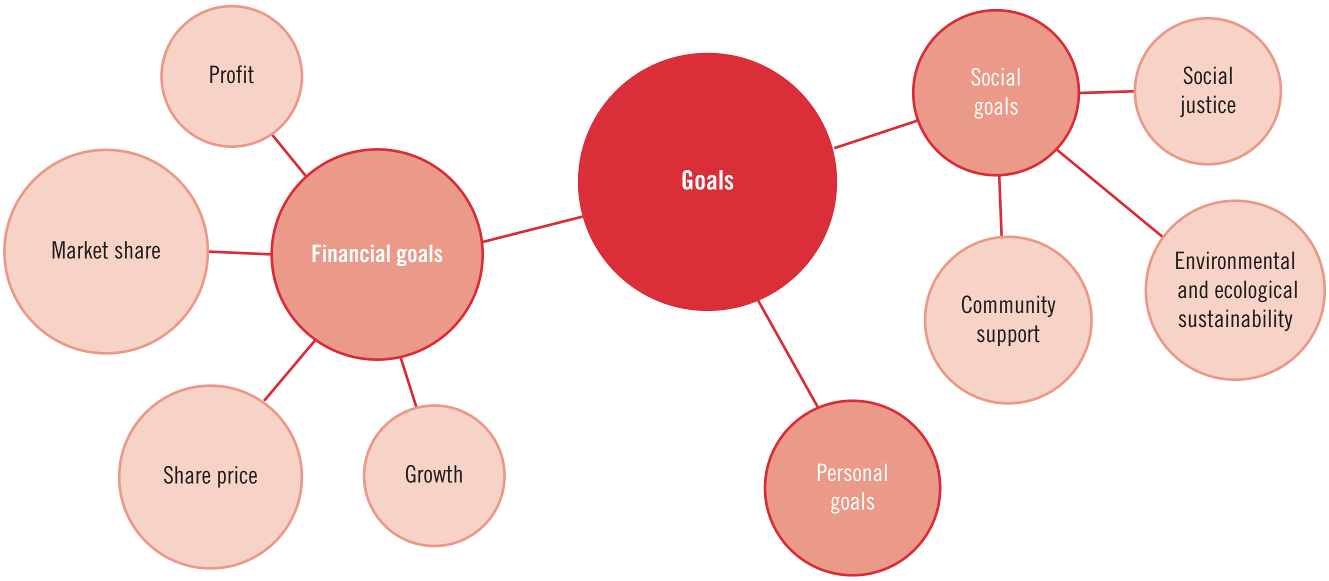

Source 11.12 Types of business goals

Financial goals

Financial goals Goals relating to increasing or gaining maximum wealth for the owners of a business.

Social goals Goals relating to the role of a business in the community in which it operates.

Financial goals relate to increasing or gaining maximum wealth for the owners of a business. They may be based on improvements to profit, market share, growth and share price.

- Profit is the revenue that is left over after all expenses have been paid. The larger the profit, the more successful the business is thought to be.
- The market share of a business is its percentage of the total sales in the market in which it competes. This indicates how it is performing compared to its competitors and the size of the market.
- Growth is related to the expansion of the business. It may include increases in sales, store size, number of outlets, or even the number of products it deals in. The business may have diversified and now deals in several unrelated products or regions.
- Share price refers to the value of a public company's shares on the ASX. The share price is directly related to the total value of the business.

Social goals

Social goals relate to the role of a business in the community in which it operates. Businesses are becoming increasingly aware of their responsibility to society and how community expectations may affect sales. The firm is also an employer and must address issues of social justice, treating people fairly and equally, such as adhering to anti-discrimination legislation. Social goals also include environmental goals of ecologically sustainable production.

Personal goals

The personal goals of the owner will be reflected in the overall goals of the business and its future direction. If the owner's personal goal is business prestige, they will want the business to grow and become financially successful. The owner may also reflect this in community support – for example, sponsoring the local soccer team or buying the season's first box of cherries auctioned for charity.

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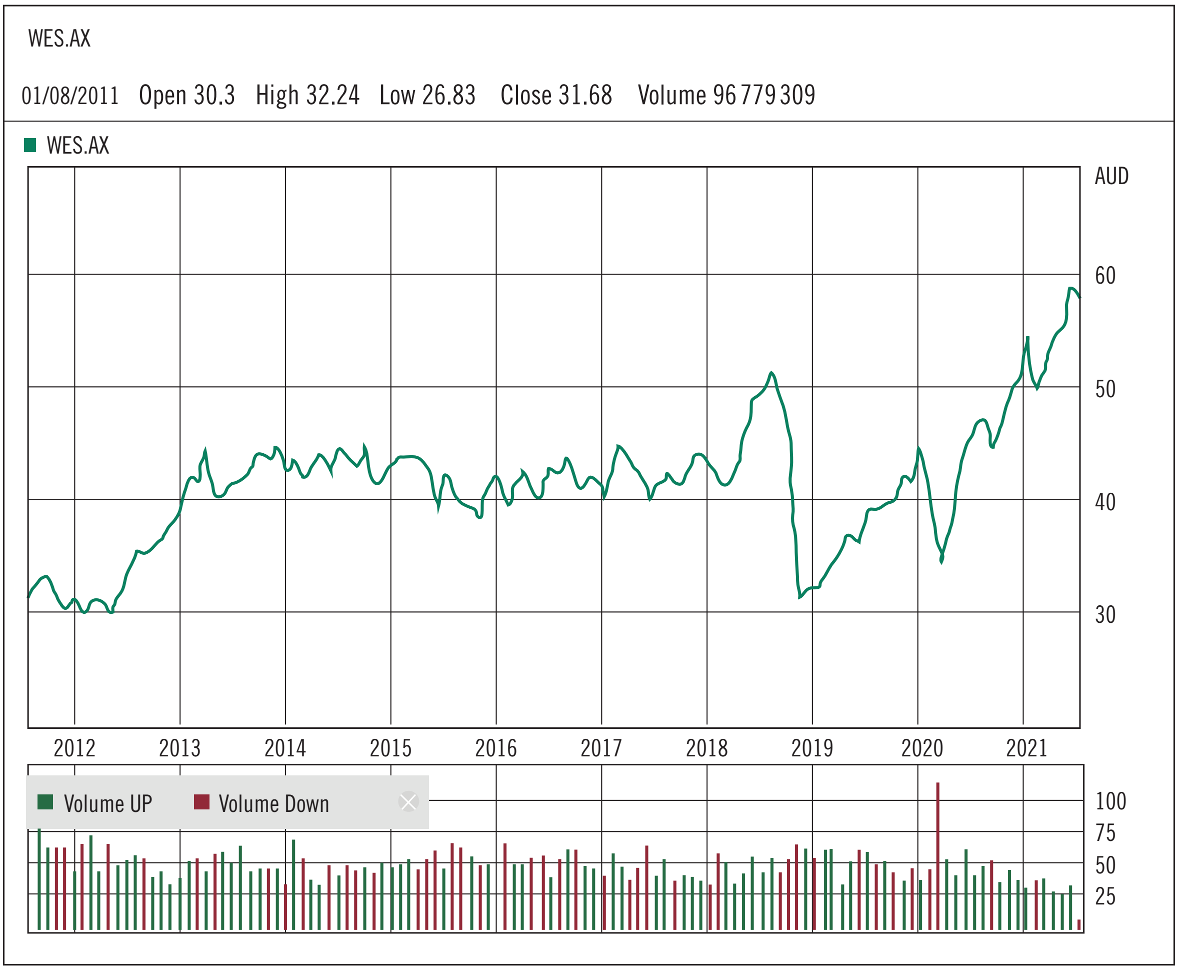

Source 11.13 Financial goal: Share price changes for Wesfarmers

Objectives

A firm's strategic plan sets out how the goals of the firm will be achieved. It will be supported by tactical plans for each function or department and have tactical **objectives** that go towards fulfilling the strategic goals. Objectives are specific results for small steps that you plan to achieve, which are part of the overall plan working towards achieving the business's goals.

A tactic is a small-scale strategy. Tactical plans include specifying responsibilities and time periods for each objective. Thus it will detail which department needs to complete a task and when it should be completed. In this way, goals are broken down into smaller steps called objectives, as shown in Source 11.3 on p.248.

Functional departments will then develop operational plans with far greater detail specific to each individual's job. As an example, strategically a food manufacturing firm may decide to expand its product range by introducing gluten-free food products. Tactical plans would include a promotional campaign developed by the marketing department. This would include advertising on television, in magazines and on billboards to increase awareness of the firm's allergy-awareness alternatives to existing products. The marketing department would then distribute tasks and their operational objectives to particular staff members who set up operational plans to complete them. Staff assigned to billboards would need to find appropriate locations, establish availability, determine costs, develop the billboard design and then produce it.

Objectives A detailed set of targets that a business wants to achieve by a stated time. Objectives can be written for the marketing, human resources, finance and operations departments of a business and are found at the start of the business plan.

Business Bite

The Smith Family

Our Vision – A better future for young Australians in need.

Our belief – Every child deserves a chance.

Our Mission – To create opportunities for young Australians in need by providing long-term support for their participation in education.

Our Values – Respect, Integrity, Collaboration, Innovation and Excellence.

Source 11.14 The Smith Family logo demonstrates the embracing and compassionate nature of the organisation.

Source: The Smith Family.

Long-term growth

The business owner will be the major factor determining the growth and the long-term sustainability of the business. For many owners, the degree of detailed planning for the business's future has a heavy bearing on its survival and success. Many people will measure success by the length of time the operating business exists.

In many cases, planning to cope with threats from the external environment will determine long-term growth. Competition from imported products due to globalisation may present a threat to an Australian manufacturing business. In order to compete, the business may need to improve its productivity and efficiency.

The business needs to utilise the concept of continuous improvement in its methods of operation. This is especially true when a business enters the maturity and post-maturity phases of its life cycle, and when new competition enters the market and prices decrease as a result.

The business may also be affected by the high levels of regulation by all levels of government and the cost in time and money of 'red tape' documentation. This is especially true for small to medium enterprises (SMEs), since the burden of compliance falls on the owner.

Long-term growth plans incorporate the concepts of product innovation and market expansion. Many small businesses focus on the concept of quality to increase customer satisfaction and lower defect rates. Large businesses tend to focus more on financial measures. Quite often, market expansion involves exporting the business's products overseas due to the limited demand of the Australian domestic market. Approximately 25 000 small businesses export, and although this accounts for 41.1 per cent of all businesses exporting goods overseas, this is still only about 0.9 per cent of all exports. Medium firms account for 4.4 per cent of the total value of exports and large businesses account for about 95 per cent of the value of all exports.

SMEs may be able to enter into alliances or long-term contracts with each other or even with large businesses. SMEs often have a great deal of knowledge about changing consumer behaviour and market information that large businesses could utilise. They can use this knowledge to

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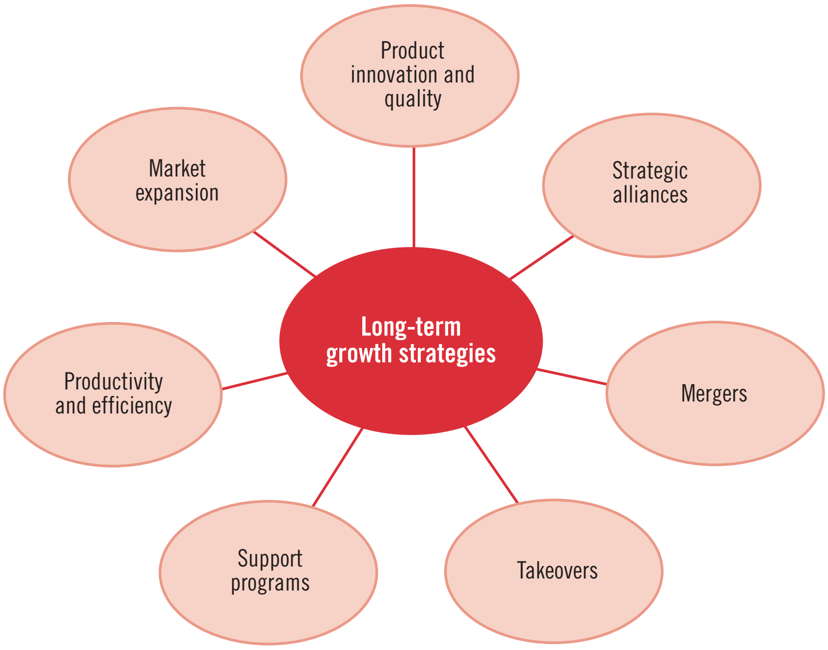
Source 11.15 Possible strategies for long-term growth



expand through the use of licensing, franchises or strategic alliances. As their knowledge and experience of the overseas market improve, they can use their alliance as a starting block for future growth. SMEs can discover new market segments and establish collaborative relationships with other businesses, or even join with their competitors to gain advantages from economies of scale, shared cost of equipment, exchange of knowledge, market research and transport logistics.

SMEs should also take advantage of government and industry support programs. The owner gains more experience the longer they are in business, and in the period leading up to retirement and the sale of the business, financial goals are possibly even more important. The owner will want to improve the performance of the business and increase the value of the business so that it can be sold at the highest possible price.

Source 11.16 Tactical objectives for functional departments

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Business Bite

Qantas has expanded its global network by entering into strategic alliances with Emirates, China Eastern and American Airlines. The commercial 10-year relationship with Emirates allows Qantas to make daily flights from Sydney and Melbourne to London via Dubai. This enables Qantas customers to access over 70 Emirates destinations in the Middle East, Africa and Europe.

Additionally, Qantas sees its partnership with China Eastern as the platform for long-term and sustainable growth into China. The airlines aim to increase flights to Singapore and Hong Kong and enable same-day flight connections across Asia.

In 2018, Qantas completed its first flight from Perth directly to London in 17 hours. Qantas is now working to fly Sydney to London in 21 hours by 2022 and also direct from Sydney to New York in 19 hours.

As a result of the COVID-19 pandemic, Qantas has undergone cost cutting, downsizing of staff and grounding many aircraft. Strategising for the future led to the Great Southern scenic flights. Qantas has also been working with the federal government to bring approximately 1300 Australians stranded overseas back to Darwin, where they will stay for quarantine purposes. Other initiatives include changing flight booking free of charge, introducing the Fly Well program and setting up new routes to Merimbula, Orange and Byron Bay (Ballina).

Activity 11.4
Discussion and analysis

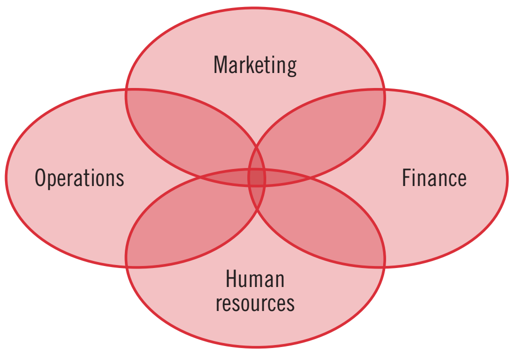
1. As a class, identify and discuss areas of conflict that may occur as a firm tries to achieve its goals in both the short term and the long term. Identify ways by which these conflicts could be overcome.
2. Identify one goal that a business may want to achieve. Copy and complete Source 11.16 (on p.257) to identify tactical objectives that would apply to the marketing, human resources, finance and operations functional departments that work towards achieving your selected goal.

Digital quiz
Please see the Interactive Textbook to access digital activities.

11.3 Organising resources

The business idea has been thought out, research has been undertaken to establish its viability and situational analysis has been completed to identify the internal and external environment influences and establish the current position of the business within its market.

The owner then determines the strategic goals for the business and plans strategies to achieve them. Strategies are the methods that the firm intends to use to achieve success. They can be divided into action plans for each key function of the business.



Source 11.17 Interdependence of the key business functions

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Operations

The operations function involves the actual production of the good or provision of the service, transforming inputs into outputs. The business plan will need to allocate financial resources for operations to take place. The operations function is the prime function of the business and underpins the work of all the other functional departments. In manufacturing, this will involve receiving all inputs (often raw materials) and processing them into a more refined product.

The operations manager (sometimes referred to as the production manager) decides how the business's tactical objectives for operations will be put into practice by developing action plans. These plans outline the most effective and efficient way to complete tasks. The manager will have to work within certain parameters, such as costing, expected quality and available technology. There needs to be a high degree of interdependence between functional departments in order for the business to be successful. If the marketing department cannot identify the product characteristics demanded by the consumer market, the operations department will find it difficult to meet market expectations.

For operations, purchasing will negotiate with reliable suppliers to provide the most appropriate materials needed for production at the best price. It will need to know how far ahead orders have to be made, the quantities in which they are required, the transport facilities available and the expected delivery times. As many inputs are imported from overseas, it is important to know the **lead time** involved for each supplier. The lead time is the time it takes for a supplier to provide their customer with the goods ordered – that is, the time between the order being received by the supplier and the delivery of the goods to the purchaser.

Lead time The time it takes for a supplier to provide its customer with the goods ordered – that is, the time between the supplier's receipt of a request for goods and the delivery of those goods to the purchaser.

Supply chain A firm's purchasing system.

It is vital that the purchasing system used by the firm – its **supply chain** – is well organised and reliable, and that there is full awareness of the firm's needs. The shorter the lead time, the more flexible purchasing becomes, which allows greater flexibility in production as it enables the business to vary its order more quickly and respond to changing levels of demand.

Source 11.18 An effective supply chain is essential in running a timely business.

Positioning The image of the level of quality of a product in the mind of the consumer compared with alternative products offered by the firm's competitors.

Brand A name, design or symbol that distinguishes a particular product from the product of another business.

Packaging Provides protection for a product and attracts interest in the product.

More recently, firms have tried to rationalise (reduce) the number of suppliers from which they buy, and to enter into longer-term contracts in order to tie up their suppliers. This may result in a better relationship that can benefit both businesses in various ways, such as improved trade credit terms, possible cost reductions due to bulk purchasing, reliability of supply and payments, and increased quality of service. Businesses will try to gain real value for their money.

The main objective of purchasing is to get the right resources (inputs) available in the right place and at the right time for the operational plan to be effective. This will allow the business to achieve its short-term objectives, such as reaching a particular production target or reducing operational expenses, and to move towards the goals set out in the strategic plan, such as to achieve a certain level of profit within a specified period of time.

Marketing

Marketing is a system of business activities to develop a product that suits the tastes and preferences of consumers. The aim of marketing is to satisfy the needs and wants of the consumer at a price that provides an acceptable level of profit for the business. Marketing itself does not earn revenue; it works towards the sale of the prime function. Thus there needs to be a marketing budget. Funds used by marketing will need to result in a substantial increase in sales to justify spending. Many firms outsource aspects of marketing to specialist businesses in order to obtain the best value-for-money result.

Marketing uses the resources available to complete research to identify its target market, changes in laws and government regulations, consumer buying patterns and competitors in the marketplace. This information is then used to plan product improvements that will better satisfy the market. Marketing also works to improve the packaging, establish the position of the product in the market and develop an overall product concept.

Positioning, **brand** and **packaging** will further differentiate the firm's product from others in the marketplace. The concept of the total product must be tied together with the other elements of the marketing mix – that is, price, promotion and place. Marketing must work within the parameters set by the other functional departments within the business. It is possible that research has identified what customers want; however, the firm may not have either the technology to produce it or the finance available to acquire the new technology.

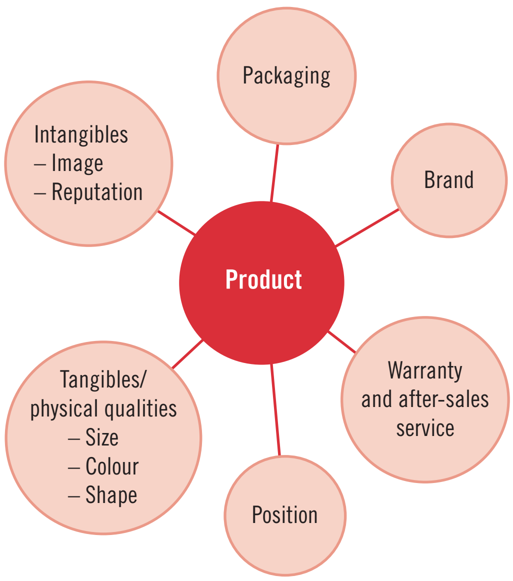
The firm will need to make sure that it can set a price high enough and sell enough of the product to cover all costs and still make a reasonable profit.

Finally, marketing is involved in how goods will be distributed to the market. Marketing may set up its own distribution channel directly to the consumer or go through wholesalers and retail businesses. It may choose:

- *intensive distribution* methods, where the product is available through many outlets – for example, Coca-Cola
- *selective distribution* methods, where the product is available through approved retailers – for example, Nike sports shoes
- *exclusive distribution* methods, where there is possibly only one distributor permitted to sell the item – for example, Ferrari.

For each firm's product, the methods need to be consistent – for example, superior product,

Source 11.19 Elements of product



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high price, only available through exclusive dealers and advertised to a select group of consumers. Budget constraints within the firm will place limitations on the marketing process, even for costs of outsourcing parts of the process. Marketing will want to eliminate waste and use the most efficient and effective methods available.

Finance

Every business needs to source funds to begin and maintain operations. Once acquired, financial resources need to be made available to departments when required according to the strategies set out in the business plan to work towards the business's goals. Every business needs to maintain cash flow, the main source of liquidity, to meet all of its short-term obligations. Detailed records must be kept of all transactions going in and out of the business, as well as future obligations and income. **Finance** is the service that allows all of these procedures to happen accurately and smoothly.

Maintaining financial records is a legal requirement as well as being crucial for determining whether the business is achieving its goals. Business owners must understand and analyse this information. **Accounting**, or the collection and analysis of financial information, is a key strategy for achieving this goal.

The business uses this information to determine its profitability, efficiency and managerial effectiveness. It is also used to set prices and prepare and negotiate estimates, tenders or quotes.

While these processes are an information resource for those within a business, external stakeholders rely on **financial accounting** to gain information about the business. Information such as whether the business can repay its loans or the level of its tax liability can be crucial for making investment decisions.

Without financial resources, the business plan could not be carried out. Finance allows inputs (or resources) to be acquired; allows inputs to be transformed, via the production process, into outputs; and finally, makes the finished products available to the consumer.

A business's finance department plays a very important role as a support service for the business right through the business's life cycle. In some SMEs, owners themselves perform the finance function.

As outlined in Chapter 10, the business sources its finance through equity and/or debt finance. The finance department should consider what the finance is for, the amount required and the repayment period when determining the appropriate terms of finance.

Equity

In exchange for finance, the business must provide some investor returns. In return for **equity finance**, the investor will gain equity (ownership) in the business.

A sole trader's potential for growth is often restricted by their limited ability to obtain finance. In the case of partnerships, a new partner can provide additional capital. However, this will cost each existing partner part of their ownership in the business as the ownership is now divided between more partners.

If equity finance is not available from these sources and the business has decided to change its legal structure from a sole trader or partnership to become incorporated, then it may seek external equity funds. There are a number of external sources of equity, such as private equity when becoming a private company or inviting the general public to purchase shares in the business as a public company. Expanding the number of shares in the business through a share option or rights issue is another way to acquire additional funds.

Venture capital may also be used. This is capital that is acquired from a specialist venture finance business. It is a form of private equity provided in exchange for part ownership of the business. The venture company seeks to be a partner or shareholder. Some commercial banks and investment banks deal in venture

Finance The process of providing and managing the funds that are needed so that goods can be produced and services provided.

Accounting The process of collecting and analysing the financial information of a business and then communicating the financial results to relevant stakeholders.

Financial accounting Produces financial statements about the overall financial position of a business.

