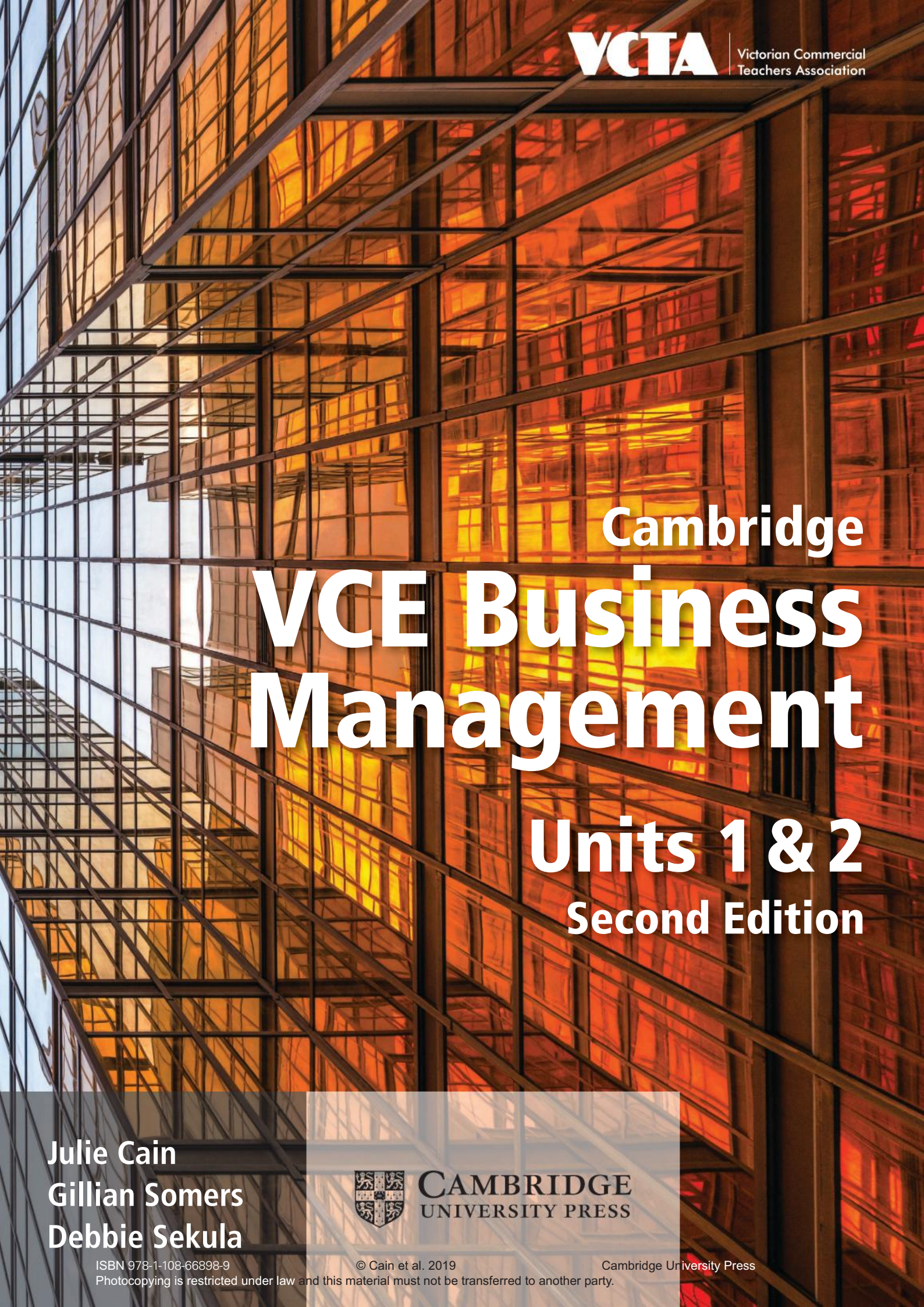

VCTA Victorian Commercial Teachers Association

Cambridge

VCE Business Management

Units 1 & 2

Second Edition

Julie Cain
Gillian Somers
Debbie Sekula

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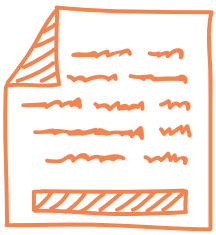