Equity finance Internal sources of finance – that is, finance provided by the owners, who can give the business start-up capital or can contribute cash by buying shares. It also refers to any net profit reinvested in the business.

Venture capital Capital acquired from a specialist venture financial institution that seeks to become a part-owner (shareholder or partner) in the business.

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capital. Generally, this form of finance is used for activities considered to be especially risky – for example, Ola (ride sharing), Deputy (software) and Clinical Genomics (cancer diagnosis).

Debt

In the case of **debt finance** (borrowed funds) from either a financial institution or other businesses, the debt financing contractual agreement will specify the terms of the loan, including the principal to be repaid (that is, the initial amount borrowed), the interest rate and the period of time allowed for repayment. Administration fees and government charges, such as stamp duty, are also payable. In comparison with equity finance, debt financing places a greater strain on the business's income due to the interest repayments. For this reason, taking on a high level of debt finance can be a high financial risk.

Debt finance Funds borrowed from a bank, an investor or another firm. It involves a contractual agreement that specifies the need to repay the principal as well as interest, and states the set period of time over which the debt must be repaid.

Debt finance is categorised according to the length of time over which the money is to be repaid: short term or long term. Businesses need to be fully aware of the conditions of each of these forms of finance in order to use the one that is most appropriate for their current and future needs. They must be able to match the use of the asset to be purchased, its expected return and its productive life expectancy with the funding available. A business that uses a high level of debt finance and a low level of equity finance may be considered a high financial risk.

Business Bite

Aaron Fishman began a cashew-processing plant in Bali in 2012. By 2019, East Bali Cashews employed more than 700 people. Many of these jobs are held by previously unemployed women who can now support their families and improve their education and skills. The company has grown from local produce to exporting to 20 countries worldwide.

Initial funding was raised from friends, family and credit card debt. Aaron planned a business model based on local produce, with assistance through advice and investment from KKR, a global investment firm. KKR helped Aaron raise funds for an early learning centre, which opened in 2014, for 60 of his employees' children with seven full-time teachers. The funds were also used for the building of a second factory, the purchase of 16 machines and tripling the size of the warehouse.

In 2015, the company set up the Cashew Family Foundation for educational and farming programs for local farmers. By 2019, the firm was sourcing ingredients from over 2000 smallholder farmers.

Source 11.20 Aaron Fishman, founder of East Bali Cashews

Continued →

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Additionally, the firm:

- eliminates waste by using the leftover cashew shells to power the furnace and produce biochar (a type of charcoal) which can be used as a fertiliser on the cashew trees and rosella plantations
- welcomes tour groups of students from around the world; any money made from this activity goes into its educational programs for farmers
- introduced a cashew seeding program to replace Bali's many old and dying trees
- researched the rosella flower as another cash crop for local farmers
- set up a factory store selling subsidised food to employees' families
- entered into partnerships with Japan Airlines and Starbucks.

Human resources

The human resources department can be defined as the function that deals specifically with the relationships between the employer and the employees of the business.

As technology, machinery and raw materials are available to businesses worldwide, it may be the staff of a business that provide it with its competitive advantage. The service, skills, talents and expertise of the business's workforce can provide the firm with its most valuable asset.

It is the job of human resources to acquire the labour resources needed for the whole business to achieve its goals. The human resource department will have a budget to work with. It will need to liaise with each department to meet the needs of the business.

Human resources undertakes the recruitment and selection of people with specific skills needed by other departments. It provides the framework for ongoing development of the employees' knowledge and capabilities through training and other methods. By analysing the existing workforce, human resources can facilitate promotion of ideal candidates.

The human resource department must also maintain staff and ensure that they receive the correct remuneration for their work. In order to encourage increased productivity, monetary rewards such as increased wages or bonuses and non-monetary methods will be used to motivate employees. This department must also facilitate the separation process when staff leave the business. All of this must be costed and kept within the department's budget allocation.

Human resource managers are also called personnel, staffing or employment relations managers. These managers are becoming increasingly aware that employees' satisfaction with their employment reflects on the productivity and efficiency within a business. Satisfaction increases substantially when employees are given responsibility for making decisions that affect the manner in which they do their jobs. Many businesses now try to identify the level of engagement of their staff. For example, in 2019 Domino's Australia improved its staff engagement from 6.2 to 7 per cent higher than the global average of 7.0.

In the past, the people who worked in the human resource management (HRM) department of a business were seen as not adding value to the product or to the business's profitability, and were often the first to be retrenched when cost-cutting took place. Today, however, the value of a high-quality HRM system is seen as a major component of a business's success. As a response to the growing importance placed on staff, the government has passed many laws covering human resource issues, including equal employment opportunity, anti-discrimination and work health and safety (WHS) legislation. Businesses must comply with these laws.

Digital quiz
Please see the Interactive Textbook to access digital activities.

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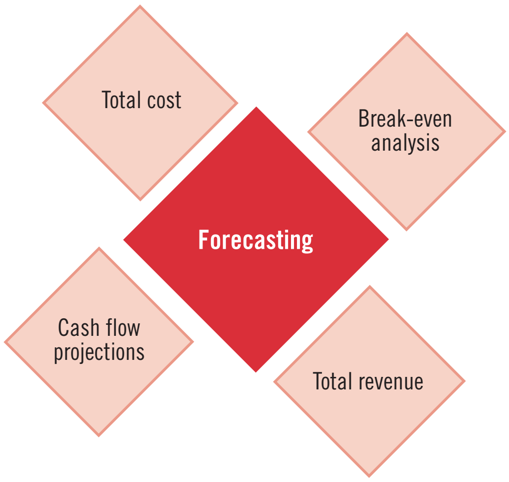
11.4 Forecasting

Forecasting means trying to predict what will happen in the future to facilitate effective forward planning. This involves giving values or financial projections for sales, output, expenses, quantity and/or quality of resources, growth or market share. Forecasting tools include **break-even analysis** and cash flow projections.

Forecasting Trying to predict what will happen in the future.

Break-even analysis A financial planning tool that can be used to forecast how much of a product has to be produced and sold in order to cover costs and start to make a profit.



Source 11.21 Examples of the principal tools that businesses use in forecasting

Total revenue

Whatever the forecasting tool used, the basic requirement for the business is to gain a clear idea and an accurate estimate of what its total revenue and total costs will be in the operational period. This will provide the business with a guide to its expected profit levels. This will have a large bearing on the possibility of gaining further equity and debt funding to continue its growth in the future.

Total revenue is the sum of all monies received by the business – for example, from sales, fees and interest earned. For sales, it is calculated as:

Total revenue (TR) = price per unit (P) × number of units sold (Q)

Total cost

Total cost includes all the costs incurred in the operation of the business. This would include inventory, wages, utilities, freight, rent and interest paid on loans. Total costs can be divided into fixed costs and variable costs. The fixed costs do not vary with output. They remain the same each month – for example, rent paid on a monthly basis. Variable costs are costs that vary directly with the level of output. For example, the amount of flour increases as you increase the number of cakes you bake.

Total costs = fixed costs + variable costs

The revenue remaining after all costs have been met is the business's profit.

Profit = total revenue – total cost

This will also allow the business to evaluate whether or not a project is viable.

Break-even analysis

A break-even analysis is a financial planning tool that can be used to forecast the number of items to be produced and sold in order to cover costs. The break-even point is where total revenue equals total costs. Sometimes this analysis is referred to as a cost–volume–profit analysis. This analysis helps determine how much profit or loss may be made at different levels of sales. This may show a firm's owners that they cannot make enough profit from a venture and would be better off investing their money elsewhere. Alternatively, it may show them that they need to borrow a large sum of money to set up the business and that it would therefore be unprofitable.

This analysis provides a rough guide for the business, as it is based on assumptions about the business environment. If one of the assumptions (often based on expectations of current prices projected into the future) is incorrect, the whole analysis falls apart and needs to be redone.

A break-even analysis can be completed for a newly establishing business or an existing business that wants to introduce an additional product. The break-even point occurs when total revenue equals total costs. If total revenue is greater than total costs, the business will make a profit. However, if total revenue is less than total costs, the business will make a loss.

The break-even point can be determined using the following formula:

$$\text{Break-even point} = \frac{\text{total fixed costs}}{\text{unit price} - \text{variable cost per unit}}$$

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Refer to the example below of a break-even analysis for Gifts-For-Her.

Break-even point

$$= \frac{\text{total fixed costs}}{\text{unit price} - \text{variable cost per unit}}$$

$$= \frac{500}{5 - 2.50}$$

= 200 units (see Source 11.22)

This means that Gifts-For-Her would have to sell 200 vanilla-scented candles to break even – that is, to make enough money to cover its costs. At the break-even point, no profit is made.

The information tabled in Source 11.22 can also be shown as a graph (see Source 11.23 on the next page). From the graph, you can see that if the firm sells the vanilla-scented candles at $5 each, at the break-even point the total revenue and total cost will be as follows:

Total revenue = number of units sold × price per unit
= 200 × $5
= $1000
Total cost = total fixed costs + (variable cost × number of units sold)
= $500 + ($2.50 × 200)
= $500 + $500
= $1000

Note that at the break-even point:

Total revenue = Total costs
Sales × unit price = Total fixed costs + total variable costs

(where total variable costs = variable cost × number of units)
This calculation can be done as a check that the previous calculations are correct:

200 × $5 = $500 + ($2.50 × 200)
$1000 = $500 + $500
$1000 = $1000

Example of break-even analysis

Gifts-For-Her wishes to sell vanilla-scented candles at $5 each. Management has completed a break-even analysis based on the following information (see Sources 11.22 and 11.23):

- variable cost: $2.50 per unit
- fixed costs: $500.

Source 11.22 Break-even analysis schedule

Sales volume (units)	Total fixed costs ($)	Total variable costs ($)	Total cost ($)	Sales revenue ($)	Profit/loss ($)
0	500	0	500	0	–500
100	500	250	750	500	–250
200	500	500	1000	1000	0
300	500	750	1250	1500	250
400	500	1000	1500	2000	500

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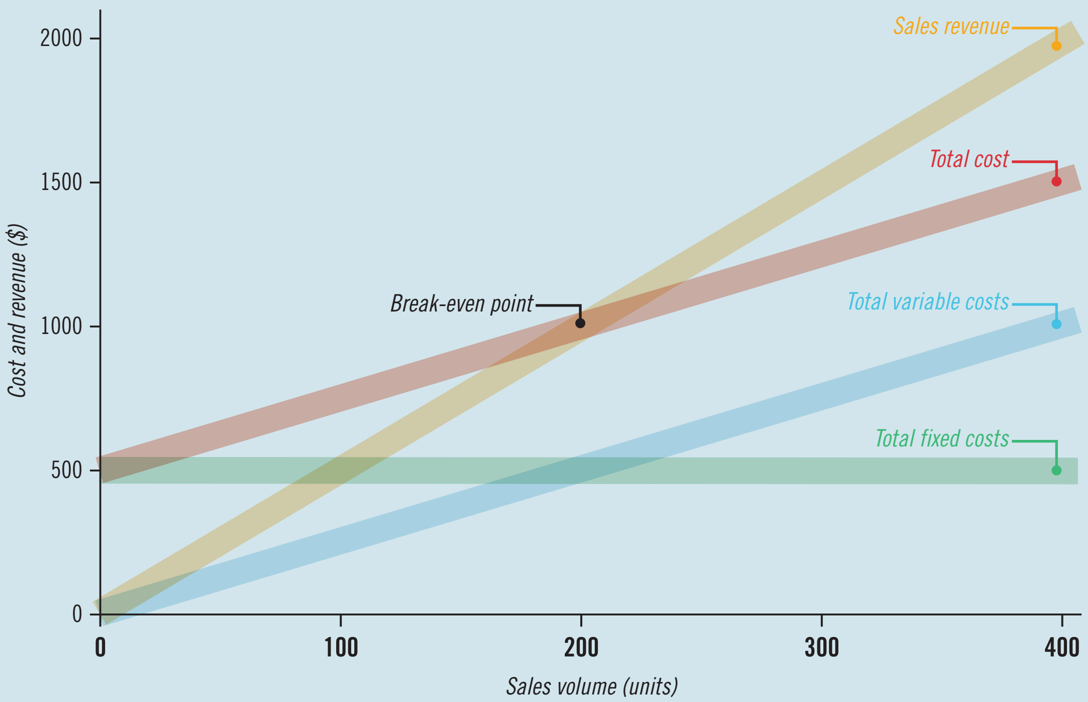
Source 11.23 Break-even analysis in graphical presentation



Cash flow projections

Cash flow projections involve predicting future cash inflows and outflows for the business. Forecasts need to be made to show how much money is needed by the business, when it will be needed and where it will come from. These cash flow projections should reflect timeframes, such as monthly, quarterly or even yearly time periods. The projections should show the changes in the business's bank balance and therefore the cash available for the business to continue its operations.

These projections should also highlight periods of cash shortage or surplus, providing financial management with time to organise additional funding if necessary, and to establish strategies to better manage their liquidity. This could include spreading one major payment over smaller more frequent payments – for example, monthly insurance payments instead of one annual payment.

Digital quiz
Please see the Interactive Textbook to access digital activities.

It is crucial that the firm uses realistic sales and revenue forecast figures, with reasonable projected growth rates for a fully researched target market. Historical records of past performance will provide a guide for forecasting. For a new business, forecasting is more difficult and carries a greater risk. Production figures need to be capable of meeting the sales and revenue forecasts. If it looks as though production cannot keep up with sales, the analysis is flawed and needs to be redone.

In addition to sales and revenue forecasts and cash flow projections, forecasting should include cost forecasts (also called budgets), profit forecasts and projected balance sheets. In forecasting, the business should not be too optimistic in estimating future sales or try to use the lowest estimates of future costs. More detailed plans with realistic estimates based on differing circumstances could provide several projections.

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Source 11.24 Cash flow projections can help a company to manage its finances.

Activity 11.5
Consolidation

1. Product A sells for $10 per unit, with total variable costs of $4 per unit and fixed costs of $3000.
   a. Calculate the gross profit or loss made if 600 units of product A are sold.
   b. Calculate the number of products sold at break-even point.
   c. Calculate the new break-even point if total fixed costs increase to $4000.
2. Product B sells for $8 per unit, with total variable cost of $4 per unit and total fixed costs of $800.
   a. Construct the break-even analysis schedule/table for product B. In the table, use increments of 50 units – that is, 50, 100, 150, 200, 250 and 300 units.
   b. Present the table in graphical form.
   c. Using the graph, determine the break-even point.
   d. Calculate the gross profit or loss at 100, 200 and 300 units of sale.

11.5 Monitoring and evaluations

A written business plan will include a system of **monitoring** the firm's progress on the path set out in the strategic plan. Monitoring is the supervision of the work as it progresses to ensure that it is on target and on schedule to meet the milestones and achieve the strategic goals of the business. Action planning lays out the series of steps that need to be undertaken for the strategy to be successful. Each of these steps or tactics will have objectives of its own that need to be achieved.

Monitoring Checking and recording the performance of a business.

Action planning will specify who is responsible for a particular activity and when it needs to be done, and identify the resources available. Thus, monitoring will involve knowing what has been done by particular people and when it was completed.

Sales reports Reports that provide statistical and financial information to managers to allow monitoring of total sales, individual items sold, productivity of sales representatives and online sales methods.

Without monitoring, a firm would not be able to function properly, as employees would go about their jobs in their own way, causing fragmentation in the organisation and making management coordination impossible. The firm needs to evaluate its progress by comparing actual performance with planned performance, and to make judgements about its level of success.

Evaluation involves analysing the activities undertaken that determine the effectiveness and efficiency of management. The evaluation of an action plan will highlight the need for any corrective action necessary, to ensure the firm is on the path to achieving its goals. The plan may need to be altered or the goals re-evaluated due to changes in the business environment.

A business monitors and evaluates sales, budgets and profits.

Sales

Sales refer to the revenue earned by a business. This may include goods sold or services performed, and provides the cash inflow that allows the firm to meet its expenses; it therefore is one of the chief determinants of the profit achieved.

Sales reports provide managers with statistical and financial information to allow them to monitor total sales (cash and credit sales), individual items sold and the productivity of sales representatives as well as online sales methods. Planning will have been based on certain levels of anticipated sales and so monitored results are compared regularly with forecast or budgeted figures. This helps managers to identify areas where sales may not be reaching targets and provide reasons for this shortfall, such as poor sales figures for unproductive representatives. Managers can then correct the process to eliminate the problems. It could be as simple as increased advertising of the product in a particular geographic area to boost awareness and sales.

Budgets

Budgets usually are included in strategic, tactical and operational plans. Budgets can be used to work out the finance needed/available for the resources required to implement the

Source 11.25 Sales can generate significant revenue, enabling the business to invest in new equipment or systems.

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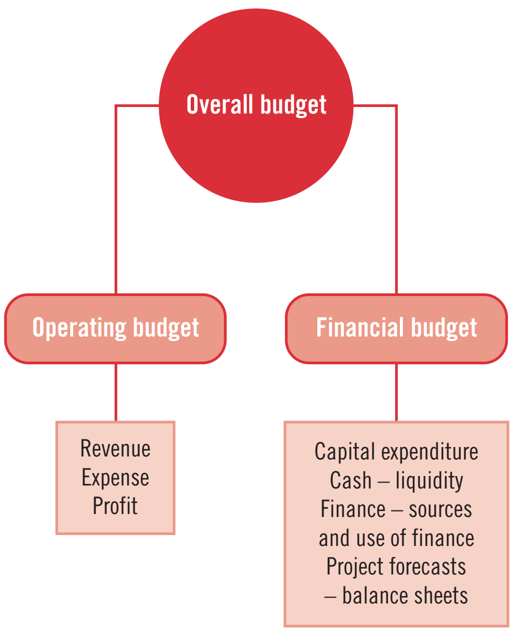
plans. Budgets also specify how the money will be allocated and could refer to staff, equipment or materials.

Budgets can also be set up for different time allocations or be based on particular units of output. In all cases, they are estimates for the future time period involved. There are many different kinds of budgets, including:

- operating budget – to forecast a firm's output throughout the year
- capital investment budget – for long-term investment such as the purchase and operation of a major non-current asset, such as computer technology
- project budget – for the development of a new product
- cash flow budget – for cash (revenue) inflow and cost (expenditure) outflow projections for a specific period of time
- sales budget – to give projections of expected future sales revenue over a specific period of time
- marketing, operations, human resource and finance budgets.

Budgets are the crucial tools referred to in monitoring and control processes as managers compare what actually happened with what was budgeted. To be of the greatest benefit, a budget must be as accurate a forecast as possible. Accuracy will depend on the quality of the research undertaken, historical analysis and the volatility of the conditions in the external environment. A business needs to be able to adapt in response to an increasingly changing environment, especially regarding changes in economic conditions and consumer trends.



Source 11.26 The various types of budgets that need to be monitored in a large organisation

Profit

Financial goals are identified in the strategic plan, and need to be monitored continuously throughout the financial period. These are long-term goals, and profits may suffer in the short term due to increased costs of an expansion strategy. Profits are calculated as a result of forecast sales and costs. Break-even analysis provides important information to the owner and can determine how much they have to produce and sell to achieve the desired level of profit. Market research can determine whether this financial goal is achievable.

There are various methods to assess profitability. Owners are interested in the return they will receive from their investment in the business. Methods to assess profitability may include calculations for gross profit, net profit and return on equity:

$$\text{gross profit} = \text{sales} - \text{cost of goods sold}$$

$$\text{net profit} = \text{gross profit} - \text{all other expenses}$$

$$\text{return on equity} = \frac{\text{net profit}}{\text{total equity}} \times 100$$

Businesses can put several cost-control measures in place that effectively increase profit levels, such as:

- minimising costs – for example, outsourcing non-core functions to more efficient suppliers to reduce costs
- negotiating discounts with suppliers
- rationalising suppliers – that is, reducing the number of suppliers they deal with in return for a better deal
- changing to a cheaper supplier
- sharing resources with other businesses, such as a strategic alliance
- using just-in-time inventory control
- shedding staff and introducing minimal staffed facilities – for example, an ATM or self-service kiosk
- eliminating processes that do not add value to the product.

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Evaluation

Evaluate To make a judgement about performance.

Budgets used for planning are also used to **evaluate** the performance of the business. By comparing actual results with planned amounts, the business can identify variations and investigate why they have occurred. Budgets can also set the limits for spending, effectively making management decrease wasteful spending. They can be used to check whether managers stay within their budgets. Improved controls to minimise expenses may be needed, or possibly not enough finance was allocated originally for the task.

Alternatively, increased sales may lead to increased profit levels. Careful monitoring of the results of promotions, and their effect on the sales of products, can identify poor-selling products that need to be eliminated from the product range. Cutting costs in this way makes the expenditure that was originally used to produce these products available for other business activities.

Digital quiz Please see the Interactive Textbook to access digital activities.

Prices also have a large impact on profit levels. If profit margins are small, the firm needs to sell a far greater amount of the product to make reasonable net profits. A cost-based pricing method where the price is based on the original buying cost plus a mark-up is easier to put in place. If the firm knows exactly what it pays for the goods, it can simply add a 20 per cent (or more) margin onto the cost to determine the selling price. Discount-price sales may result in a greater number sold but may not necessarily increase the total revenue raised.

11.6 Taking corrective action

Monitoring the progress of a task and the evaluation of the data collected by comparing it to the original plan should identify the issues that have occurred. Corrective action may be required to ensure that the problem is eliminated and will not recur.

Most often, plans such as budgets have a built-in degree of flexibility – for example, allowing for 3–4 per cent inflation in price. Budgets are also used for planning production output, the sales force required, time constraints and costs. Small deviations from what was expected and planned for in the budget can be adjusted by supervisors or lower-level managers on the factory floor. Staff rosters may be changed if part of a process is taking longer than originally expected.

Large variations need to be addressed by middle management. If bread rolls supplied by a bakery to a major hamburger chain are often larger than requested, managers will address this by dealing directly with the baker who

Source 11.27 Plans need to be monitored carefully so corrective action can be taken if necessary.

supplies the rolls. Larger variation will be dealt with by senior management and may become part of the marketing process. For example, if the bread rolls have a high sugar or fat content, this may be inconsistent with the hamburger chain's new marketing campaign promoting healthy food. Corrective actions made to the process or supplies will need to be monitored as management cannot assume that the requested adjustment will resolve the problem.

Corrective action may involve:

- adjustments to the plan itself
- providing staff with additional training – such as in instances of poor sales service or stock knowledge
- tightening the firm's credit policy – to control slow-paying credit accounts (accounts receivable)
- finding other suppliers – in response to inconsistent quality of inputs
- improving inventory control – to eliminate damaged or expired stock
- decreasing expenditure in response to going over budget – that is, spending more than the allocated amount.

All planning procedures are based on assumptions; as the environmental conditions change, so do the assumptions. Thus the plan is constantly adjusted and updated, and forms the basis for controlling and taking corrective action.

Ethical Spotlight 11.2

Do the clear communication of business goals and increased emphasis on reporting and budgets put unfair pressure on managers and staff to constantly improve and achieve the 'right' results? Can one goal be more important than another goal? Can goals conflict with each other? Which group of stakeholders is more important: shareholders, customers or employees?

Digital quiz
Please see the Interactive Textbook to access digital activities.

Activity 11.6
Analysis

Select a business that you frequent, such as indoor rock climbing, laser-tag, water park, go-carts or amusement park. With regard to this business, complete the following tasks:

1. Identify factors that may have influenced its location.
2. The business may have been there for a long time and the locational factors may have changed. Establish its current position by completing a SWOT analysis.
3. Identify its prime function.
4. Identify its competitive advantage.
5. Identify its position in the business life cycle.
6. Suggest what areas of external influence directly affect this business, such as its opening hours.
7. Identify the business's target market.
8. Based on this business's behaviour, can you propose any financial, social or personal goals that it could have?
9. Can you identify any 'control' procedures the business has in place?
10. Can you propose any changes that would improve this business's performance?

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Chapter summary

Planning ideas come from both the internal and external business environments.

A situational analysis assesses a business's current position, the present state of the market and the firm's target market.

A SWOT analysis is one type of situational analysis whereby the business analyses areas of influence from both the internal and external environments. It identifies strengths and weaknesses (internal to the business) as well as opportunities and threats (external to the business).

Market analysis – also a type of situational analysis – aims to identify the needs of the customer from internal and external areas of influence.

The key areas of internal influence are products, location, resources, management and business culture. The key areas of external influence include economic, financial, geographic, social, legal, political, institutional, technological, competitive situation and markets.

External influences are outside the control of the business.

A business's vision statement expresses the desired image and values of the business and the direction in which it wants to head. It enables the owners to visualise an ideal position for the business in the future.

A mission statement outlines the goals of the business and what it hopes to achieve for its stakeholders. It sets out how the business plans to achieve its goals.

Strategic goals are the overall, long-term accomplishments that an organisation plans to achieve. They can be financial, social or personal. Goals should be SMART(ER).

Objectives are specific results for small steps that the business plans to achieve and are a part of the overall plan working towards achieving the business's goals.

Most businesses plan for long-term growth. These plans often involve achieving growth through innovation of existing products, new products and exports to gain a larger market.

The business plan includes strategies to achieve the business goals. It must organise resources for each functional department. These include operations, marketing, human resources and finance, all of which are interdependent and rely on each other for the success of the business. These departments develop tactical plans, which include objectives they aim to achieve.

Strategic plans require resources to be allocated to departments to complete their tactical plans and work towards the business's overall goals.

Forecasting tools include break-even analysis and cash flow projections.

A break-even analysis helps a firm to determine the relationship between the product's costs, sales and profit. It also involves calculating the product's revenue and cost of production. It allows a firm to determine its break-even point.

Monitoring tools include checking or continuous recording of a business's progress to ensure that it is meeting performance targets. This includes monitoring sales, budgeted performance and the level of profit for each product.

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Budgets represent what the business aims to achieve in specific time periods. They list the amount that can be spent on each business task and activity.

Profits may be increased by decreasing costs, increasing price and increasing sales.

Evaluation of monitoring data may result in corrective action to change the way a business operates or change the business plan itself.

End-of-chapter tasks

Chapter revision tasks

1 What is the purpose of a situational analysis?

2 The key areas of external influence for a business may include:

- economic
- financial
- geographic
- legal
- social
- technological.

Match each of the following events with the appropriate area of external influence:

A decreased company taxation rates
B Reserve Bank decreases interest rates
C government policy of decreasing inflation
D population shift from southern Australia to northern Australia
E increase in the school-leaving age
F new workplace safety laws
G new laws on the disposal of toxic waste
H new micro technology
I introduction of online shopping
J move towards a cashless society
K increased demand for recycled products.

Multiple-choice questions

1 In a SWOT analysis, which of the following would be a weakness in a business?

A Weak economic growth
B An increase in interest rates
C An increase in fringe benefits tax
D A high level of workplace disputes

2 The federal government has simplified regulations on the business sector to encourage competition in the business environment in Australia. Which of the following would result from increased competition?

A Decrease in consumer choice and lower goods and services tax (GST)
B Higher prices and higher GST
C Higher prices and increased consumer choice
D Lower prices and increased consumer choice

3 What type of medium-term objectives are set by middle management?

A Strategic goals
B Strategic objectives
C Tactical objectives
D Operational objectives

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4 Which of the following is a written statement that expresses what the business hopes to achieve for its stakeholders?

A Mission statement
B Vision statement
C SWOT analysis
D Prime function

5 If a business breaks even, which of the following statements is correct?

A Total fixed cost equals total variable costs
B Total revenue is equal to price
C Total costs equal total revenue
D Total units sold equal the total number of units produced

6 Changing WHS regulations are classified as which area of external influence?

A Market share
B Geographic
C Social
D Legal

Refer to the following table to answer Questions 7 and 8.

Units	TFC	TVC	TC	TR	Gross Profit/ Loss
50	800	200	1000	400	–600
100	800	400	1200	800	–400
150	800	600	1400	1200	–200
200	800	800	1600	1600	0
250	800	1000	1800	2000	200
300	80	1200	2000	2400	400

7 How many units does this business have to sell to break even?

A 150
B 200
C 250
D 300

8 Gross profit when selling 100 units will be:

A –$600
B –$400
C $0
D $200

9 Over which of the following areas does an individual business have direct control?

A Internal influences
B Only economic and legal influences
C Only political and economic influences
D External influences

10 Which of the following is a financial goal of a business?

A Supporting a local community event
B Improving the profit level of the business
C Providing employment opportunities for your children
D Increasing the number of products in your sales mix

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Short-answer questions

1 Identify the elements of a SWOT analysis. Describe what each of these elements involves.

2 Explain the relationship between the elements of a SWOT analysis and the internal and external business environments.

3 Explain why a business should use forecasting.

Extended-response question

Explain the relationship between a firm and its environment. With reference to a business you have studied, analyse two changes in the external business environment affecting this business. Identify possible strategies that this business could use to deal with these changes.

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12 Critical issues in business success and failure

Chapter objectives

In this chapter, students will:

- identify the critical issues in business success and failure
- investigate the importance of a business plan
- discuss the importance of staffing and teamwork
- analyse trends and the use of technology
- discuss sustaining a business's competitive advantage
- discuss the effects of over-extending resources
- evaluate economic conditions.

Key terms

- defect rate
- economic cycle
- economic downswing
- economy
- executive summary
- fiscal policy
- income statement
- liquid assets
- microeconomic reform
- monetary policy
- quality circles
- quaternary sector
- quinary sector
- SWOT analysis
- tertiary industry
- under-capitalised
- variance report

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12.0 Introduction

Source 12.1 Critical issues in business success and failure

There are many reasons why businesses are set up. A lot of businesses begin as a response to changes in the external business environment. In times of economic growth, the **economy** expands and there is a growth in aggregate demand. This is the total demand for goods and services at any given time; it is expressed as the total amount of money that is exchanged for goods and services in an economy. Members of the general public have greater confidence and are optimistic about the future, and are prepared to spend more of the money they earn. Many entrepreneurs and existing businesses see this as a time when new and innovative products will have a greater chance of success, and will respond to this through expansion and starting up new businesses.

Through increased government and industry research, there is greater understanding of how and why businesses fail and how entrepreneurs can improve their chance of success.

During the establishment and early growth phases, a lack of knowledge, poor management experience and entrepreneurship can all combine to cause the failure of a struggling small business. Even if a business is managed properly, an **economic downswing** can just as easily contribute to the business's failure. In a downswing, the economy begins to slow down. Consumer demand falls and business sales decrease. Businesses are not able to sell all their stock, so orders for new supplies decrease. In response to this, manufacturers produce less and may lay off staff. Fewer people are earning an income, so demand drops further. Some businesses may close down. It is usually a combination of factors that causes a business to withdraw from the market.

Economy A system where governments, businesses, consumers and other relevant organisations interact to satisfy the needs of society.

Economic downswing A fall in consumer demand that occurs as economic growth slows.

Source 12.2 What makes a business successful?

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Source 12.3 Survival of businesses by employment size, 2015–19

	Survived to June 2015	Survival rate	Survived to June 2016	Survival rate	Survived to June 2017	Survival rate
	no.	%	no.	%	no.	%
Non-employing	1 078 280	84.7	941 605	73.9	842 197	66.1
Employing						
1–4	519 168	90.9	471 344	82.5	431 886	75.6
15–19	189 138	94.6	177 232	88.6	165 912	83.0
20–199	49 650	96.2	47 358	91.7	44 887	87.0
200+	3 446	95.6	3 325	92.3	3 206	89.0
Total	**1 839 682**	**87.6**	**1 640 864**	**78.1**	**1 488 088**	**70.9**

	Survived to June 2018	Survival rate	Survived to June 2019	Survival rate
	no.	%	no.	%
Non-employing	758 922	59.6	772 711	60.2
Employing				
1–4	395 953	69.3	558 806	71.5
15–19	155 270	77.6		
20–199	42 408	82.2	41 931	82.2
200+	3 084	85.6	3 220	86.7
Total	**1 355 637**	**64.5**	**1 376 668**	**64.9**

Source: Australian Bureau of Statistics, cat. no. 8165.0, *Counts of Australian Businesses, including Entries and Exits, June 2015–2019.*

According to Australian Bureau of Statistics (ABS) figures, there were 2 375 753 actively trading businesses in Australia in 2019. Overall, this was an increase of 2.7 per cent from 2018. Of the businesses that entered the market in 2015, non-employing businesses had the lowest survival rate of 49.9 per cent and large businesses (200+ employees) had the highest at 81.1 per cent by 2019. Of these businesses, one-third were companies and almost two-thirds were non-employing. Of the new businesses that entered the market in 2015, approximately 53.6 per cent were still operating in 2019.

In 2018–19, 15.4 per cent entered the market and 12.7 per cent exited. This amounted to 355 722 entries and 293 260 exits. Most businesses leave the market voluntarily, such as when the owner retires and closes the business. Many of these businesses do not have employees.

An owner may choose to close their business because it has failed to make a satisfactory profit, in order to prevent further losses. Despite the hopes of its owners, there may be a point when a business experiences an ongoing decline in sales. Generally, new businesses are more likely to exit the market than older businesses, and small businesses are more likely to fail than larger firms. As the business exists for longer, owners have learned a lot more and make improved business decisions.

All strategies to renew the business may have been expensive and unsuccessful, and the value of the business is falling. In this instance, the owners must make the decision to close the business or sell it to avoid reaching a position where the business fails to break even. See Source 12.3 for survival rates for businesses by number of employees for 2015–19.

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Source 12.4 Australian company bankruptcies, 2000 to 2020

Source: Trading Economics.

Data from past recession periods indicates that the major reasons for business failure were economic conditions, lack of capital, lack of business ability and ill health.

However, owing to increased education levels in Australia and the training and support services from both government and private business now available to business owners, lack of business ability as a reason for failure decreased. As businesses remain in operation for longer and owners gain more experience and training, this factor is less likely to be a contributing factor for failure.

A downturn in the economy and not having enough finance to survive a cash flow crisis are more common reasons for failure when the business has been trading for a number of years. Economic conditions was the most common cause identified by debtors for insolvency from 2007 to 2017. Conditions such as fluctuations in the mining sector, drier than average conditions for farms, falling commodity prices and the depreciation of the exchange rate have all been contributing factors.

In 2020, the Australian economy suffered from the COVID-19 pandemic. In March 2020, approximately 90 per cent of Australian businesses reported that they were still operating; however, the remaining 10 per cent were not trading. Of this latter group, 84 per cent had paused their businesses due to the introduction of strict government measures. Many of these businesses were in retail and wholesale trade, arts and recreation services, and the information, media and communications industry groups.

Review 12.1

Analysis

Answer these questions on paper or in the Interactive Textbook.

Referring to Source 12.3, answer the following questions.

1 Identify the size of business that has the highest survival rate.
2 Identify the size of business that has the lowest survival rate.
3 Identify the general trend in survival rates for all employment size categories.
4 Suggest reasons for the trend in survival rates from 2015 to 2019.
5 List which groups showed a slight improvement in survival rates in 2019.

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12.1 The importance of a business plan

Video 12.1 Preparing a business plan

A popular saying in business is, 'A business does not plan to fail. It fails to plan'. People do not start a business with the intention of failing. However, some people do start a business without adequate research and planning, thinking that their interest in doing something themselves and confidence in themselves will be enough. Some owners are fixated on what they do, and tend to chase revenue without understanding their costs. Trouble arises when they have to make lots of decisions about which they are unsure. They do not have the knowledge about the market or time to find out and, under pressure, they make a poor decision. Often they have an idea in their mind. However, a written, well-considered and detailed business plan forces the owner to think through several scenarios, including alternative paths of action. Thus a business plan provides them with a detailed guide for running their business. It ensures that a business has made a realistic assessment of its current position within the industry.

The business plan identifies the goals and objectives of the business, the strategies to achieve them and ways of measuring the business's success or failure. Successful business goals can cover a number of areas, such as profit, market share, quality or contribution to society. If a business makes a plan, its chances of success are much greater.

Studies show that the five key factors that affect a business's survival currently are:

1. failing to maintain control of finance, overspending and poor cash flow
2. a lack of capital supporting the business (undercapitalisation)
3. a lack of industry experience and business ability
4. an inadequate business plan and failure to keep proper records
5. ineffective marketing to attract customers and poor networking.

The business plan is also useful for other stakeholders. A plan is necessary for financial purposes, as lenders will want to evaluate its contents. Banks, accountants, solicitors and prospective investors will want to see a detailed analysis of the business venture. The plan should be well organised and professionally presented. It should highlight the skills of the owner and reflect the degree of research completed.

The business plan will be a detailed guide that gives the business the best directions to achieve its goal. It is also a working document that should continually be updated as the business environment changes. The business plan will include alternative strategies or contingency plans to help a business owner implement change to deal with shifts in the business environment. For example, marketing strategies may be adjusted to prevent a new competitor taking market share. Finally, evaluation techniques outlined in the business plan will enable senior management to determine whether the business is a success, whether strategies need to be changed or whether the original goals and objectives are too difficult to achieve.

Source 12.5 The business plan is useful for stakeholders and is necessary for financial purposes.

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Example

Ester went to a lot of effort to organise her seventeenth birthday party. Her goal was to have a party that everyone, including her parents, would enjoy. Her objective was to have a disco-themed party on the Saturday evening following her actual birthday, for 80 guests, in her backyard with a karaoke juke box and finger food. Ester made plans with her friends to make sure she selected the right music, food, drink and security. Her parents gave her a budget of $1500.

By planning the night in advance, Ester was forced to think about all the things that could ruin the night, such as poor weather, uninvited guests or power failure, as well as all the things she wanted to happen on the night.

Her party was a great success. Her parents mainly stayed in the background to make sure everything was running smoothly, helped serve the finger food and generally kept an eye on activities. Ester was able to enjoy herself, knowing the security personnel would handle any problems. The juke box played music that Ester and her friends had selected, karaoke was enjoyed by them all and the caterers provided great food and drink. Ester and her guests did not have to relocate to the garage, as the weather stayed clear that night. The party finished well after midnight, a good sign of success. Ester also measured her success by the good time everyone said they had at her party. Ester's parents were very pleased with their daughter's planning and were impressed by her friends.

The basic elements of a business plan are:

- **executive summary** – often written after everything else is done and then placed at the beginning of the business plan
- business description – who you are and what you do
- products and services
- situational analysis, such as market analysis or **SWOT analysis**
- strategic goals
- organisational structure and management team
- strategy implementation for marketing, finance, operations and human resources (detailed plans could include tactical and operational plans)
- measures of performance
- evaluation.

The business plan will vary in composition and degree of detail for each business; however, it will still need to contain the basic elements of the plan itemised above. It should contain sufficient information so that managers can refer to it to guide them to achieve the business's goals and objectives. If the business fails to achieve its goals even though the plan was followed, this could be the result of changes in the business's external environment, management problems or unrealistic expectations in the plan itself.

Executive summary A brief overview of the whole business plan.

SWOT analysis Used to examine the strengths and weaknesses of a business and the opportunities and threats that exist in the business's external environment.

There are many uncontrollable external variables that can affect a business, and therefore its business plan; these include:

- government policy and laws
- technological change
- economic upswing, downswing or uncertainty
- new competitors
- international influences
- changing consumer tastes
- environmental factors, such as natural disasters and epidemics.

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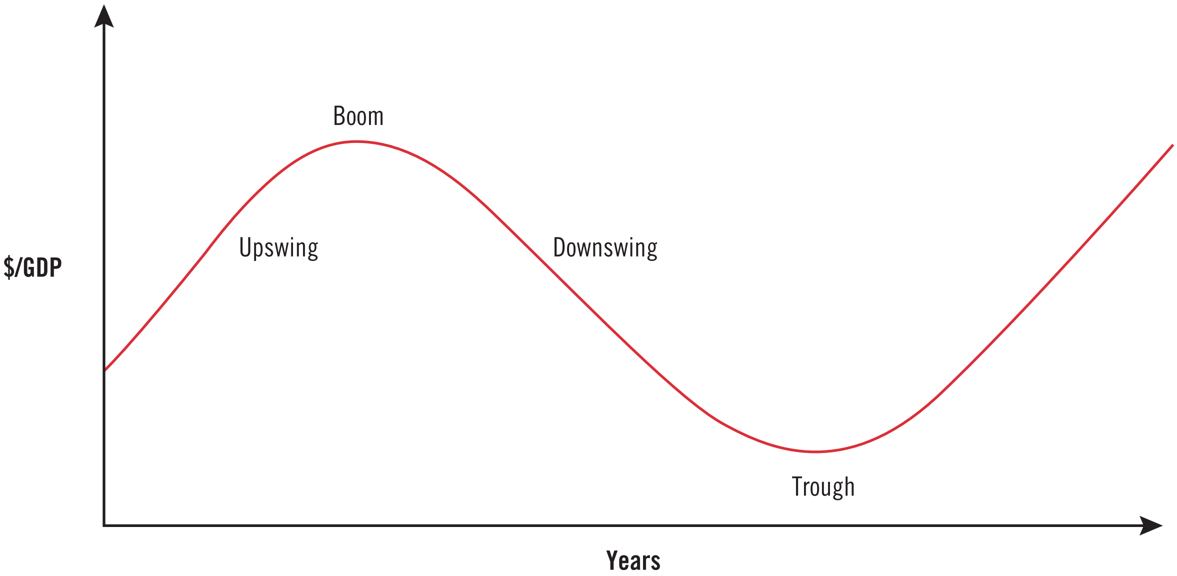
Because business exists in a dynamic environment, a good business plan will include alternative strategies to be put into action if changes in the external environment do occur. A business owner must evaluate the business plan constantly, and make alterations to keep it relevant to the current conditions of the market.

There are four main reasons why every business should have a business plan:

- A detailed plan assists in dealing with banks and other financial institutions when seeking debt finance, such as a loan or overdraft. It shows a lender how the business intends to repay loans. It also shows how the money is to be used, which would impact lending.
- It ensures the owners and managers analyse the strengths and weaknesses of their business against its competitors, to assist in identifying their competitive advantage.
- It forces the owners and managers to plan for possible changes in the external business environment so that they are ready if changes do occur – although sometimes these changes cannot be predicted.
- It helps managers allocate financial resources effectively and establish controls such as budgets to control spending.

Aside from the business plan, there are other factors that influence the chances of a business's success or failure (see Source 12.8).



Source 12.6 The four phases of the business cycle

Source 12.7 The COVID-19 pandemic had a severe effect on travel and tourism operators. However, as domestic travel restrictions were eased, towns in rural Australia enjoyed an upswing in the number of visitors.

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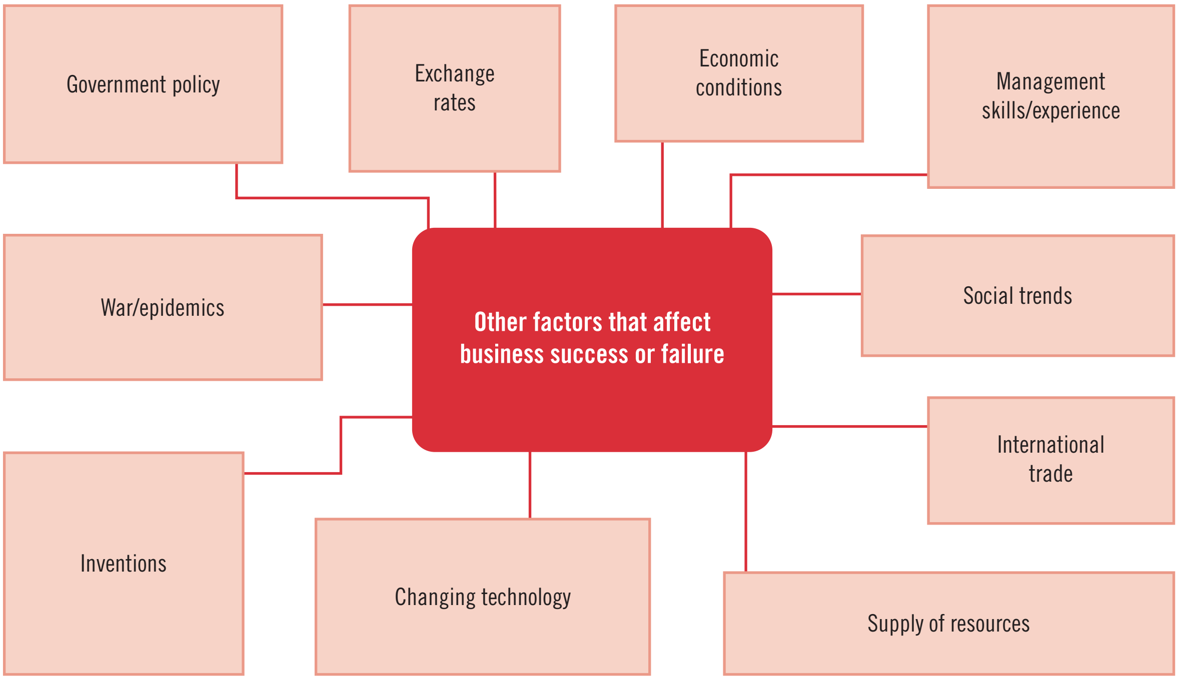

Source 12.8 Some additional factors that affect business success or failure

Review 12.2

Comprehension

Answer these questions on paper or in the Interactive Textbook.

1 Which of the following statements about business plans is true?
   a Goals are short term and objectives are long term.
   b The executive summary is usually written after the business plan and then placed at the beginning of the plan.
   c Strategies are determined after measures of performance.
   d A good business plan does not include alternative strategies.
   e Evaluation occurs after performance has been measured.
2 'A business plan is sometimes called a handbook or instruction manual for a business.' Explain this statement.
3 Why is it important for the business plan to be written?
4 Explain why the business plan must be re-evaluated often.

12.2 Management

Today, businesses have greater access to raw materials, finance, information and the most up-to-date technology. A business's advantage over its competitors is increasingly based on what managers can do better with these inputs. They need to be aware of the business environment and any new developments in their industry. Management skills (discussed in Chapter 5) and the skills of their staff have become more important than ever. Management needs to have a clear and realistic vision for the business. In small businesses, managers are often the owners. As a business gets bigger, the owner may need to hire specialist staff for management roles. In either case, managers are accountable for their actions and the decisions they make. Thus management needs to make the best use of the resources available to achieve the most effective outcome and achieve the strategic goals of the business.

Management works through people, so it is very important to acquire the best staff for the business.

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Tertiary industry Businesses whose prime function is related to providing a service.

Quaternary sector Tertiary sector businesses that provide information services to their customers and businesses, which enable the transfer of information.

Quinary sector Tertiary sector businesses that provide services traditionally performed in the home.

Quality circles Regular meetings of a group of employees from different sections of the business to discuss issues arising in the workplace.

Staffing

Staffing is a process that involves the recruitment of the employees who are right for the business. Once the employees are selected, the respective skills that each staff member has will be assessed to identify strengths and weaknesses in their skill base. The staff will go through training to further develop their skills and achieve improved productivity in their work. They are rewarded for their effort and integrate with other staff members to drive the business along the required path to achieve the desired goals of the business. A database may be set up to record the personal and work details of employees, including information on their qualifications, skills and work history.

The actual part played by staff compared with management has changed over time. In the past, staff were directed to do a particular job through a very bureaucratic system and seen simply as a cog in a machine. Today, staff are seen as an integral part of the business process and play an active part in management. Especially since the 1990s, the trend has been towards participative management, the use of work teams and even self-managed work groups.

The typical structure of business has changed from a tall hierarchical system with autocratic management styles to a flat management structure with a more democratic style of management. This has shortened the chain of command and widened the span of control. The number of employees reporting to one manager can be more than 50.

In Australia, an increased number of people are employed in the service-based **tertiary industry**, including the **quaternary** and **quinary sectors**. Many of these people are employed by small to medium enterprises (SMEs). Employees in these sectors often have professional training and expect to gain job satisfaction. They expect to be valued and consulted about decisions or choices available that may affect them and the business.

Teams

Today, employees take on greater responsibilities for their work and accept a higher level of accountability for the jobs they do. As so many employees are now supervised by one manager, small groups within the larger groups often manage themselves. People rely on each other and work as a group to complete a task, such as sales representatives who are part of a sales team. Now this system is also used in manufacturing.

Source 12.9 Participative management requires the cooperation and commitment of each employee, so it is necessary that the teams decide together what solutions to adopt.

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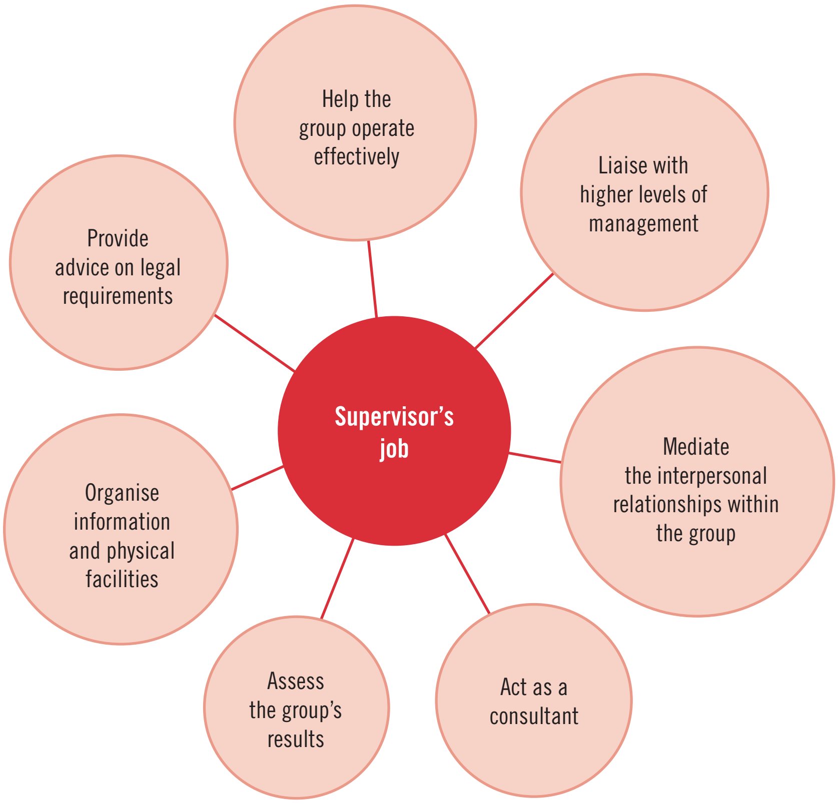

Source 12.10 The role of a supervisor is now more one of a facilitator.

These work teams include **quality circles**, team-building and employee involvement. The role of the supervisor is now more one of a facilitator.

As you can see in the job advertisement for Team Leader for Group Life Claims in Source 12.11 on the next page, this role now requires many more skills than in the past.

The use of work teams allows individuals to achieve benefits for themselves, as the system:

- encourages individual workers to take part
- allows them to be more open and share their opinions
- develops increased trust in their fellow workers
- allows the employee to become an important part of the business process
- enables a feeling of success as well as greater responsibility
- allows employees in the team to be innovative and creative, especially in problem-solving
- provides equal opportunity.

In order for work teams to be successful, the culture of the business and organisational structure may need to change. It would not be easy for a manager originally in an authoritative position to change to being a facilitator of a larger group. Even making up the group has its difficulties. Each individual has different skills, abilities and potential.

Combining people who do not 'get along' causes problems for the group. Today, many recruitment priorities include not only qualifications and skills but also one's ability to work in a team.

Considering the amount of money spent on the acquisition, development and training of staff, it is important for the business to keep good staff. They will need to maintain/reward staff to encourage loyalty to the business. A high level of staff turnover is very expensive for a business, not only in monetary terms, but also in time lost, reduced productivity, uncertainty and insecurity felt by other members of staff. Many firms now supply non-wage benefits to encourage staff to stay with the business. Such benefits include:

- subsidised tuition for further/outside study
- subsidised canteens, team lunches
- employee 'team member' discounts
- flexible working hours
- casual clothing days
- gymnasium subsidies/membership
- work sporting teams – for example, netball played during work hours
- contributions to medical insurance.

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Due to globalisation, various resources – such as technology and increased speed of communication and transport – are available to all businesses. Staffing has possibly become the most valuable asset for many businesses. Businesses are tapping into this resource, in order to give them a competitive advantage over their rivals and, through their staff, achieve success.

Team Leader

Group Life Claims

Company: Rescue Insurance
Location: Parramatta, NSW 2150
Job type: Full-time, permanent

About the job:

Rescue Insurance is a leading Life Insurer in Australia. Due to the growth of our business, we are currently seeking an enthusiastic, passionate and dedicated person to lead our Claims Team at our Parramatta district office. The ideal candidate will have strong interpersonal and communication skills and excellent attention to detail.

As an experienced and effective senior assessor, you will be provided with challenging work and opportunities for career advancement into a higher management role for our leading insurance company.

The job will be full-time with an initial probationary period of three months. Previous experience in team leading is desirable but not essential.

Role and responsibilities:

- Day-to-day people management and leadership
- Development of the team
- Building and maintaining strong relationships with internal and external stakeholders
- Understanding customer needs and providing solutions and options for those needs
- Reporting and associated administration work
- Coaching and mentoring

Key skills and experience required:

- Significant life claims experience
- High technical capability in group claims
- Experience in all product lines
- Proven capability in coaching and mentoring
- A positive and professional attitude
- Ability to organise and lead a team and work on own initiative
- Good written and verbal communication skills
- Excellent attention to detail
- Commitment to follow up with people and tasks
- Excellent organisational and time-management skills with the ability to prioritise tasks

Source 12.11 Job advertisement for a team leader position

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Activity 12.1

Class discussion

1 Think about class group projects and answer the following questions:
   a How successful are class group projects? Explain your reasoning.
   b Identify the problems associated with group work.
   c Propose some solutions to these problems.
   d Who likes/dislikes group work? Conduct a survey of your class.
2 Now consider the following questions:
   a How successful would it be if the teacher divided up the syllabus topic and assigned each student a specific section to research, present to the class and supply summary notes for the class?
   b Identify possible problems with this method of work.
   c How could these problems be overcome?
   d Explain the new role of the teacher using this method of work allocation.

Digital quiz
Please see the Interactive Textbook to access digital activities.

12.3 Trend analysis

Trend analysis is a procedure that looks at changes over a period of time. It tries to establish a pattern that can be used to forecast future sales, revenue, cost and profits. A trend in one area needs to be evaluated together with other related trends to draw realistic conclusions. Trend analysis can result in changes to business processes.

By undertaking a situational analysis, a business aims to establish its current position in the marketplace. It identifies the strengths and weaknesses – internal factors of the business.

This should include research into the past few years of financial data of the business's operations to establish a trend to assess the firm's level of growth. Profits may be higher than last year; however, if profit is growing more slowly than revenue, the business will need to investigate its level of expenses and its selling price. It will also compare the level of credit sales with cash sales and the collection of accounts receivable and the turnover ratio. A new small business with limited experience may see increased sales as a success factor without realising the additional cost of its credit sales methods. It could be that credit sales customers take a long time to pay their accounts (for example, 60 to 90 days), which means that even though total sales have increased, the business is supporting late payers, possibly even from debt finance. This would actually decrease profits. It could also result in a high level of bad debts where accounts will not be paid.

The owner of an existing business could also use a summary sheet, such as the one in Source 12.12 on the next page. This could establish when a restaurant has its sales for each day of the week and for various times to identify whether the restaurant could be closed on a particular day each week or should be open at lunchtime. It could be applied to determine whether certain meals could be removed from the menu.

Breaking down the data collected could include investigating the following:

- Hours and staffing – should the restaurant be closed one day of the week as sales are very slow on Mondays and three staff have been rostered to work on that day?
- Lunch servings – which days are busy for lunch?
- Dinner servings – should you extend (for example, an 'alfresco' eating area)?
- Seasons – does the business menu change? Do opening times change or is the business closed in winter or over Christmas?
- Public holidays – should the business be open on public holidays?

The table would be changed to identify various factors, and could be based on seasons, a range of opening hours or the busiest times while open.

As well as internal analysis, the business must be aware of industry trends and their impact on the level of business activity. Such aspects of the external environment include:

- economic factors – upswing or downswing
- government policies and regulations – rezoning, recycling, garbage collection, parking limits

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Source 12.12 A restaurant's internal trend analysis

	Mon	Tues	Wed	Thurs	Fri	Sat	Sun
Total wages bill							
Total cost of goods							
Total marketing cost							
Number of customers							
Number of meals served							
Total food revenue							
Total beverage revenue							
Total takeaways revenue							

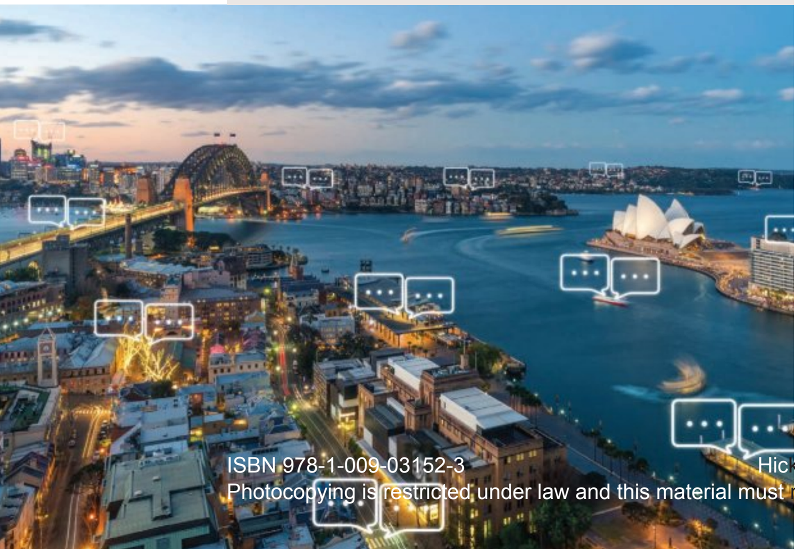
- new development applications in your area – light industrial development application in an originally semi-rural area, representing a change in the client base for your business
- Australian standards – changes such as tobacco health warnings
- competitors – changes in their activities, products or pricing.

All trends affecting the business need to be analysed. This analysis must determine how each trend will impact on the business and what strategies the business could use to deal with these issues. For example, since January 2013, smoking has been banned at public playgrounds within 10 metres of the play equipment, in open areas of public swimming pools, at major sports grounds and on public transport. Since July 2015, this has included seated areas in restaurants. In addition, the Passenger Transport (General) Regulation 2017 prohibits smoking (including the use of e-cigarettes) on public transport, such as buses, trains, ferries and light rail. It is also illegal to smoke in office buildings, shopping centres, schools, cinemas and airports (and even in a car when a minor is inside).

Digital quiz
Please see the Interactive Textbook to access digital activities.

These regulations may have an impact on businesses that provide or rely on these facilities.

Source 12.13 Businesses may utilise social media and new technologies in order to attract more customers.



12.4 Identifying and sustaining competitive advantage

A sustainable competitive advantage is a strength of the business over its competitors. It is what consumers see as being greater value or benefit to them. It may be product quality, price or even location. A business must identify what gives it its competitive advantage and ensure that it has enough resources available to maintain this advantage.

A SWOT analysis used to establish the business's current position in the marketplace will identify its major strengths – that is, its competitive advantage. Competitors may try to copy and improve on this aspect in their own business. It could be that the business has a high level of customer loyalty. Yet the business cannot assume that once it has the advantage, it will stay ahead of its competitors. There must be enough money invested in value-for-money goods and services to keep existing customers loyal.

Generally, strategies to achieve and sustain a competitive advantage can be divided into cost leadership and differentiation leadership.

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Cost leadership

Through cost leadership, the aim of the business is to become the lowest-cost producer in the industry. This may require large-scale production of a standardised product to achieve economies of scale.

Businesses may:

- use just-in-time (JIT) inventory methods where goods are ordered and received when they are needed for the production process, thus reducing the costs of storage and double-handling of inventory
- use more effective technology that focuses on the ability of the business to make the best use of established or leading-edge technology
- vary distribution channels, supplying directly to the customer or through wholesalers and retailers
- be able to negotiate lower prices for inputs from their suppliers or buying in bulk
- be highly efficient by streamlining production and eliminating unnecessary processes or greater use of machinery, or using improved technology
- minimise waste
- have a low **defect rate**
- have few warranty claims.

Differentiation leadership

Producers may differentiate their product through strategies based on high quality or branding. They may rely heavily on promotion and sponsorship to build brand loyalty and charge a premium price to cover these extra costs. They may still achieve minimum costs, but cost is not the basis of their strategy for success. SMEs may be able to offer a product with features that competitors' products do not possess.

Marketing is an effective tool to sustain a competitive advantage, and must be appropriate to the target market. Businesses believe that 80 per cent of sales come from 20 per cent of customers. Prompt, courteous service, quality products, value for money, low prices and after-sales service are valuable for maintaining sales and goodwill with existing loyal customers. It is much less expensive to keep existing customers and their repeat business than to attract new customers. This is true for SMEs as well as large businesses – for example, Nike or Mercedes.

Particularly for SMEs, location is another important factor in gaining an advantage over competitors. Retailers will benefit from high visibility and passing trade. The more 'traffic'

Defect rate The percentage of goods produced that are of an unacceptable inferior quality.

Source 12.14 Marketing aims to reach a target market, and social media and the internet make it easier for businesses to target people specifically.

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passing the retailer, the greater the potential for customers to be enticed into the store and for the retailer to make a sale. Manufacturing businesses will be able to gain a cost advantage over competitors by locating where there is good access to cheap, effective transport to deliver products; access to less expensive raw materials, power and water; and lower rents. All businesses will need to consider the advantages of being located near their target market, suitable employees, suppliers and support services.

Human resource management aims to build loyal, productive staff who share the vision of the business. A high level of satisfaction means a low level of staff turnover. Effective communication systems are the result of good planning, organisational structure and management.

Liquid assets Current assets that are easiest to change into cash. Cash is the most liquid asset.

A financially efficient and stable business carrying low levels of debt and an appropriate amount of cash and other **liquid assets** (such as inventory or accounts receivable) will also have an advantage over its competitors. Liquid assets are current assets that can be converted to cash relatively quickly and easily. A business requires cash and other liquid assets in order to pay bills as they occur.

The business may also have quicker access to finance to take advantage of an opportunity before its competitors. Additionally, it will need to acquire the most appropriate finance available.

Source 12.15 Examples of strategies to achieve a competitive advantage

In order to achieve long-term success, a business will need to be aware of all changes occurring in the internal and external business environment. It needs to be more proactive and therefore less reactive to change. It will need to undertake research and development in order to be innovative in both its products and operations methods to stay ahead of the market.

Review 12.3

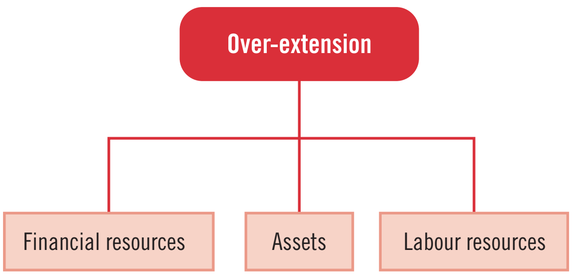
Comprehension strategy

Answer these questions on paper or in the Interactive Textbook.

1. Outline the financial advantages for a business that has a high level of customer loyalty.
2. Describe the advantages for a business of having productive and loyal employees.
3. Suggest how a business may improve its efficiency to obtain a cost advantage over its competitors.
4. Explain how each of the following businesses may achieve a sustainable competitive advantage over its competitors:
   a. a café
   b. a small local supermarket
   c. a service station
   d. a chemist.

12.5 Avoiding over-extension of finance and other resources

If a business uses debt finance that is higher than what it can actually repay within the prescribed time, it has over-extended its



Source 12.16 Major areas where a business can over-extend itself

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financial arrangements. Businesses require many resources to produce and supply goods and services, and may use debt finance to acquire these resources. These resources can be categorised as financial resources, assets and labour resources.

Financial resources

Some businesses have inadequate cash reserves to begin with; they are **under-capitalised** and do not have enough funds to carry out their operations. It is safer to have at least six months of available cash to live off and provide for expenses, as the business may take that long to start making money.

Under-capitalised When a business does not have sufficient capital to conduct normal business operations and pay creditors.

When a business starts out, many suppliers require quick payment for their goods; this may even be cash on delivery. Slow sales and slower revenue – especially if many are credit sales – can cause liquidity problems for the business. These short-term liquidity problems can lead the business to fail despite being financially stable in the long term.

Even if a business is established and highly geared, if the business has too much debt compared with the equity invested in the business and the economy is moving into a downswing, the owner will experience two financial problems. First, falling sales will reduce cash inflow. Second, interest expenses must be met from a shrinking level of gross profit. The business will find it difficult to make debt repayments, which may result in the insolvency of the business. A business may be brought before the Federal Court by a bank because it has broken its contract to repay a loan or by creditors as the business cannot pay its bills and can legally be declared insolvent. It is illegal to trade if the business knows it is insolvent. This situation can occur despite the business owning many assets, because the assets do not produce cash sales.

A major reason for business bankruptcy is borrowing too much money and carrying a high level of debt in the form of loans, bank overdrafts and business credit cards, and spending more money than the business has available.

To avoid this financially vulnerable situation, a business should consider:

- undertaking more detailed long-term planning
- leasing rather than buying equipment, thereby reducing the need for debt financing
- using budgets to avoid over-spending
- expanding gradually rather than growing too fast using debt finance and losing financial control. The need to pay significant upfront costs to finance inventories can cause a business to maintain high debt levels with which it is unable to cope.

Assets

Acquiring assets uses capital invested into the business and leaves less capital available for day-to-day operations. A business can over-extend its investment on both current assets and non-current assets. By holding too much inventory (stock), a business will experience storage problems and extra stock-handling costs. The business will find itself with an over-supply of inventory and will need to discount prices to move excess stock. This is an even greater problem when it involves products affected by use-by or 'best before' dates, such as food, beer, chemicals or pesticide. JIT inventory-control methods could more effectively decrease costs.

A business can also own non-current assets that are not being used effectively to earn revenue. Finance that is tied up in vacant land, obsolete or larger than necessary equipment and poorly located factories will soak up valuable capital.

Labour resources

Given that wages represent a significant expense, employing too many staff is another drain on finance. The business must reduce its investment in labour resources by retrenching staff. More recently, the organisational structure of businesses has been flattened to improve efficiency and cut down on costs. The increased use of casual and part-time staff, outsourcing of parts of production to specialist firms and capital-intensive production methods could be alternatives. Remaining staff may work with improved technology, be multiskilled, take on greater responsibility and be more accountable for the jobs they perform.

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Business Bite

Napoleon Perdis is a cosmetics retailer that was placed in voluntary administration in January 2019 with debts in excess of $26 million. The business completed a massive sale with 30 per cent off in-store and online in order to gain liquidity; however, this did not provide enough funds to save the business. At that stage, the business had 56 stores and employed 600 people. The creditors voted in favour of a company arrangement (as preferable to liquidation) to a deal with KUBA Investments to buy out the business for $1.6 million.

Source 12.17 A Napoleon Perdis counter in a David Jones store

The business was restructured under the new ownership. Store sales and locations were reviewed and, through a process of 'right-sizing', 28 stores were closed. Under the restructure, 28 stores remained operational with 250 staff. KUBA Investments felt that Napoleon Perdis had a very strong brand and planned to consolidate the Australian business domestically and planned expansion overseas, into markets such as China, in 2020. The brand entered into an agreement with Priceline from 2018 to 2020; however, it returned to David Jones in 2020. Perdis (the founder of the business) is no longer involved in the business.

Digital quiz Please see the Interactive Textbook to access digital activities.

12.6 Using technology

Older established office and manufacturing technology can make tasks easier, while leading-edge technology may give the business an advantage over its competitors. Accounting software that can generate a weekly **income statement** and **variance report** will give a business owner more control over the financial management of the business. The owner can analyse cash flow, profitability and expenses each week, allowing strategies to be implemented in order to correct any issues identified.

Computer technology can closely monitor trends in sales of particular goods and maintain appropriate inventory levels. A business can carry lower levels of inventory if it is able to identify how many sales occur and use a JIT method to maintain stock levels. By using JIT, costs are reduced as less stock and storage space are required.

Income statement A summary of all revenues generated and expenses incurred by a business over a specific period of time, such as a financial year. It is completed to work out the business's profitability and efficiency. Also known as a profit and loss or revenue statement.

Variance report A financial report that identifies the difference between what was planned and what actually occurred.

Having the latest technology can give a manufacturing business a competitive advantage. Producing better-quality products at a cheaper average cost will encourage sales. Designing the business's product and the manufacturing process using computer software will give a business greater flexibility to alter the design, colour and features of their products and quickly respond to changes in demand and consumer desires. By leasing equipment, a business can avoid the high capital cost of purchasing new equipment and technology. Leasing will also enable the business to update equipment easily at the end of the lease contract.

Office technology has streamlined many operations, reduced costs and increased the flow of information to facilitate better decision-making. Office 'essentials' may include the following:

- Smartphones, text messaging and voicemail allow consumers and suppliers to contact the business easily.

- Multifunction devices linked to the business's computers can now scan, email, copy and print.
- External hard drives and cloud products allow quick back-ups of all data from the computer system. If the computer system crashes or there is a fire, the business can restore all its records.
- A personal computer with appropriate business software, such as the latest Microsoft Office Business edition, will provide many business tools and accounting programs for financial management.
- EFTPOS and electronic banking technology, PayPal, Apple Pay and Google Pay can assist as the market moves further towards a cashless society.
- A web page, broadband internet and internet security software will enable the business to maintain a website and sell products online.
- A paper shredder and lockable sensitive document collection destruction wheelie bins will prevent sensitive information about the business falling into the hands of competitors.
- Electronic business (e-business) uses the internet to carry out its business, such as researching information, contacting customers via email, sending out invoices and transferring payments, completing documentation and marketing its products.

Video 12.2 Using technology

Source 12.18 Business use of information technology, selected indicators, by employment size, 2018–19

		0–4 persons	5–19 persons	20–199 persons	200+ persons	All businesses
Businesses with:						
• **internet access**	%	96.2	97.6	99.8	99.9	97.0
• **web presence**	%	44.1	66.4	84.7	96.1	54.5
• **social media presence**	%	38.4	58.9	73.8	87	47.8
Businesses that:						
• **placed orders via the internet**	%	55.9	72.4	78.6	88.4	63.0
• **received orders via the internet**	%	35.3	50.5	51.0	66.3	41.4

Source: Australian Bureau of Statistics, cat. no. 8167.0, *Characteristics of Australian Business 2018–2019*.

Activity 12.2

Comprehension

1. Identify two items of manufacturing technology and describe how they are important to the success of a business.
2. Identify three items of office technology and describe how they could benefit a business.
3. Explain the disadvantages that may result from the adoption of new technology for a business.
4. Explain how you could find an accountant to complete your tax return.

Video 12.3 Business cycle

Review 12.4

Analysis

Answer these questions on paper or in the Interactive Textbook.

Using information from Source 12.18 (on p.293), answer the following questions.

1 Identify what percentage of businesses do not use the internet.
2 Discuss whether the use of information technology has increased or decreased over time.
3 Identify where online sales would be accounted for in the information in Source 12.18.
4 Comment on the relationship between the size of businesses and their use of information technology.
5 Explain why the percentage for the 0–4 persons business size is closer to the percentage for the total number of businesses.

12.7 Economic conditions

An economy can broadly be defined as the system of production, distribution and the consumption of goods and services within society. The Australian Government tries to steer the economy to achieve sustainable levels of economic growth. Using regulations, taxation systems and international trading agreements, the government affects small, medium and large businesses. In turn, businesses impact on production, employment, inflation and living standards. The jobs that businesses provide help to build consumer confidence, which raises spending levels throughout the economy and in turn creates an incentive for business to increase production of goods and services. The increase in production is called economic growth, and results in increased productive capacity and improved quality of life.

Consumer and business spending is the principal influence on economic activity. Change in the level of this spending over time is referred to as the **economic cycle** or business cycle. The location of the economy in the cycle affects employment, business profitability, the quantity of goods and services produced and the level of investment in the economy.

Economic cycle The fluctuation of consumer and business spending over a period of time.

During a period of growth (upswing or expansion), many businesses reinvest retained profits or borrow debt finance to increase the growth of their business. Increased demand and lower interest rates encourage new businesses to enter the market. Some of these businesses may be poorly planned and run by inexperienced operators; many of these businesses fail.

In a strong economy, low unemployment leads to both job security and increased consumer confidence. Greater consumer confidence and spending often lead to increased business profits.

Businesses try to keep pace with demand and hire additional employees, add new products to their sales mix and expand their premises. The cycle of low unemployment, greater consumer confidence and increased profits can, if left unchecked, result in excessive inflation. Inflation is a normal – indeed healthy – phenomenon, which is linked directly to economic growth. However, if inflation becomes too high as product and input prices are increasing rapidly, putting a strain on production, the cost of living increases and the economy suffers. Employees will seek higher wages to cover their increased cost of living, and production costs will grow.

Source 12.19 During the COVID-19 pandemic, the federal government introduced the JobKeeper Payment, a wage subsidy paid to employers to help cover the cost they pay to some employees.

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To stop inflation from reaching disruptive levels, the Reserve Bank of Australia may increase interest rates so that loan repayments make up a greater proportion of income, thus reducing disposable income and demand for goods and services. Businesses may find themselves over-extended, needing to lay off staff and even facing closure. To reduce costs, businesses may retrench staff and urge the rest of their employees to take on more of the workload.

Generally, small businesses are able to adapt to economic swings more easily than large businesses. They are more flexible in the decision-making process. Large businesses may need to hold shareholder meetings and board meetings, and have varying levels of management to discuss changes in their strategic path; they will be slower to adapt to a changing economy.

There are three tools that a government uses to try to manipulate the business cycle: **fiscal policy**, **monetary policy** and **micro-economic reform**.

Fiscal policy

Fiscal policy, implemented through the Commonwealth Budget, deals with the income (mostly taxation) and expenditure of the Australian Government. In providing community services such as public works, the government will often contract for a private business to do the work, providing employment for many people.

The level of income tax and the goods and services tax (GST) have an effect on consumer spending, and the level of company tax has an effect on business investment and expansion. As from 2019, large incorporated businesses pay company tax at a rate of 30 per cent on profits, while incorporated businesses with less than $50 million annual turnover pay 27.5 per cent. Any change in this taxation level would have an immediate influence on the profitability of Australian businesses.

Government expenditure is extremely important in ensuring that disadvantaged members of society are able to maintain a basic standard of living. People who are eligible for welfare payments include those with illness, elderly people, people with disabilities and those who are unable to find work.

Monetary policy

The Reserve Bank's actions to control interest rates are called monetary policy. An increase in interest rates is effective in combating inflation as interest pushes up mortgage repayments and reduces the amount spent on goods and services. Even if consumers do not have a mortgage, they may reduce their spending on goods because credit cards will also charge higher interest rates. Any reduction in spending and demand will have a negative impact on the profitability of business.

Fiscal policy Government actions, such as the use of taxation (revenue) and expenditure, that are intended to influence the level of economic activity in Australia. Mainly operates through the Commonwealth Budget.

Monetary policy Actions taken by the Reserve Bank to influence the level of interest rates in the Australian economy.

Microeconomic reform Policies developed by the government to promote greater competition within a particular industry.

Source 12.20 Addressing the National Press Club on 3 February 2021 in Canberra, Reserve Bank of Australia governor Philip Lowe repeated that the cash rate target of 0.1 per cent would not move up until actual inflation rises between 2 and 3 per cent, which is not expected to happen until 2024 at the earliest.

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This decrease in demand will mean that inventories build up as stock remains unsold. Businesses will cut down on production and release employees, creating unemployment. This could result in a recession (two consecutive periods of negative growth for the economy). During a downswing, businesses find it difficult to remain profitable, and the number of bankruptcies in Australia increases. Strategies are directed towards survival, such as eliminating debt, cutting interest expenses and minimising other expenses such as marketing and wages.

Digital quiz
Please see the Interactive Textbook to access digital activities.

Microeconomic reform

Microeconomic reform refers to a range of government policies that affect the business environment. These may include the privatisation of government enterprise (for example, Telstra), the deregulation of industry, or the removal or imposition of import tariffs. These policies often have a variety of aims, including promoting greater competition, increasing consumer choice and making it easier to establish a business.

Digital quiz
Please see the Interactive Textbook to access digital activities.

12.8 Strategies for success in business

What are the secrets of business success? Although there is no guaranteed formula for every business, following the suggestions below will improve the probability of a business surviving past its first year:

- make a detailed plan
- buy a franchise
- start in a partnership but incorporate early
- research the market to identify business opportunities in a growing market
- manage cash flow and decrease outflow by leasing long-term assets
- buy an established business after considerable investigation.

Chapter summary

New businesses are more likely to exit the market than are older businesses, and small businesses are more likely to fail than larger firms. Overall, failure rates of businesses are falling.

The major causes of business failure in Australia are failing to maintain control of finance and over-spending, lack of experience, lack of capital supporting the business, an inadequate business plan and ineffective marketing.

A business plan is a detailed guide for running a business. It contains the goals of the business and the strategies to achieve them in both the short term and the long term. A good business plan should also anticipate likely changes in the external environment. It is a working document that is continuously updated as the business environment changes.

Staffing involves recruiting the right staff, training them, developing skills, rewarding them and ensuring loyalty to the business.

Work teams involve individual workers with different skills, abilities and potential, grouped together in a team to complete a set task. There is increased reliance on team members, increased accountability and greater responsibility with less supervision.

There has been a shift from traditional hierarchical management structures with a tall chain of command and narrow span of control to a flat management structure with a short chain of command and wide span of control.

A business needs to identify trends and changes over a period of time, from both the internal and external environments, and to analyse their effects on the business – for example, new health laws affecting restaurants (such as the use of MSG or other colour or flavour enhancers).

A sustainable competitive advantage is a strength that the business has over its competitors, which it is able to keep over the long term. Strategies to achieve this are based on cost leadership or differentiation leadership.

A competitive advantage strategy can be developed for each key business function: marketing, human resources, finance and operations. Successful strategies will depend on the nature of the market and the existing strengths and weaknesses of the business.

Businesses require financial resources, assets and labour resources to produce and supply goods and services. A business that over-extends or possesses too much of a resource is not operating efficiently and may risk going out of business.

- Over-extension of financial resources – under-capitalisation; gearing is too high as the business has too much debt.
- Over-extension of assets – capital and cash are tied up in the ownership and maintenance of assets that do not generate profit.
- Over-extension of labour resources – too many staff are employed, making the wages expense a significant drain on the business's financial resources.

Having the latest technology can give a business a competitive advantage. For an office, information technology is an important technology. For a manufacturing business, using technology to produce better-quality products at a cheaper average cost will give it a competitive advantage.

Upswing, the expansion phase of the business cycle, is characterised by increased demand for goods and services, decreased unemployment and increased business investment.

The Australian federal government uses a combination of fiscal policy, monetary policy and microeconomic policies to influence the level of economic activity in the economy.

End-of-chapter tasks

Chapter revision tasks

1 Investigate rental prices for commercial properties in your area.
   a Compare costs for a small business to operate in a small local shopping centre compared with a regional shopping complex such as Westfield.
   b Are there any other conditions attached to this lease arrangement?

2 Identify three businesses and explain why location may be a critical factor in the success of each.

3 Describe the strategies a business may use to create a sustainable competitive advantage without lowering prices.

4 Evaluate the decision by a furniture maker not to adopt new manufacturing technology.

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Multiple-choice questions

1 An internal reason for the failure of a business is:

- A rising interest rates.
- B poor financial management.
- C an increase in government taxes.
- D a downturn in economic activity.

2 A business plan is most effective when it is used in which of the following ways?

- A In the year the business starts operating
- B When applying for a loan
- C Regularly over the life of the business
- D When the business is in the post-maturity phase

3 What is the name given to a written plan that outlines the business's goals and the strategies used to achieve those goals?

- A Business plan
- B SWOT analysis
- C Mission statement
- D Financial plan

4 A business plan is a:

- A source of revenue.
- B forecast of future income and expenses.
- C sales projection.
- D blueprint for future growth of the business.

5 Changes to technology have resulted in:

- A less use of machinery and idle workers.
- B lower output levels and lower reject rates.
- C increased efficiency and increased productivity.
- D increased costs and higher debt levels of a business.

6 The competitive advantage for a business can be the result of:

- A having a private company legal structure.
- B being the lowest-cost producer in the industry.
- C having a tall chain of command.
- D maintaining a low level of inventory.

7 What economic conditions would lead to the failure of a business?

- A Increased production and increased sales
- B Rising unemployment and falling GDP
- C Falling unemployment and rising GDP
- D Increasing levels of consumer spending and investment

8 Why do small businesses use trend analysis?

- A To allocate staff to specific tasks
- B To make informed and creative decisions
- C To identify bad debts
- D To investigate change over time, look for patterns and predict the future

9 How does differentiation relate to a business's competitive advantage?

- A It distinguishes one business from another selling similar products.
- B It distinguishes one business from another selling different products.
- C It uses price to distinguish products.
- D It compares the market share of competitors.

10 What is the impact on a business when it over-extends on labour resources?

- A The need to employ more staff
- B Higher productivity and improved efficiency
- C Lower productivity and better-quality goods
- D Higher wages expense

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Short-answer questions

1 Outline the importance of a business plan to an existing business.

2 Describe the factors that will contribute to the success of an entrepreneur who wishes to open a new nightclub.

3 Explain how the internet may be used by a business to improve the chances of its success.

Extended-response question

Ken Morris is an entrepreneur investigating whether to open a new restaurant. He has asked for your help, as you are an experienced business consultant. Write a business report outlining the factors that Ken Morris should consider when starting his new business. In your report, explain the factors that will contribute to his success.

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13 The business plan using business report format

Chapter objectives

In this chapter, students will:

- investigate how a business plan is determined
- explore and evaluate the business report format through one complete hypothetical example.

Key terms

- business report
- executive summary

Video 13.0 Business plan

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13.1 How the business plan is determined

Business plans can make the difference between a business that succeeds and one that fails. Entrepreneurs starting a business need to prepare a business plan.

A business plan should analyse all aspects of the business. It allows the owners to think carefully through all the components of the business and sets out decisions that have been made and strategies to achieve its goals. The business plan will give a clear path or direction for the business's future. It will identify the strengths and weaknesses internal to the business as well as opportunities and threats that need to be dealt with in the external environment. The business plan provides a framework for decision-making and establishes the priorities of the business.

The first step that a new or existing business owner needs to take is to collect as much information as possible about the industry and market in which the business will operate. This information will help the owner to determine whether there are any barriers to entry into this market and whether they can be overcome. These barriers could be financial, legal, geographic or even environmental. The entrepreneur must investigate the good or service they intend to supply as well as the existing products in that market. Then they need to research business structure, legal matters and finance needed. All of this information needs to be analysed to see whether there is actually a market for the product that will be large enough to make the business worthwhile.

It is important that the plan be adequate for use when seeking finance, partners or government approval. The plan must be reviewed by professionals, such as accountants and lawyers, and be modified accordingly. There are no strict guidelines to follow when preparing a business plan; however, the actual content and method of organisation will vary from industry to industry and depend on the individual goals of the business. It should also be remembered that the business plan is a working document. It needs to be updated and amended as internal and external influences change.

Digital quiz
Please see the Interactive Textbook to access digital activities.

Source 13.1 A good plan is a prerequisite for any business.

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13.2 Business report format

Business plans are completed using a **business report** format. The business report is a specific written text type that is used to communicate information describing a business idea. Most business reports are directed towards a particular group of stakeholders. These stakeholders will base their decisions on the information presented in these reports. Therefore, reports need to be clear and to the point as well as logically presented.

Business report A specific text format that is used to communicate information that describes a business idea.

Generally, business reports include the following features:

- The report has a title or heading.
- The report is clearly presented and easy to understand.

Business plan

Using a business report format, the business plan will be divided into sections based on the purpose of the plan and key elements needed. These could include the following:

Main title or heading

- Name given to the report and the business
- Reference to who has written the report
- Date of the report

Executive summary

- Mission and/or vision statement outlining the business purpose and the relationship to its stakeholders
- Brief description of the business and its current position in the marketplace
- Products
- Purpose of plan, its main recommendations and future direction

Business description

- Details about the industry in which the business operates, new developments in the industry and the future possibilities for the business
- Detailed review of the different aspects of the business, such as its history, size and legal structure

Situational analysis

- SWOT (strengths, weaknesses, opportunities, threats)
- Overall long-term business goals and short- to medium-term objectives for its functional departments

Organisation and management

- Structure of the business
- Ownership information
- Details of the board of directors
- Details of the management team

Strategies

Operations

- Description of the good or service offered
- Business life cycle
- Research and development

Human resources

- Personnel requirement and skills
- Training and development

Marketing

- Market analysis, including target market, market trends and competition
- Product life cycle
- Sales forecasting
- Marketing strategies

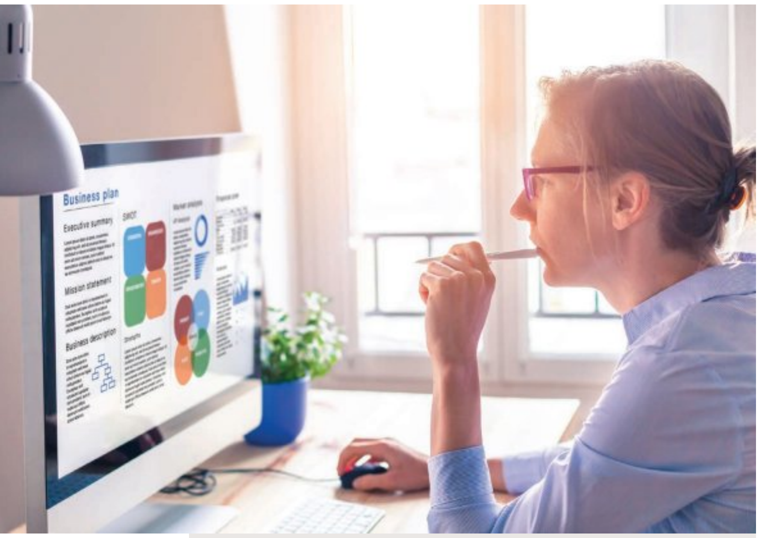
Finance

- Financial requirements
- Financial forecasts
- Financial records
- Financial controls

Conclusion

A summary and evaluation of the report's findings and relationships to the report's recommendations. May identify the limitations of the report.

- The report uses specific technical language – that is, business terminology.
- The report should not use first-person pronouns, such as ‘I’ or ‘we’.
- The sentences in the report are short and precise.
- The paragraphs in the report are also short. Paragraphs link similar ideas and only contain three to five sentences.
- The report is broken into sections, and each section is identified by headings and sub-headings. This allows the reader to quickly find the specific information they seek, as they may only be interested in one aspect of the report.
- Within each section, bullet points may be used to create lists; however, they should not be used to exclude sentences.
- Highlighting and bold type are used to emphasise or draw attention to key points.
- Diagrams, tables and photos can also be included where appropriate.
- Tables and graphs can be used to summarise key information and results.
- Current and relevant statistical information is included to support back-up statements and for evaluation of the information presented.



Source 13.2 A well-written business plan provides your business with a road map by setting out what your priorities should be and the actions you will need to take to reach success.

- The report may have a conclusion at the end. This would summarise the analysis within the report and provide justification for proposals or recommendations made throughout the report. This will tie the report together and should be related directly to the reason the report was written in the first place.
- Many reports leave a line between sections or before the next heading.
- It should not include irrelevant material.
- It should not use conversational or anecdotal style.

Digital quiz
Please see the Interactive Textbook to access digital activities.

13.3 Main title or heading

A title page or cover sheet makes the plan more presentable, formal and professional. This could take a whole page – a bit like a title page for a school project. It would include the name of the business that the plan is about. The page could also have the name of the consulting company or, if a new business, the name of the prospective owner and the date of the report.

Digital quiz
Please see the Interactive Textbook to access digital activities.

13.4 Executive summary

Executive summary
A brief overview of the whole business plan.

The **executive summary** is the first part of a business plan or business report, and therefore is what most stakeholders will read first. However, it is actually written last, as it is the result of the analysis of all the information collected; it is then placed at the beginning of the business plan or business report. The executive summary should be short, easily understandable and aimed at gaining the attention of the reader. It is a brief overview or synopsis of the whole business plan – its focus and structure. It will need to get across to the reader the owner’s vision for the future or the focus or reason why the report was completed.

The business stakeholders – especially lenders – will read the executive summary and, if not interested, will not read any further. The key aspects of the executive summary are shown in Source 13.3 and outlined on the following page.

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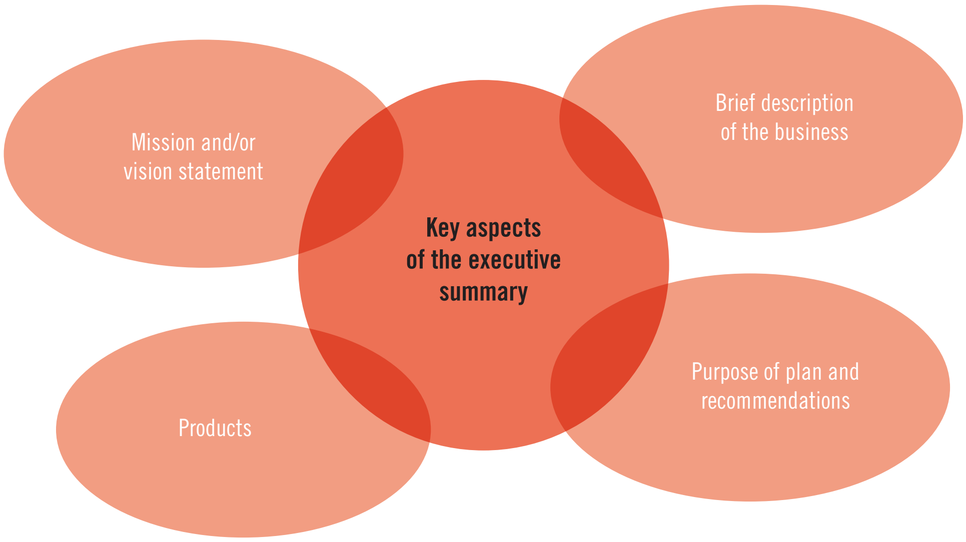

Source 13.3 Key aspects of the executive summary

Mission and/or vision statement

The mission statement outlines the general purpose of the business and identifies its target market. For example, if a business refers to its competition in the market as only buses and not the transportation industry, it shows that it is not fully prepared for its market as it has not recognised other forms of competition, such as trains or taxis. The report could also include the vision that the owners have for the business – how they see the future of the business.

Brief description of the business

This brief business description should outline the following aspects of the business:

- the trading name and legal structure, such as sole trader, partnership or company
- the location of the business
- new developments and future possibilities for the relevant industry
- a brief history to help identify its stage in its business life cycle
- the sector with which it is associated, such as retail (tertiary), services (quaternary or quinary) or over several sectors (where it may be manufacturing and retailing its own products)
- its prime function (the core activity of the business) and its size.

Products

It should describe:

- the core activity (business's prime function, its main product)
- additional goods or services offered.

Purpose of the plan and recommendations

For an existing business, the plan may identify opportunities for future expansion and help to organise thoughts and ideas, direct research and forecasting. In the case of a future business, the plan would provide a closer examination of the business idea and an evaluation of its potential as a successful business venture. In this case, the plan may also be necessary for financial purposes as lenders will want to evaluate its contents.

The business plan will be prepared in a specific way, depending on the reason for the plan. It must clearly identify the purpose of the plan and how it will be used in the future. If it is for a financial purpose, it will emphasise the costs involved and how business operations will provide the product in order to earn enough revenue to maintain liquidity and make a profit.

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Throughout this chapter, we will be looking at a simple business plan for a hypothetical business called The Green Gardener that is starting from scratch.

The Green Gardener: Business overview and executive summary

Business overview

Josh Green is a young man who has grown up in a long-established middle-class suburb in Sydney. The neighbours have lived there for a long time and there has been no significant change of ownership of the houses around him. Most of his neighbours' children have moved out and are in homes of their own. Josh is one of the younger people in the area and is often asked to assist neighbours with odd jobs.

Josh is currently completing his Higher School Certificate (HSC) at the local high school. He has undertaken subjects that he feels will be relevant to his future chosen career path. He is studying English, Maths, Woodwork, Metalwork, Agriculture and Business Studies. He feels that these subjects will provide him with a solid basis for an opportunity to start his own business this year to help pay his way through university while studying Business Management.

Josh has applied for an Australian Business Number (ABN) for his business from the Australian Business Register, operating as a sole trader.

His research shows that he does not have to register for goods and services tax (GST) as he does not expect to earn above the $75 000 threshold in his first year. Josh will need to complete a tax return as an individual, itemising his income and expenses and paying tax on his total net income (including the business profit, interest on his savings and any other income he has received during the financial year).

Josh is investigating the need for public liability insurance, as he will be working on other people's property. This will be part of his risk-management strategy.

Executive summary

The Green Gardener is a newly established residential lawnmowing service targeting the local suburban area of homes with large yards. Josh Green will use his connections within the neighbourhood to sign up customers for his new business.

Josh's father, Mr Green, supports Josh's business idea and has agreed to allow Josh to use his gardening equipment and tools to begin his business in return for the maintenance and upkeep of his own yard.

Josh intends to be the only worker in the business for the first year; however, several of his friends say they are willing to help out if he gets too busy and needs their help.

Continued →

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Josh's business should be profitable within the first month as his only expenses will be lawnmower petrol and the plastic line for his trimmer. Most of the neighbours are environmentally conscious and have compost heaps for the grass cuttings or green garbage bins collected by the local council.

Mission statement

The Green Gardener's mission is to provide the customer with the best lawn care and a better-than-expected service.

The business

Josh Green's business is called 'The Green Gardener'. He is a sole trader and at this stage does not employ any staff. Josh will operate the business from his parents' home, where he lives, and use his mobile phone for communication with customers. His business address will be 25 Farley Street, North Brennan, Sydney.

Josh's prime function will be mowing lawns. However, he will also be available for other gardening jobs as well as simple maintenance work and odd jobs.

Products

The business offers lawnmowing services and is part of the quinary sector providing domestic services. Josh's competitive advantage is based on his personal relationship and friendship with the older residents living in the area.

Josh will also make himself available for odd jobs and looking after gardens, rubbish and pets while people are away for business or holidays.

Purpose of the plan and recommendations

From studying Business Studies at school, Josh realises that he will need to carefully think through his business idea and thoroughly research the market to establish whether his business is viable. Writing a business plan will force him to weigh up all of the business environment influences that may affect a business starting from scratch, and develop strategies that will ensure his business is a success.

THE GREEN GARDENER

Professional gardening services

Source 13.4 The Green Gardener's logo

Digital quiz
Please see the Interactive Textbook to access digital activities.

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13.5 Business description

This section will describe your business and the industry in which it operates. This will help stakeholders see the business's potential as a unique proposition. It will explain how the business's product meets the needs of the market. It will also explain the competitive advantage that will make your business a success. In addition, it could provide details of the business's size, such as number of employees and number of outlets, as well as information about its growth and possibilities for future growth by relating it to growth and developments in the industry.

Digital quiz
Please see the Interactive Textbook to access digital activities.

The Green Gardener: Business description

The Green Gardener is a new business owned by Josh Green. Josh is a sole trader and operates his business from his parents' garage at 25 Farley Street in North Brennan, Sydney. This is a well-established residential area mostly made up of homes surrounded by large, established gardens. Josh has grown up in the area and the neighbours have found him to be trustworthy, capable, reliable and good-natured.

Source 13.5 The Green Gardener at work

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13.6 Situational analysis

Tools such as a SWOT analysis need to be used to make an assessment of the position of the business at the present time.

SWOT analysis

The SWOT analysis will:

- identify strengths and weaknesses, especially factors that limit current sales or growth
- identify the competitive advantage of the business's products over its competitors – that is, the company's special qualities
- identify competitors
- identify opportunities, threats and trends in the market, such as any government regulations that may affect your business
- assess the effectiveness of strategies, such as the current advertising campaign
- identify future goals and objectives based on the SWOT analysis to establish the business's current position.

Activity 13.1
SWOT analysis

The Wannabe Active Co. has developed a special sports shoe targeting a market consisting primarily of older people in Australia. The shoe provides extra support for the whole of the lower leg and foot. It is more expensive than other sports shoes currently available; however, the shoe has extra cushioning and arch support and is very hard-wearing.

Make up a SWOT analysis for the Wannabe Active sports shoe. For each point identified, provide an explanation of how it would affect the business. (You may refer to the information on situational analysis and SWOT analysis in Chapter 11.)

Ethical Spotlight 13.1

Modern companies have a greater responsibility to their local community, the environment, future generations and society in general.

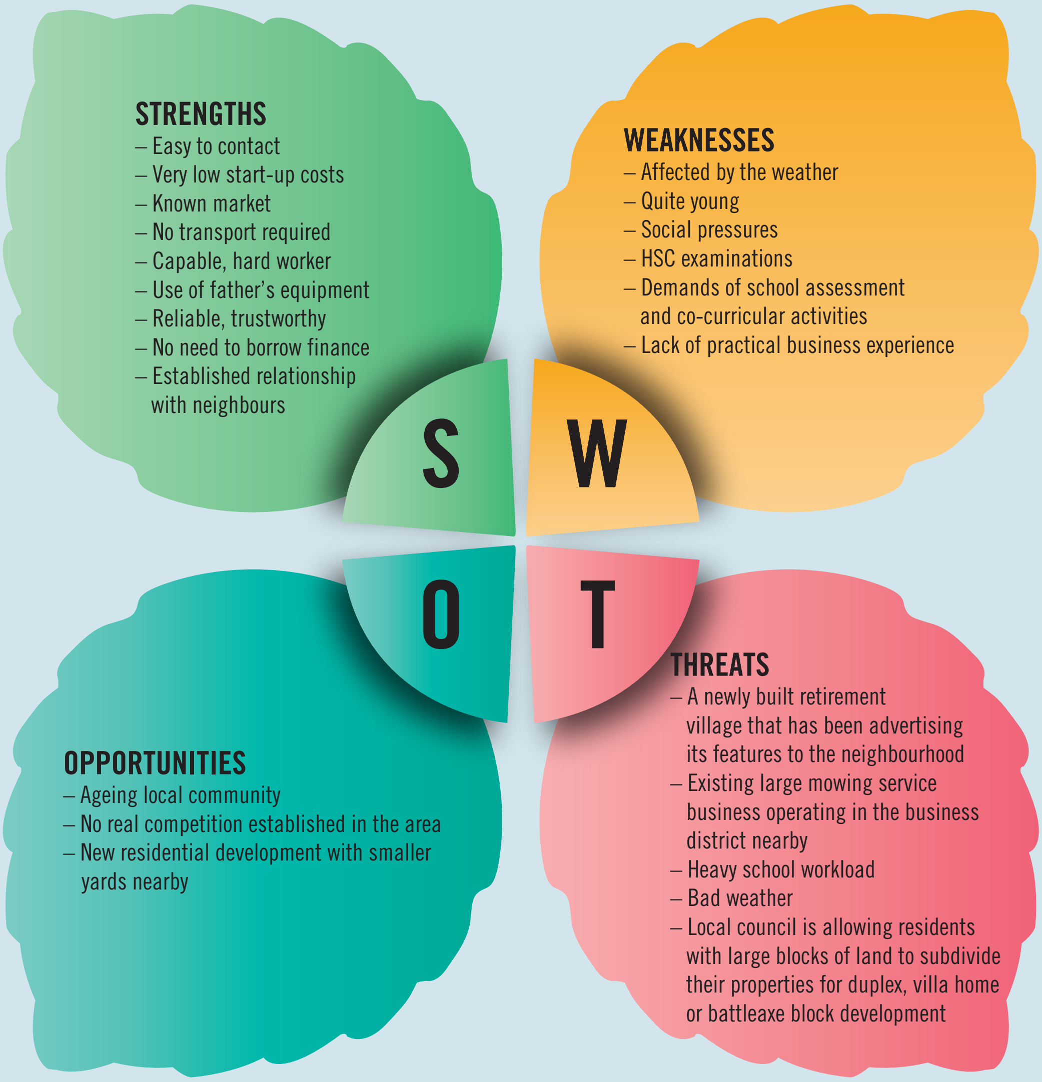
- How would you gauge Josh's responsibilities to his neighbours for the jobs that he completes?
- Does this responsibility extend to all businesses, even if they are a very small business like Josh's?
- To whom would Josh be responsible?
- What are Josh's responsibilities if a customer asked him to spray for weeds using an old toxic chemical that the customer had stored in his back shed?

Long-term goals and medium- to short-term objectives

This section of the business plan outlines what the business aims to achieve, including overall long-term strategic goals and the specific medium- to short-term functional objectives of individual departments for marketing, operations, human resources and finance. These goals and objectives will be based largely on the analysis of research data collected through the situational analysis. This section should clearly identify the company's priorities and outline the vision of the owners and where they envisage the business being in five to 10 years' time.

The Green Gardener: Situational analysis

SWOT analysis



Source 13.6 The Green Gardener's SWOT analysis

Business goals

To generate enough revenue to allow Josh to pay for his university fees and living expenses while studying.

Business objectives

For the first year of operation, Josh's objectives are to:

- create a lawnmowing business that exceeds his customers' expectations
- gain a minimum of 15 clients

Continued →

- establish a long-term business relationship with his customers
- develop a business that will make enough profit to pay for future equipment needs.

For the second year of operation, Josh's objectives are to:

- increase the number of long-term customers by 30 per cent per year
- earn enough money to pay for his university course
- earn enough money to purchase a ute for transport to customers further away and for travel to university
- purchase more equipment.

Digital quiz
Please see the Interactive Textbook to access digital activities.

13.7 Organisation and management

This section should explain how the business is divided into departments or sections and identify who is in charge of each section of the business.

Structure of the business

Business structure could be shown using an organisational diagram identifying or naming who is doing each job and who is in charge of each department. The diagram could include details of why each person has a specific job as well as their specific skills or talents.

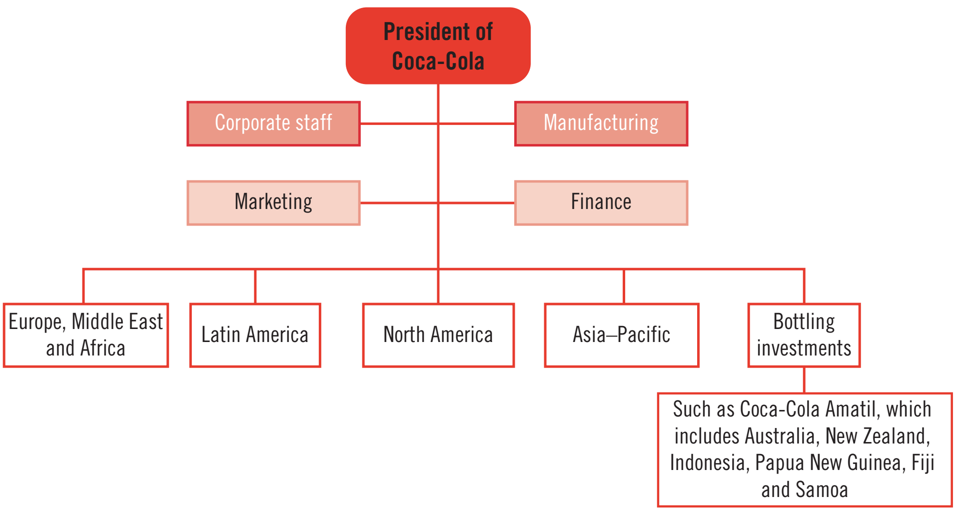
Ownership information

Outline your legal structure (for example, sole trader, partnership or private company) and who the owners are. You would also include the following information: name, percentage of ownership and type of ownership (for example, a shareholder).

Details of board of directors

Some members of the board may be unpaid and act in an advisory capacity. Many large businesses will have board members who are well-known and successful people, and who thus give the business credibility. For example, at the end of 2020 the list of people who sat on more than one board of directors included:

- Christine O'Reilly – BHP, Medibank Private and Stockland
- Wendy Stops – Coles Group, Blackmores Ltd and Fitted for Work
- Margie Seale – Westpac, Scentre and Telstra
- Alison Deans – Deputy, Ramsay Health Care and Cochlear.



Source 13.7 The organisational structure of Coca-Cola Global (after restructure in 2016), along with The Coca-Cola Company (North America) and Coca-Cola Amatil (Australia)

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The business plan will include directors' profiles, including their names, positions, degree of involvement in the business, background and contribution to the business. Many clubs, sports associations and community groups have community members elected onto the board in unpaid positions. These people contribute their time for the benefit of the community.

Business Bite

Nicola Roxon served as a politician for 15 years. She is a former industrial lawyer and was Member for Gellibrand in Victoria from 1998 to 2013. From 2007 to 2011, Nicola Roxon was the Minister for Health and Ageing and from 2011 to 2013, Roxon was appointed the first female Federal Attorney-General.

On leaving politics in 2013, Roxon served as a non-executive director on the boards of several organisations, for example the Cancer Council where she was eventually appointed Chair in 2017. By mid-2021, she was the Chair of HESTA (Industry Super Fund) and a non-executive director with listed companies Dexus and Lifestyle Communities, as well as the unlisted Utilities Trust of Australia (UTA). She is also on the Board of Health Justice Australia (a not-for-profit).

Details of management team

A major factor directly related to the growth and success of the business is the ability of its management team. The business plan should identify its key people and outline their main areas of responsibility as well as each individual's level of education, specific skills that they bring to the business, degree of involvement and number of years with this business, and possibly some information about their past experience.

Source 13.8 The management team is directly related to a business's growth and success.

The Green Gardener: Organisation and management

Currently, the legal structure of The Green Gardener is a sole trader. Josh Green is the only owner and operator of the business. Mr Green (Josh's father) is a chartered accountant and will assist with and direct Josh in the organisation of accounts, billing and record-keeping.

Digital quiz
Please see the Interactive Textbook to access digital activities.

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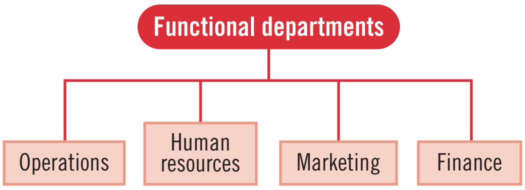
13.8 Strategies

Strategies are the methods that the business intends to use to achieve its goals and objectives. They are made up of a series of tactical plans for each functional area of the business.



Source 13.9 A business plan can provide strategies based on functional departments.

Operations

The operations function involves the actual production of the good or provision of the service. In manufacturing, it is concerned with receiving inputs (often raw materials) and transforming or processing them into a more refined product. These could be intermediate or final-use goods. In the case of services (for example, in an accounting business), an operations function could be the client providing source documents and the accountant transferring the data into a complete set of financial statements required by the Australian Taxation Office.

Description of the good or service

The operations section of the business plan provides a detailed description of the goods and/or services that the business provides. Operations designs and makes changes to products to take into account the results of market research highlighting 'what the customer wants'.

Source 13.10 Lawnmower service centres provide both products and services.

Products include the goods and services offered by the business. The plan will need to identify the key features of each product and the benefits that it can provide for customers. It should explain why a customer would choose the business's product and not a competitor's product. This section may include details about:

- current production facilities
- technology used
- materials and equipment required
- supplies used
- the timetable or schedule for production
- customer bookings
- research and development, such as testing and evaluation procedures
- patents, copyrights, trade secrets
- processes that could be or are already being outsourced to specialist suppliers.

The Green Gardener: Strategy

Operations

Description of products

The Green Gardener's main service is lawnmowing. Josh is also able to trim hedges, weed garden beds, spray fruit trees and complete lawn edging. Currently, he will need his clients to be within walking distance of his home. Josh plans to purchase a ute in his second year of operation.

Continued →

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Over the next year and into the cooler months when the growth of lawns slows down, Josh will extend his range of services to include odd jobs such as rubbish removal and replanting, as well as small home-maintenance services such as replacing broken fence palings. He will also offer mail collection, looking after pets and putting out bins when residents are away from home for extended periods of time.

Materials and equipment

Josh has worked out that he can borrow a lot of the items from his father to carry out his business. Equipment needed will include:

- home office equipment – computer, printer, desk and chair, calendar
- heavy-duty lawnmower
- edge trimmer
- hedge trimmer
- broom
- rake
- blower
- small toolkit to carry a few essential tools and parts, such as spare lawnmower blades, hand shears and a spanner.

He may need to buy:

- goggles ($45)
- gloves ($30)
- A4 paper ($5 per ream)
- refills for the line trimmer ($6 each)
- petrol for the equipment ($1.50 per litre)
- oil for the equipment ($12 per litre).

Customer bookings

At present, while Josh is still at school, he will be able to book in customers for Saturdays and Sundays and, if needed, on Wednesday afternoons (as a Year 12 student, he is no longer involved in school sport).

Josh intends to increase these times after the HSC examinations to be available seven days a week so that he can build up his clientele. Also, with daylight saving and longer summer days, he can be more flexible with customer arrangements. Josh is realistic and accepts that if he is serious about his business, he will need to put work first and social activities will need to come second.

Source 13.11 Some of The Green Gardener's tools of the trade

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Human resources

Personnel requirements and skills

The business plan must take into account the number of employees required to produce the product and the skills that employees would need. The human resource department must ensure the business has the necessary staff to achieve the strategic goals of the business. The human resource department's tactical plans will have set objectives of their own, such as to:

- recruit and select appropriate staff for the various sections of the business
- ensure a safe and healthy work environment
- ensure employees understand what their job involves and what is expected of them
- measure and evaluate employee performance
- train workers where changes (such as new technology) are introduced and enhance their skills
- establish a reward system to maintain and motivate workers.

Thus the business plan should include details of current and future staffing needs, required training, maintenance of staff and planned redundancies or retirements.

Training and development

The business plan should allow for necessary training of staff for the jobs that they currently complete. This would enable them to improve their skills, resulting in greater efficiency and productivity of the workers.

The plan should also take into account future skills that may be developed due to planned technological improvements, possible restructuring of the business and job reallocation.

The Green Gardener: Strategy

Human resources

The Green Gardener only has one worker. Josh Green is the owner and operator of the business. Josh has a few friends who have given him support and offered to help out by filling in as casual employees if he has too much work on.

One friend in particular, Fred Brown, with similar skills to Josh's, would like to join Josh and form a partnership. Initially, he has suggested that Josh set up the business and build up a customer base. Fred will join the business in its second year. Fred Brown's father is also willing to let Fred use his equipment if necessary. At this stage, Fred has a part-time job at KFC and is saving his money so that he will be able to contribute funds to the partnership and help grow the business.

Marketing

Marketing involves establishing action plans for the business to attract customers. For a business to be successful, it must clearly understand its target market – that is, who its customers are. This would include existing and potential customers' age, sex, income group, geographic location and lifestyle. This specific group will need to be large enough to provide the firm with an adequate market to sustain a profitable business and allow it to achieve its goals. Marketing must be able to establish what the customer wants and assist the business in developing a product that best satisfies these desires.

Market analysis

The market analysis section of the business plan should provide adequate information to convince a lender, investor or other interested party that the business has enough existing and potential customers to achieve a certain level of sales, even though there is competition in the market. Market analysis includes a study of customers, the level of demand in the market, market trends such as modern colours and product features, and the business's competitors.

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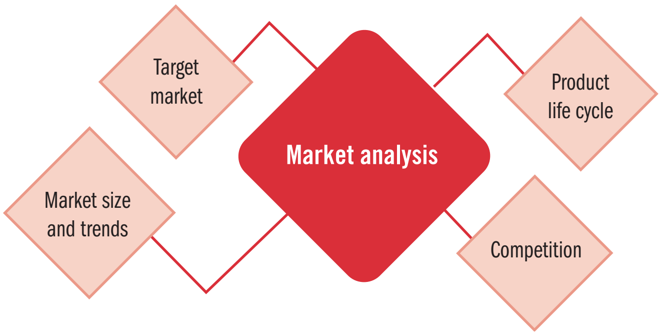
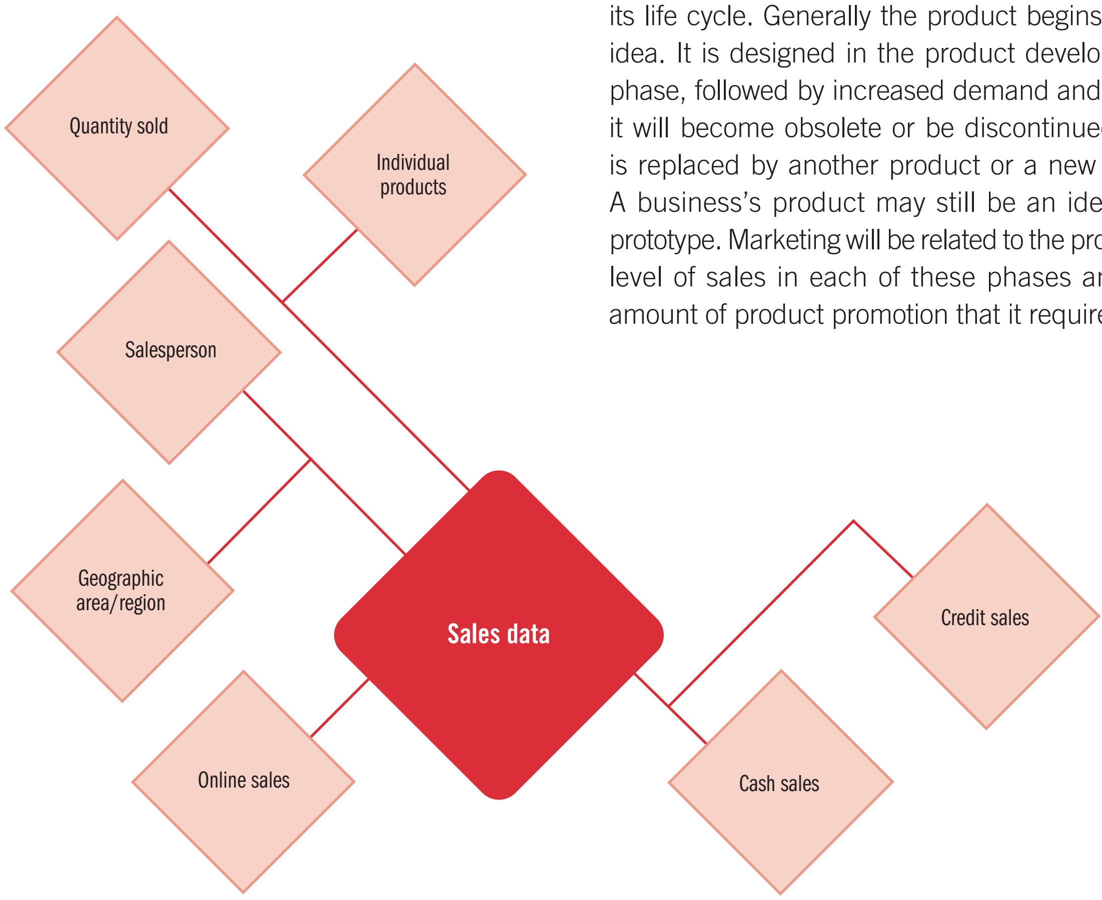


Source 13.12 Components of market analysis

- *Target market:* The business plan should provide a profile of the people to whom the company directs its marketing: its target market. An existing business would be able to provide statistics on present customers and outline trends or patterns in sales – for example, an increase in the number of online shoppers from rural areas. A new business would provide population statistics or demographics of its anticipated potential customers.
- *Market size and trends:* The business plan will present information detailing the size of the total market as well as the target group. As businesses expand, they may enlarge their target group by providing additional product features or simply improving marketing techniques. For example, gluten-free bread, initially prepared for people with coeliac disease, has become a popular bread to eat as it is seen as a healthier alternative. Using past performance details such as sales data (see Source 13.14 on the next page) and current business environment factors, the business will attempt to determine future market trends for its products.
- *Competition:* A company must be able to identify its main competitors. It may also require information on the competitors' sales, market share and competitive advantage, and need to make comparisons between competitors and its own business.

Product life cycle

The business plan should evaluate the product in its life cycle. Generally the product begins as an idea. It is designed in the product development phase, followed by increased demand and finally it will become obsolete or be discontinued as it is replaced by another product or a new trend. A business's product may still be an idea or a prototype. Marketing will be related to the product's level of sales in each of these phases and the amount of product promotion that it requires.



Source 13.13 Possible areas for collection of sales data

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Source 13.14 Sales data for incentive scheme

Name	Department	Pay scale	Product 'A'	Product 'B'
Fred Neal	A6	4	10 345	1 205
Gloria Roberts	F4	3	3 456	5 624
Michael Pen	G4	3	6 251	3 425
John Nareen	A6	4	15 203	2 010
Andrew From	A6	2	3 692	936
Elizabeth Bernard	F4	3	5 432	6 714

Sales forecasting

Analysis of a firm's sales figures will give a clearer understanding of the amount of sales revenue, the quantity sold and the firm's market share. Management uses these statistics and an analysis of emerging trends to make sales forecasts that the business expects will result from its marketing plan. This can include sales in terms of quantity (units) and dollars for each product and each target market. More detailed plans could provide several projections based on differing circumstances. In the case of sales of swimwear, projections could be based on a hot summer, a mild summer and a cool summer. The more variables presented in the business plan, the more the lender and other interested parties will recognise it as a well-considered plan.

The Green Gardener: Strategy

Market analysis and sales forecasting

Market analysis and target market

The Green Gardener will target a specific segment of the consumer market. Segmentation will be based on geographic location and, in Josh's first year of operation, will be limited to within walking distance of his home. His target area is residential homes in a middle-class suburb with large yards. The age group considered is mainly older singles and couples, possibly retired, whose children have left home (empty nesters).

Josh is canvassing his neighbourhood to develop a client list, including future potential clients. In his second year of operation, Josh intends to expand his target group geographically as he plans to purchase an appropriate vehicle to transport his equipment to his customers.

Market trends

Residents in the area increasingly need assistance with small domestic repairs and services. As members of the local church group and community, Josh and his family are well known, well respected and trusted by their neighbours. Locals often ask Josh's family for assistance to move furniture and help with odd jobs and repairs on their properties.

Continued →

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Many of the neighbours are retired couples who are often at home, which fits in well with Josh's availability. This will also be a benefit when Josh has finished the HSC in October and his university course does not begin until late in the following February.

Competition

Josh has investigated the market and understands that current lawnmowing services appear to be servicing commercial premises in his area. This includes new developments such as schools, office blocks, apartments and shopping centres. Most of these premises are a long distance away and beyond his small geographical area. The residential area has had pamphlet drops by other lawn-care providers; however, residents seem to have issues about people with whom they are unfamiliar, and prefer to ask Josh for his help.

Sales strategy

Josh Green's neighbours are very social with other neighbours and speak highly of Josh's work ethic and ability. Josh feels that this word-of-mouth marketing will benefit him greatly.

Josh will also offer special deals for long-term arrangements for his services, such as weekly or fortnightly lawnmowing during the summer months of the year. Many of the older residents are very house-proud and want to maintain the value and presentation of their properties without having to call in expert (and expensive) tradespeople for small jobs.

Josh will take advantage of his existing connections with his church and local area and visit his neighbours individually to explain his new business idea. He may offer them a free estimate and free mow to illustrate his skill in lawnmowing.

Activity 13.2
Create a customer profile

Construct a customer profile for the target market group that would be interested in using air-tight plastic food-storage containers that have a built-in indicator that changes colour or shows a decreasing number of stripes in an indicator panel as the contents age, lose their freshness and get closer to their use-by date.

Source 13.15 To whom would this product appeal?

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Activity 13.3
Suggest variables

Suggest some variables that should be considered by a company supplying the following products:

a woollen jumpers
b cream doughnuts
c designer jeans
d cinema movie screenings.

Marketing strategies

Marketing strategies will be directed towards achieving specific objectives that support the strategic goals of the business. Goals identified in the business plan could be based on:

- increased sales
- increased market share
- entry into and establishment in a new market area, such as overseas
- diversification of the product base
- increased profits.

The paths to achieving these goals are not necessarily all the same, and may even conflict in the short term. For example, if a business aims to increase its market share in the long term, it could use a strategy of discounting its products to gain new customers, knowing that it will be cutting its own profit levels in the short term. While increased sales could be achieved through price-cutting, this goal may also be achieved through: better marketing strategies; improved product quality; a takeover of, or merger with, a competitor; expansion into other geographic areas; or even higher prices set for an innovative version of an existing product. It may be better to sell a few items at a high price than many at a low price.

Source 13.16 A smaller business might compensate for higher sale costs by making its service more personable.

Often the strategy used to achieve a goal, such as increased market share, may be affected by the size of the business and its cost structure.

A large company may seem better able to cope with cost-cutting, but if it is heavily funded through debt finance, it may not be as profitable as it appears to be. Smaller businesses may be pressured to follow the larger one's price leadership or they may be able to retain or even gain sales through quality service and personal attention to clients.

The business plan should outline the strategies that the business will use to achieve its strategic goals. These marketing strategies must be consistent throughout the marketing mix and take the following into consideration:

- *Product:* Quality of the product, its image and its positioning in the market. A business needs to show a clear understanding of how its customers and competitors see its product. For example, John West tinned salmon changed its slogan in 2018 to 'It's a No from John West', which reinforces the previous slogan of 'It's the fish that John West rejects that makes John West the best'. The complete product concept will also include after-sales benefits, including warranties and after-sales service.
- *Price:* The price that has been set, how it is determined and how it compares with competitors' prices are all considerations. A low price may encourage sales; however, the product could also be perceived as poor quality or it may be known that a newer version of the product will be introduced shortly – for example, the end-of-year run-out sales typical of car yards.
- *Promotion:* Methods used to encourage consumers to believe that they need this product and to maintain customer awareness of the product, such as funeral insurance. In 2019, John West introduced a new campaign called 'Get yourself shipshape', targeting good health.

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- *Place:* The available distribution methods should be assessed. For example, the company may need to determine the value of the product being sold through outlets that are well-known for selling quality products with excellent back-up service, such as David Jones compared with The Reject Shop.

Thus the marketing strategy could, for example, involve the best product, at the highest price, sold through selective sellers and offering special delivery facilities. Additionally, the plan could extend the marketing mix to include the concepts of people, physical evidence and process.

The Green Gardener: Strategy

Marketing strategies

The Green Gardener's competitive edge will be based on quality work and Josh's direct involvement in the job. Josh will personally visit each neighbour, building on his involvement with the church and the local area. Josh will, through one-on-one communication, explain his experience with lawnmowing and the pride he takes in his work. He will offer a free mow to display his work and realises that not all his potential customers will require his services or long-term arrangements. He will also emphasise that he is readily available to help out in times of need, such as customer illness, and does not assume an ongoing relationship.

Josh is confident that he will be able to make weekly mowing arrangements with at least 15 customers throughout the first four summer months.

In the second year of operation, Josh will be able to expand outside his local area and plans to enter into a partnership with Fred Brown, enabling him to grow his business. Together they will purchase commercial-quality lawnmowers and gardening equipment, enabling them to more than double their customer base. Josh will also have accumulated enough funds to pay a deposit on a good second-hand ute for transportation to new customers.

Product

Lawnmowing service and general garden tidy-up. Other odd jobs can be negotiated individually.

Price

Josh has calculated that a large lawn takes him less than two hours to mow and tidy up. He feels that $50 is a reasonable fee for his service. He has researched other lawn care providers and many charge a higher fee; however, they also remove the grass cuttings from the property. Josh will rely on the customers' green garbage bins to dispose of the grass cuttings and many customers also have compost heaps.

Josh will also offer a discounted price of $40 for long-term mowing arrangements. Josh feels that if he is looking after a lawn on a weekly or fortnightly basis, he will be able to do the job more quickly and, if he can gain the trust of the customer, complete the job even if the customer is not at home.

Continued →

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Promotion

Josh uses personal selling through one-to-one communication. He feels that his personalised service catering directly to his clients' needs will result in customers' positive word-of-mouth communication.

In the second year of operation, The Green Gardener will have a flyer letterbox drop for the wider local area. This can be organised by Josh's mother, as she works in the marketing department of a large firm. The pamphlets will be made on the computer and printed at home. Josh and his friend Fred intend to deliver the pamphlets themselves.

Josh will also investigate putting an advertisement in the local newspaper, if required.

Place

Direct communication for booking the day and hours for mowing will be based on each individual customer's needs.

Josh is currently completing a woodwork and metalwork course for the HSC and one of his major projects has involved building a lightweight trailer that he can attach to his bicycle. This will allow him to effectively transport his gardening equipment to his local customers when necessary.

Activity 13.4
Discussion

1 In 1962, the market share for Avis, the car rental company, was 29 per cent. Its main competitor had 61 per cent. Who was its main competitor?
2 By 1966, Avis's market share had increased to 36 per cent and the market leader had 49 per cent. Suggest reasons for this change.
3 Who are the current competitors in this market?
4 Avis used its second-place market position to promote itself. Its slogan, introduced in 1962, was:

    'We're number two. We try harder.'

    It ran for 50 years. In 2012, the slogan was changed to:

    'With Avis, it's more than a rental, it's your space.'

    Why do you think Avis changed its slogan? What do you think about the new slogan?
5 Discuss and propose general statements based on the relationship between price and an individual product.
6 Compare the price of a product with the positioning of that product.
7 Compare the price of a product with the price of a competitor's product.
8 Compare the price of a product with the availability of alternative or substitute products.
9 Help with the weekly family shopping at the local supermarket and identify factors such as shelf position, in-store location and competitive pricing.

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Finance

The finance section of the business plan outlines the funds available and those needed to support the business. Forecast financial statements that back up the business plan will show whether the strategies for the product will generate sufficient cash flow needed for the business to operate successfully, cover expenses, fulfil debt obligations and also provide a return to investors in the business. They will establish whether the business idea is viable.

All businesses involve risk-taking, and the business plan will realistically identify the risks involved in the venture. Analysis of financial statements will provide information about assets, liabilities, profitability and equity over the period. Financial statements can present a picture of the stability, expansion or decline of the business.

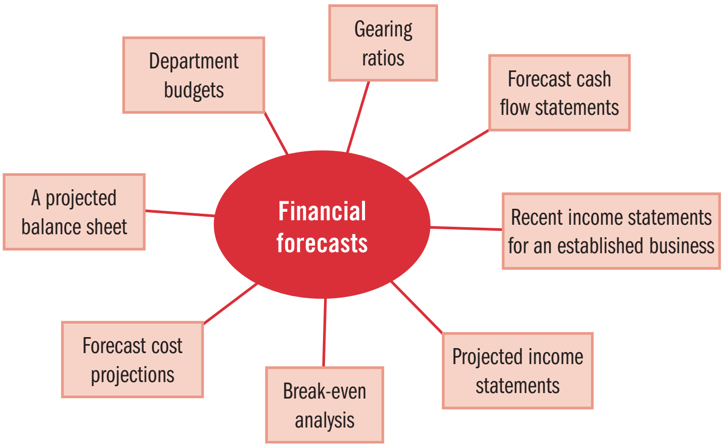
Financial requirements

New businesses need to have a clear idea of the amount of funds they will need. These funds could come from debt financing, the original owner's equity or a future partner's equity. Most investors would require the owners to contribute a percentage of the funding for the business, and therefore have something to lose personally.

The business plan should provide a breakdown of how these initial or additional funds will be used. This could include start-up costs, purchase of new equipment or expansion programs. Once the business has begun operations, it is important that funds are available when needed or liquidity problems could develop. Liquidity is a key issue for SMEs.

Financial forecasts

Planning must relate directly to the prime function of the business. It tells the owners whether they can actually afford to produce the product or provide the service. The company must make financial forecasts based on information gained from market and product research. Some ways in which financial forecasts can be made are shown in Source 13.17.



Source 13.17 Financial forecasts

Forecast cost projections provide a detailed analysis of how much each part of the project would cost. Forecast cash flow statements show how much money is needed, when it is needed and where it will come from. This identifies and highlights a period of anticipated surplus or shortage of funds. The firm could have several products or services available to clients. Forecast cash-flow statements should reflect specific timeframes, such as weekly, monthly or quarterly. Cash flow will be affected by sales turnover time periods and the time it takes to recover accounts receivable. For example, expensive, high-profit luxury products with term payment conditions will not present the same set of results as low-priced items with high levels of turnover in cash sales.

Projected income statements record revenue, expenses and cost of goods sold, and project the profit or loss a business will make during the time period involved.

For a business that is starting up, a personal balance sheet may be required. A new business requires the backing of personal financial commitment. The owners need to be able to maintain their personal commitments and still

Source 13.18 Balance sheets need to be kept.

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provide enough income for their family to live on. An existing business's balance sheet will indicate the stability of the business and calculate its net worth, thus providing future investors with important information about the risk they would be undertaking.

The business can complete a break-even analysis showing a forecast of total revenue and total costs for its products. It will show how much of a product has to be produced and sold in order to cover costs. It helps to determine how much profit may be made at different levels of sales. (For more information, refer to Chapter 11.)

Gearing ratios may be used to show the long-term financial stability of the business. They provide an indication of the risk for investors. Investors will be interested in the amount of funds that the owners have put into the business.

Proposed budgets will specify the finance needed for resources required to implement these plans. Budgets specify how the money will be allocated and could refer to staff, equipment or materials. They are estimates for future time periods.

Financial records

Small businesses need to keep accurate financial records for all transactions. They will need to have:

- income statements
- cash flow statements
- balance sheets
- budgets – marketing, operations, human resources and finance.

Financial controls

The business plan will need to have controls in place to ensure the business stays on track. In each business, measures need to be implemented to provide standards to which it can compare itself.

Controls allow for corrective action to be taken to keep the business on a successful path. Without controls, a business's ability to achieve success would be questionable. Budgets can be used as planning and financial control tools. They enable a business to assess the degree of its financial success.

The Green Gardener: Strategy

Finance

Josh Green has $2000 saved in his bank account that he can use to purchase equipment if necessary. He is confident that most of his customers will pay him in cash after each mowing service and that he will not need to provide credit accounts on any substantial level. He may need to negotiate this with customers who are going away for holidays. However, as the majority of his customers are known to the family through church and local functions, he does not feel there will be a problem. Josh's only start-up costs involve petrol, oil, safety glasses, sunscreen, gloves and his own time.

Forecast revenue

Josh will begin his business after the Trial HSC examinations, which is also after his major works for Woodwork and Metalwork have been submitted and during the cooler months of the year. Josh has calculated his revenue on a four-weeks-per-month basis to allow for rain and additional inconveniences.

Continued →

Source 13.19 The Green Gardener's forecast earnings for the first year of operation

Month	Notes	Customer details	Calculations (price × weeks × customers)	Sub-totals	Total monthly revenue
August		3 customers, mowed once each this month	$50 × 3	$150	$150
September		3 customers, mowed once each month	$50 × 3	$150	$150
October	HSC exams	4 customers, mowed every 2 weeks	$50 × 2 × 4	$400	$400
November	Warmer weather and rain are making the grass grow quickly	5 customers mowed each week ($40 for long-term arrangements)	$40 × 4 × 5	$800	$800
December		8 customers mowed each week	$40 × 4 × 8	$1280	$1280
January	Additional services offered as a few customers are away on holidays	12 customers mowed each week 4 customers additional services	$40 × 4 × 12 $50 × 2 × 4	$1920 $400	$2320
February		15 customers mowed each week	$40 × 4 × 15	$2400	$2400
March	Start of the cooler months	13 customers mowed each week 8 customers mowed every 2 weeks	$40 × 4 × 13 $50 × 2 × 8	$2080 $800	$2880
April	Additional services offered to existing clients – for example, winter clean-up, stacking wood for chimneys	24 customers mowed every 2 weeks 2 for additional services ($25/hour)	$50 × 2 × 24 $25 + $40	$2400 $65	$2465
May		25 customers mowed every 2 weeks 5 odd jobs	$50 × 2 × 25 $25 + $40 + $50 + (2 × $75)	$2500 $265	$2765

Continued →

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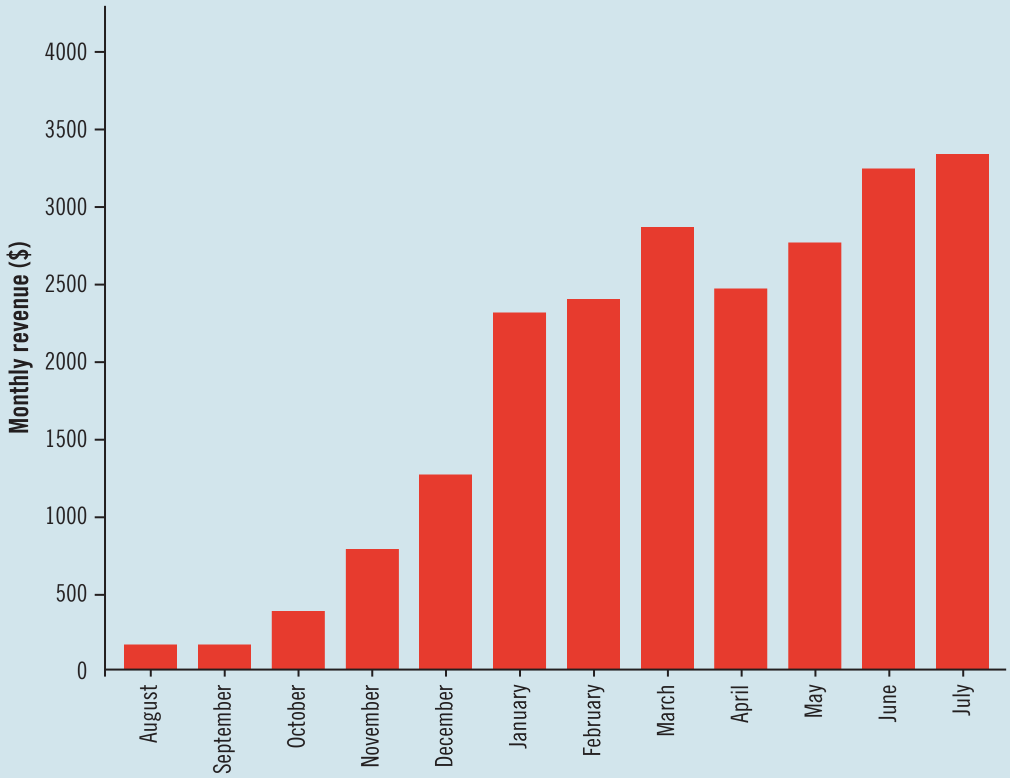
Source 13.19 Continued

Month	Notes	Customer details	Calculations (price × weeks × customers)	Sub-totals	Total monthly revenue
June		28 customers mowed every 2 weeks	$50 × 2 × 28	$2800	$3240
		Odd jobs	(4 × $50) + (4 × $60)	$440	
July		28 customers mowed every 2 weeks	$50 × 2 × 28	$2800	$3340
		Odd jobs	(6 × $50) + (4 × $60)	$540	



Source 13.20 Forecast monthly revenue for The Green Gardener's first year of operation

Year 2: Financial forecast

By July, Josh expects to have maintained at least 20 of his existing customers, who will change to weekly mowing as the weather warms up again. As a result of the flyer delivery and word-of-mouth promotion, Josh feels that his customer list will increase to more than 32 customers as well as additional odd jobs. (This area of the business proved far more successful than Josh had anticipated as customers did not need to wait for their children to have time to help out.)

Continued →

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If everything goes according to the business plan, Josh Green and Fred Brown have agreed to form a partnership at the start of Year 2. Fred will continue with his KFC shifts as a part-time worker as well as help Josh until the business can fully support them both. Fred has saved $2000 as his contribution to the partnership to allow the business to grow. Fred also wishes to complete a course in landscaping/agriculture.

Josh and Fred have completed research for new equipment and found the following (approximate figures based on current prices):

• Commercial mower	$800
• Blower	$280
• Edger	$370
• Hedge trimmer	$350
• Line trimmer (whipper snipper)	$200
• Broom	$30
• Rake	$40

Josh and Fred have confidence that they will make a success of this business venture, and both of them show a high level of commitment to the project. They have worked well in the research and planning stages of their business idea. Both Josh and Fred feel the business has enormous potential. They are hard-working and dedicated entrepreneurs.

Source 13.21 Beginning and growing a business requires a lot of planning and commitment.

Activity 13.5
Setting up a business

You are planning to set up a new business at a busy railway station in Sydney. Your business will sell helium balloons for all occasions.

1 Explain why you would need to write a business plan.
2 Identify the key areas that you would need to include in your business plan.
3 Try to formulate a vision statement for your business and provide a business description.
4 Construct a SWOT analysis for your new business idea.
5 Identify your target market.
6 Select one business function – operations, marketing or finance – and complete an action plan for your chosen business function for this business.
7 Write an executive summary for this business plan.

Digital quiz
Please see the Interactive Textbook to access digital activities.

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Chapter summary

A business report is a specific text type that is used to communicate information describing a business idea.

Business reports use short and precise sentences, business terminology, headings and sub-headings, and short paragraphs.

Business reports use diagrams, tables and graphs where appropriate to summarise key information and results.

Business reports need to be presented in a clear and easy-to-follow format.

The key elements of a business plan are the executive summary, business description and strategies for operations, marketing, human resources and finance.

The actual content of the plan and the way it is set out vary, depending on the industry involved and the purpose of the plan.

A business plan is a working document, and needs to be updated as the business environment influences change.

The executive summary is a brief overview of the whole business plan. It is written last and then placed at the beginning of the business plan. The executive summary usually includes a description of the business, the owner's vision for the future, information about the core product, the purpose of the plan and the main recommendations.

Every business needs to establish its current position in the market by completing a situational analysis such as a SWOT analysis.

The operations section of the plan provides a description of the goods and/or services that the business provides, as well as the personnel requirements and skills needed.

Marketing involves plans for how the business will attract customers to buy its products. This section of the business plan would include a market analysis of the business's customers, market size, trends and competition; sales forecasting; and marketing strategies.

The human resource department is responsible for personnel requirements and skills needed for each functional department; training and development required; and strategies to motivate staff resulting in increased productivity, quality and loyalty.

The finance section outlines financial requirements and financial forecasts. The financial statements provided show whether the plan will generate sufficient cash flow for the business to operate successfully. This section may include actual and forecast income statements, budgets, balance sheets and cash flow statements.

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End-of-chapter tasks

Chapter revision tasks

1 For each question below, pick a term from the box that, if incorporated successfully into a business strategy, would best contribute to answering the question. The terms can be used more than once and some questions will match with more than one term.

goals	strategies	finance	controls	equipment
SWOT	budgets	staffing	business description	time period
purpose of the plan	description of the product	situational analysis	market analysis	

a Who are you?
b What do you make?
c What is your current position?
d How did you work out your current position?
e What do you hope to achieve?
f Which achievement is most important? Why?
g Why do you need to make a plan?
h How do you plan to achieve these things?
i Are there other ways that you can achieve these results?
j Why did you choose this method?
k How long will it take you?
l What do you need to do this?
m How much will it cost you?
n Can you afford it?
o Some months later, are you on the right path?

2 Research via the internet three business reports or plans. On a separate sheet of paper, list the business name and then detail whether the reports:

- begin with a main heading or title
- are clear and to the point as well as logically presented
- use business terminology
- use short and precise sentences
- are broken into sections, with each section identified by headings and sub-headings
- use bullet points within each section to create lists
- include diagrams, tables and photos where appropriate
- include statistical information to back up statements and for evaluation of the information presented
- use paragraphs that are short, link similar ideas and only include three to five sentences
- include an executive summary.

Multiple-choice questions

1 An entrepreneur of an SME needs to research the marketplace to identify their:

A viability.
B visibility.
C variability.
D venue.

2 The business report is a specific text type that is used to communicate information that describes:

A a business idea.
B a new development.
C proposed changes of management.
D financial details.

3 The presentation of a business plan is usually completed in:

A essay format.
B interview format.
C feature article format.
D business report format.

4 What does the acronym SWOT stand for?

A Special ways over time
B Special, weaknesses, origin and threat
C Strengths, weaknesses, opportunities and threats
D Strengths, weaknesses, over time

5 A projected income statement provides the business with:

A a forecast of future assets.
B a projection of cash flow.
C the need for future debt financing.
D a forecast of future revenue and expenses.

6 A business plan is important for business success because:

A it is a legal requirement.
B it is a guarantee of failure.
C it allows a business to identify its intended future direction.
D you cannot open the business without one.

7 A business plan is:

A a continually evolving document.
B a fully completed and unchanging document.
C one of the financial statements.
D needed to be able to lease a premises.

8 Small to medium enterprises must:

A all register for GST.
B pay tax on all their profits.
C all start as sole traders.
D None of the above.

9 The executive summary is:

A the conclusion of the business report.
B a situational analysis.
C a market analysis.
D a brief overview of the whole business plan.

10 A firm needs to establish who its customers are and what they want, then develop a product that satisfies this market. What is the term used to describe this market area?

A Segment
B Sector
C Target
D Direction

Short-answer questions

1 Explain the advantages of using a business report format for a business plan.

2 Discuss why a business report should include graphs and tables.

3 Outline the role and importance of the executive summary.

4 Explain the importance of market size to the growth of a business.

5 Outline how a business could expand if market research had found that a limited market existed for its main product.

Extended-response question

Evaluate the importance of a business plan to a business.

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Glossary

Accountability
The process whereby managers are answerable to particular groups affected by the activities of the business.

Accountable
Managers are responsible, or accountable, for completing specific duties. They must also report to their superiors regarding their progress and/or achievements in their areas of responsibility.

Accounting
The process of collecting and analysing the financial information of a business and then communicating the financial results to relevant stakeholders.

Advisory service
Professional business advice provided by an expert business consultant for a fee.

Assets
All the resources owned by and under the direct control of a business or individual.

Autocratic
An autocratic manager dominates the decision-making process.

Award
A legal document that specifies the minimum working conditions that apply to all people employed in a common industry.

Bad debt
An account that is unable to be paid when an invoice or bill has been issued. The customer has a debt owed to the business, but is unable to pay; therefore, their debt becomes an expense.

Balance sheet
A summary statement of the assets a business owns, the liabilities the business owes and the equity the owners have invested in the business.

Bankruptcy
A legal declaration that a person or business has more liabilities than assets.

Benchmarking
The process of measuring performance against established standards, such as a comparison of a firm's performance against standards set by competitors in the same industry in the domestic market.

Bottom line
The net profit from business operations after all costs have been paid.

Brand
A name, design or symbol that distinguishes a particular product from the product of another business.

Break-even analysis
A financial planning tool that can be used to forecast how much of a product has to be produced and sold in order to cover costs and start to make a profit.

Budget
A plan based on numbers. It is a statement that sets out a schedule for achieving set outcomes, based on forecast figures or expectations of future operations.

Business
An organisation that attempts to satisfy the needs and wants of the community by providing goods and/or services.

Business activity statement (BAS)
A report that all registered businesses must complete to record and pay their taxation obligations (including GST and PAYG) to the federal government.

Business life cycle
The different stages a business and/or its product will often go through over the course of its existence.

Business network
An organisation that provides a forum for business owners to share information and advice, and to support each other to improve their chance of success.

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Business plan
A written document setting out the details of a business and its products, including its market and industry, as well as its goals and objectives and its strategies to achieve them. It is a complete analysis of the business.

Business report
A specific text format that is used to communicate information that describes a business idea.

Cash flow statement
A financial report that summarises cash transactions – involving cash flowing into and out of the business – that have occurred over a period of time.

Cessation
The path in the post-maturity stage of the business life cycle when the business closes. Cessation can be voluntary or involuntary.

Chain of command
The strict line of authority that extends from the top of the pyramid down to the lowest level. It exists in the police force and the armed services, for example.

Change agents
Individuals with analytical skills that enable them to see the consequences of change and influence others to accept change.

Collegial
Where there is stronger communication between employees and employers.

Common law
Based on custom or court decisions.

Communication
The exchange of information between people; includes talking, listening and understanding what is being said.

Competitive advantage
Those features of a product or business that provide it with an advantage over its competitors.

Controlling
Monitoring and evaluating performance so that, if necessary, adjustments can be made to plans and procedures to achieve objectives.

Core or key business functions
The main activities of a business, including operations, human resources, marketing and finance.

Creditors
The businesses, financial institutions and individuals to which a business owes money.

Cultural incompatibility
A conflict between the informal, unwritten rules and procedures of two individual businesses that have merged.

Culture
The informal, unwritten rules and procedures followed in a business – a business's way of doing things. For example, a business may have a generally accepted dress code of smart casual.

Current assets
Assets that earn revenue for a business in the short term – usually less than 12 months. Examples are cash in the bank and accounts receivable.

Current liabilities
Money that is owed to an external business or person that will be repaid in the short term, usually less than 12 months.

Customise
To change the features of a product to suit the precise preferences of a customer.

Debenture
A long-term loan where a company writes a document expressing its commitment to repay a debt at a fixed date in the future; sometimes known as bonds. Debentures require assets of the borrower as security for the loan.

Debt finance
Funds borrowed from a bank, an investor or another firm. It involves a contractual agreement that specifies the need to repay the principal as well as interest, and states the set period of time over which the debt must be repaid.

Decline
The path in the post-maturity stage of the business life cycle when a business experiences falling sales and has been unsuccessful in developing new strategies.

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Defect rate
The percentage of goods produced that are of an unacceptable inferior quality.

Demographics
The study of particular features of the population, such as age, sex, income and cultural background.

Demutualisation
The process of offering shares in a business to members. The organisation becomes a shareholder-based organisation rather than an organisation controlled by members.

Deregulation
The government's removal of or reduction in controls and regulations on an industry or sector of the economy or market in order to achieve greater competition.

Deskilling
Occurs where the introduction of new technology leads to repetitive tasks being performed by machinery, so employees and their skills are no longer required.

Distribution channels
The channels by which a product is moved from the place of manufacture (the product's place of origin) to the consumer (the product's final user).

Dividend
The income earned from owning shares in a company. It is usually paid every three or six months, and is based on the profits the company makes.

Division of labour
Each task is divided into small steps in the production process and a worker is assigned to each task.

Downsize
To decrease the scale of operations – for example, through a reduction in the number of staff employed.

Drawings
When the owners of a business take money out of the business for their own use. This reduces the owners' equity because the owners are reducing their original investment in the business by withdrawing capital.

Driving force
A force that pushes towards the need for change.

E-commerce
Electronic commerce; the use of electronic communications (such as the internet) to carry out business.

Economic cycle
The fluctuation of consumer and business spending over a period of time.

Economic downswing
A fall in consumer demand that occurs as economic growth slows.

Economy
A system where governments, businesses, consumers and other relevant organisations interact to satisfy the needs of society.

Effective management
Management that achieves the goals and objectives of the business by making the right decisions at the right time.

Efficiency
Achieving maximum output with the minimum level of inputs. It involves achieving an objective without wasting resources and while keeping costs as low as possible.

Employer associations
Organisations that aim to promote the interests of employers within the business environment.

Entrepreneur
An individual who has developed certain ideas and is willing to take a risk to implement them through a business.

Equity finance
Internal sources of finance – that is, finance provided by the owners, who can give the business start-up capital or can contribute cash by buying shares. It also refers to any net profit reinvested in the business.

Ethics
Standards of behaviour and moral position, which influence the choices and decisions the person makes; what is seen as right or wrong for a business based on the values of management, employees and the community.

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ETM
Elaborately transformed manufactured good. Many inputs have undergone many changes and transformations to produce the output.

Evaluate
To make a judgement about performance.

Executive summary
A brief overview of the whole business plan.

Expenses
All the costs incurred in earning revenue; this could include wages, the cost of marketing and the purchase of materials and stock.

Exporting
The sale of goods or services to other countries. Goods must be transported to the country where they will be sold, but services do not need to be transported. Exported goods or services are called exports.

External stakeholders
Organisations and people outside the business who are affected by the decisions or actions of a business.

Finance
The process of providing and managing the funds that are needed so that goods can be produced and services provided.

Financial accounting
Produces financial statements about the overall financial position of a business.

Financial goals
Goals relating to increasing or gaining maximum wealth for the owners of a business.

Financial institutions
Organisations such as banks and finance companies that collect funds from savers to lend to businesses and other borrowers.

Fiscal policy
Government actions, such as the use of taxation (revenue) and expenditure, that are intended to influence the level of economic activity in Australia. Mainly operates through the Commonwealth Budget.

Forecasting
Trying to predict what will happen in the future.

Formal qualifications
Official recognition (such as a certificate) that a person has achieved a certain standard by completing a course of study at a school, university, TAFE or private learning institution.

Four Ps
The process of developing a product that meets the needs of consumers and implementing a series of promotional, pricing and placement strategies.

Franchise
An agreement where an existing business sells the legal right to another entrepreneur or business to use its well-known product and its trade name, methods and procedures.

Franchisee
The individual, entrepreneur or business that buys a franchise.

Franchisor
The individual, entrepreneur or business that sells a franchise.

Free trade agreements
Agreements that allow the export and import of goods and services between member countries to proceed without restrictions.

Global business
A business that often sells its products across many countries.

Goals
Targets to work towards in the longer term; the overall accomplishments that an organisation plans to achieve. Goals are realistic, achievable and measurable.

Good
An item that businesses produce that can be seen and touched.

Goods and services tax (GST)
A tax introduced by the federal government in 2000. It is a tax of 10 per cent on the cost of all inputs used in production.

Goodwill
An intangible asset valued according to the image or reputation a business has acquired over time.

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Government enterprise
A business set up by the government.

Gross domestic product (GDP)
The measure of the total value of all goods produced and services provided within a country's domestic economy in one year.

Gross profit
The revenue remaining after paying the cost of goods sold.

Hierarchical structure
The number of levels of managers and decision-makers in a business. Each level has a clear role and implements decisions made by the level above.

High value-added goods
Goods created by significantly changing and processing raw materials and inputs to produce a product with a high value or price.

Human resource cycle
Recruitment, training, maintaining (rewarding) and separation of employees.

Importing
The purchase of goods or services from other countries for use in the domestic sector. Imported goods or services are called imports.

Income statement
A summary of all revenues generated and expenses incurred by a business over a specific period of time, such as a financial year. It is completed to work out the business's profitability and efficiency. Also known as a profit and loss or revenue statement.

Induction
Introduces new employees to the business, enables them to become familiar with the workings of the organisation and provides them with information about the business's day-to-day operations.

Inertia
Reluctance or resistance to change; being satisfied with a situation as it is.

Inflation
The rate at which the cost of goods and services is rising, which affects the value of currency: as prices go up, the same amount of money will buy less.

Innovation
The process of introducing a new product or improving an existing one through new ideas, methods, systems and procedures.

Inputs
The resources (such as labour, finance, raw materials and equipment) that a firm uses to create outputs.

Insolvency
When a business cannot pay all its liabilities, both current and non-current. A business that is insolvent will most likely fail because creditors will demand repayment and the business cannot afford to pay loans without selling assets.

Intangible asset
An asset that does not physically exist and therefore is not written on a business's balance sheet; however, it is of value because the business can earn revenue from the asset. Intangible assets include a business's good reputation, trademark, design and brand name.

Intellectual property
The research and ideas that a business has developed into a product, trademark, design, name or artistic work that is unique to the business and can earn income. It is illegal to copy intellectual property without permission. Intellectual property is an example of an intangible asset.

Interdependence
Reliance or dependence on other people or functions to perform their tasks and roles.

Intermediate good
A good that is used by other businesses in the next stage of manufacturing as an input for further processing.

Internal stakeholders
Employees and others who work in a business.

Interpersonal skills
The ability to communicate and deal with different types of people effectively.

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Intrinsic qualities
Attitudes, skills and abilities that are an inherent, or natural, part of a person.

Inventory management system
A method of monitoring the movement of inventory in and out of a business to determine what inventory is available and what has been sold.

Investment banks
Specialist financial institutions that only deal with corporate and business customers.

Invoice
A bill sent to a customer requiring payment by a specified date. Invoices are primary documents in accounting because they are records of credit sales.

Involuntary cessation
Occurs when the closure of a business is forced on its owner.

Job description
A document listing the duties, tasks and responsibilities of a particular job.

Job specification
A written statement describing the key skills, experience and qualifications needed for a particular job.

Just-in-time method
A stock-control system whereby the business is able to access stock just when it needs it.

Laissez-faire
In terms of management style, letting employees do as they choose.

Large business
A business that employs 200 or more people (Australian Bureau of Statistics classification).

Layout
A floor plan of a business, showing the location of equipment or different functions in an office.

Lead time
The time it takes for a supplier to provide its customer with the goods ordered – that is, the time between the supplier's receipt of a request for goods and the delivery of those goods to the purchaser.

Leading
Setting standards to work towards and motivating employees to work hard to reach their potential and to achieve the business's goals.

Legal structure
How the ownership of the business is registered.

Limited liability
If a business has limited liability, the owners (shareholders) are not personally responsible for the debt incurred by the business.

Liquid assets
Current assets that are easiest to change into cash. Cash is the most liquid asset.

Liquidation
Occurs when all the assets of a business are sold to generate cash to pay liabilities and creditors.

Liquidity
Indicates how much ready cash is available in a business. Current assets are listed in order of liquidity, which is how easily they can be turned into cash. Savings in the business's bank account are the most liquid as they are already cash.

Local business
A business that operates within a local area.

Low value-added goods
Goods in which there is only a small difference between their value or price and the cost of the raw materials and inputs processed to create them.

Management
The people responsible for running the organisation.

Management accounting
The internal accounting process. Management uses financial statements as a basis for decision-making.

Market segmentation
Through market analysis, the division of the total market into small segments based on the similar or common characteristics of a customer group.

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Marketing
The process of developing a product and implementing a series of strategies aimed at correctly promoting and pricing the product and distributing it to a core group of customers.

Marketing mix
The process of developing a product that meets the needs of consumers and implementing a series of promotional, pricing and distribution strategies that will encourage consumers to purchase the product.

Medium-sized business
A business that employs between 20 and 199 people (Australian Bureau of Statistics classification).

Mentor
A more experienced and skilled individual who teaches and provides advice and guidance to a less experienced person on a personal basis.

Mentoring
A method of informal training whereby a less knowledgeable and less experienced employee is guided by a more senior member of staff.

Merger
The joining together of two businesses to form one business.

Micro business
A business that employs fewer than five people (Australian Bureau of Statistics classification).

Microeconomic reform
Policies developed by the government to promote greater competition within a particular industry.

Mission statement
Outlines clearly what the main goals of the business are and what it hopes to achieve for its stakeholders.

Model
A simplified version of reality based on specific assumptions.

Monetary policy
Actions taken by the Reserve Bank to influence the level of interest rates in the Australian economy.

Monitoring
Checking and recording the performance of a business.

Monopoly
A situation where there is only one firm in the marketplace.

Motivating
Driving an action using incentives.

Multiskilling
Acquiring additional skills, usually through training.

National business
A business that operates across an entire country.

Negotiation
A process involving two or more parties attempting to reach agreement and/or resolve a problem or conflict through direct discussion. It may involve a neutral third person, such as a negotiator or mediator.

Net profit
The final amount of revenue remaining after all expenses have been paid.

Network
Businesses working together as a group, performing tasks for their mutual benefit.

Non-core business functions
The activities of a business that are not directly related to its main activity but need to be performed, such as security and IT support.

Non-current assets
Assets that earn revenue for a business over a long period of time, usually greater than 12 months. Examples are land, equipment and vehicles.

Non-current liabilities
Debts of a business that are repaid over a long period of time – usually greater than 12 months.

Objectives
A detailed set of targets that a business wants to achieve by a stated time. Objectives can be written for the marketing, human resources, finance and operations departments of a business and are found at the start of the business plan.

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Oligopoly
A market situation whereby there are only a limited number of suppliers to the market, meaning there is less pressure on businesses to offer low prices.

Operational planning
Plans for the day-to-day running of a business, using input from supervisors.

Opportunities
External environment factors of which a business could take advantage.

Organising
Turning plans into reality by deciding what resources to use and how to use them.

Outputs
The goods and/or services produced using various inputs.

Outsourcing
A firm making a commercial arrangement for another firm to perform one of the support services that it once performed itself – for example, advertising.

Owner's equity
The owner's financial claim on the assets of a business. It is the original investment the owner made into the business by contributing capital or buying shares, plus any profit the business makes. Also called proprietorship or proprietor's funds.

Packaging
Provides protection for a product and attracts interest in the product.

Participative
Including employees in the decision-making process.

Partnership
An unincorporated business with more than one owner.

Patent
By taking out a patent, the owner of an invention, innovation or production technique has exclusive rights to sell, market, license or make a profit from it. A patent lasts for a set period of time.

Placement
How a product is distributed to its market – that is, the transportation used, the storage of the goods, and the outlets and locations that will sell the product.

Planning
Setting up strategic, tactical and operational plans and establishing goals and objectives.

Positioning
The image of the level of quality of a product in the mind of the consumer compared with alternative products offered by the firm's competitors.

Price
The money value or cost to the consumer of buying a good or service.

Primary industry
Businesses involved in the acquisition of raw materials, including natural resources.

Private company
A business that has limited liability and between one and 50 owners.

Privatisation
A process transferring the ownership of a government business to the private sector by issuing a prospectus and listing the business on the Australian Securities Exchange as a public company.

Proactive
Anticipating changes in the business environment and, in response, making adjustments to the business, ensuring that it can take advantage of opportunities and minimise threats.

Product
A good, service or idea that can be exchanged in the market. It includes all tangible and intangible features, such as size, colour, image and warranty.

Productivity
A measure of how efficiently products are produced – usually measured as output per labour hour.

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Profit
The difference between revenue earned and total expenses for the period.

Promotion
The process of creating and maintaining consumer awareness of and interest in a particular product.

Prospectus
A document that describes the nature of the business, its financial performance and possible risks that the business may face. It is issued to potential investors.

Public company
A business that is listed on the Australian Securities Exchange and has ownership open to all members of the public. Public companies have limited liability.

Quality
The extent to which employees are working to the best of their ability within the business and the extent to which outputs are free from errors.

Quality assurance
Establishing and using a set of procedures and/or processes that will prevent products from having problems (such as faults or errors).

Quality circles
Regular meetings of a group of employees from different sections of the business to discuss issues arising in the workplace.

Quality management
A strategy used by the business to ensure that the quality of the product meets business and customer expectations.

Quaternary sector
Tertiary sector businesses that provide information services to their customers and businesses, which enable the transfer of information.

Quinary sector
Tertiary sector businesses that provide services traditionally performed in the home.

Quota
A limit on the quantity of a product that can be imported. It is a trade barrier that reduces the competition faced by a domestic producer.

Rationalise
To implement a strategy to cut costs or make a process more efficient.

Receivership
A situation whereby an independent manager (receiver) has been appointed by the court to administer a business that has become insolvent. A receiver can either trade the business out of financial trouble or liquidate its assets and close the business to recover outstanding debt.

Recruitment
The stage in the human resource cycle that involves identifying staffing needs, seeking applications and selecting new employees.

Redundancy
Workers are made redundant when their labour is no longer needed. This may be a result of the business downsizing, restructuring or introducing technology to perform the workers' role. The business may ask workers to volunteer to leave (voluntary redundancy) or their employment may be terminated (involuntary redundancy).

Remuneration
How much a job is worth – that is, the pay and entitlements to be provided to the person employed to do the job.

Renewal
The path in the post-maturity stage of the business life cycle when a business develops new marketing strategies or releases new products to help increase sales.

Renewal strategies
Strategies used by a business to boost falling sales and profits.

Reserve Bank of Australia
The federal government's bank and the financial tool it uses to manipulate economic growth.

Restraining force
A force that holds back a business and resists change.

Retraining
Teaching employees new skills.

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Retrenchment
Workers are dismissed (retrenched) when their services are no longer needed because the business for which they work has downsized, closed a division or outsourced a function and therefore requires fewer workers.

Revenue
All funds flowing into the business; may include sales receipts and fees for services, rent, interest from investments and dividends from shares in other businesses.

Sabotage
An illegal form of industrial action that may involve an employee deliberately damaging the physical equipment of the business.

Salary
An annual rate of pay, divided into equal pay periods.

Sales reports
Reports that provide statistical and financial information to managers to allow monitoring of total sales, individual items sold, productivity of sales representatives and online sales methods.

Secondary industry
Businesses that use raw materials as well as labour and capital equipment to create finished products.

Selection
A screening process in staff acquisition. The information gathered about job applicants is reviewed and the most appropriate applicant is chosen.

Separation
The ending of an employment contract. Separation may come from either the employee or the employer.

Service
An intangible product that is performed for someone by another person. An example is a consultation provided by a dentist.

Shareholders
Owners of a company; they provide the capital that allows the company to operate.

Situational analysis
An examination of a business and its internal and external environments to identify factors that affect the firm directly, those over which it has no control and those it can influence or control. It establishes the current position of the business.

Small business
A business that employs fewer than 20 people (Australian Bureau of Statistics classification).

Social goals
Goals relating to the role of a business in the community in which it operates.

Sole trader
An unincorporated business with one owner.

Span of control
The number of workers that a manager directly controls.

Specialisation
Limiting work to a particular area, with the intent of becoming an expert in it.

Stakeholders
People and/or organisations that are affected by the decisions or actions of a business.

Steady state
The path in the post-maturity stage of the business life cycle when the business maintains its position.

STM
Simply transformed manufactured good. The inputs have undergone few steps in processing to produce the output.

Strategic alliance
A joint venture between firms that is established in order to share resources and thus gain benefits that would otherwise be unachievable.

Strategic planning
Long-term planning for a business as a whole developed by senior management.

Strategy
A plan designed to achieve a goal or objective.

Substitute
A product that can be purchased as an alternative to another product.

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Supply chain
A firm's purchasing system.

SWOT analysis
Used to examine the strengths and weaknesses of a business and the opportunities and threats that exist in the business's external environment.

Tactical planning
Short-term planning developed by middle management.

Takeover
One business buying a controlling interest in another business, such as by becoming a majority shareholder.

Tangible
A physical good that can be seen, touched and reused.

Target market
The focus of the firm's marketing strategy. It will include existing as well as potential customers.

Tariff
A tax on imported goods that earns revenue for the government and increases the price of the import, making it less attractive to buy when compared with locally made alternatives.

Tertiary industry
Businesses whose prime function is related to providing a service.

Threat
External environment factor that could present problems for a business.

Total quality management (TQM)
An approach to quality control that relies on continuous improvement in all aspects of the business. It is often referred to as *kaizen*, and is very evident in Japanese manufacturing companies, such as Toyota.

Trade show
Brings business owners together to display, demonstrate and promote their products to other business owners and the general public. Also called a convention.

Trade unions
Organisations that aim to protect and promote the interests and working conditions of employees.

Trademark
A symbol or name that a business uses and has registered to represent its product. It is part of a business's intellectual property.

Trading name
The name by which a business is known to its customers.

Training
Any activities that are aimed at improving an employee's present and future performance in the workforce.

Transnational business
A business that operates in many countries. Its goods and services are produced and sold in a number of different countries.

Transport logistics
The management of the physical flow of goods and/or services from where they are produced to where they are consumed.

Turnkey
A business that is ready to open and begin operating. A new owner merely has to turn the key and immediately start the business.

Under-capitalised
When a business does not have sufficient capital to conduct normal business operations and pay creditors.

Unemployment
A person is considered to be unemployed if they are not currently employed but are actively seeking work – either full-time or part-time.

Unincorporated businesses
Sole traders and partnerships. These are businesses that are not companies because they have not gone through the legal steps for incorporation.

Unlimited liability
If a business has unlimited liability, the owner of the business is personally responsible (liable) for debt incurred by the business.

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Variance report
A financial report that identifies the difference between what was planned and what actually occurred.

Venture capital
Capital acquired from a specialist venture financial institution that seeks to become a part-owner (shareholder or partner) in the business.

Vision
The ability to forecast market trends and develop long-term goals. Entrepreneurs need to have vision.

Vision statement
A written statement that expresses the inspirational image that the owners desire for the business in the future.

Voluntary cessation
Occurs when the owner of a business decides to cease its operations. The decision is not forced on the owner.

Wage
An hourly rate of pay; may include overtime payments for work done outside normal hours.

Word of mouth
The spread of information by people talking to each other. Satisfied customers will promote the business in conversation with friends.

World's best practice
Comparison of a firm's performance with the highest standards achieved globally.

Zoning
Legally restricts where certain business activities can be located in a city or town.

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