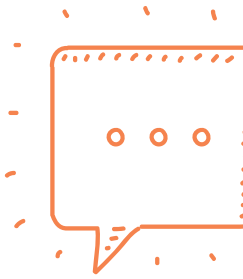

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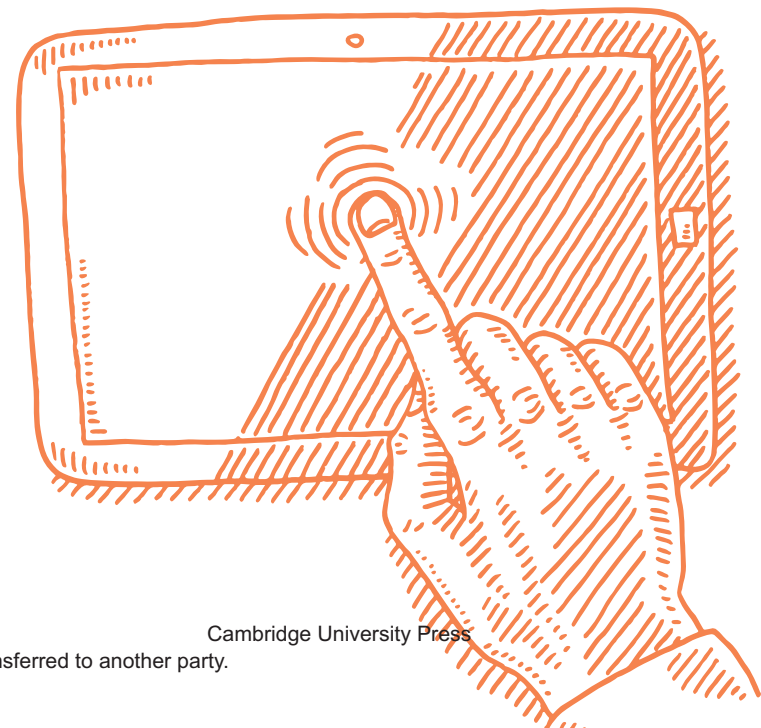

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Key knowledge table

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

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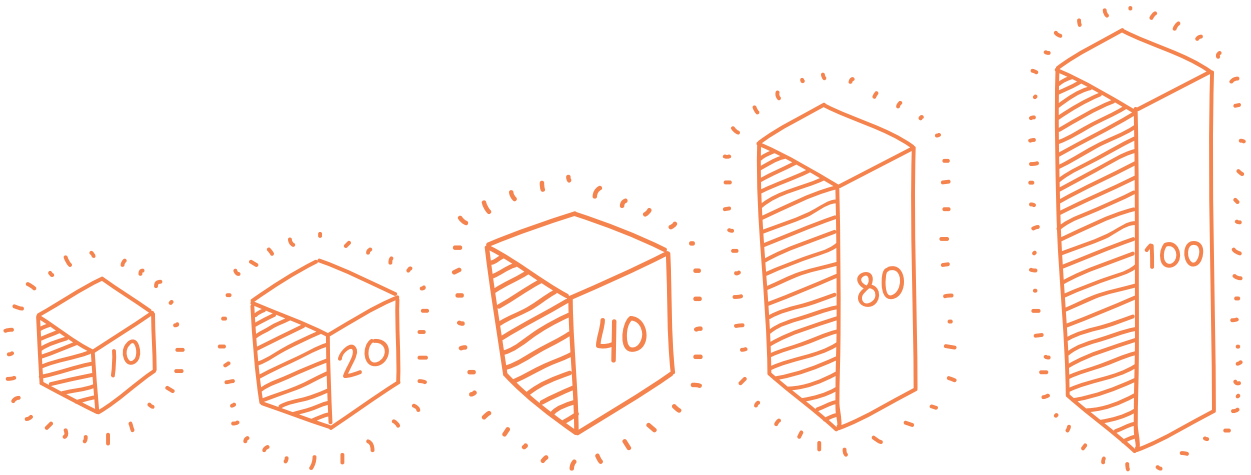
UNIT 1	PLANNING A BUSINESS	Area of study	Chapter	Key knowledge
			5 Influence of the operating environment on business planning	• Customer needs • Customer expectations • Competitor behaviour • Suppliers and the supply chain such as the resources required for the business and the considerations about where these resources are sourced and how they reach the business • Special interest goods such as environmental lobby groups, business associations and unions
		Part 3 AOS3 Internal environment	**6** Resourcing, locating and financing a business	• Business resource needs and factors affecting their choice: natural, labour and capital resources • Business locations and factors affecting their choice • Sources of finance available to establish a business and factors affecting their choice
			7 Business structures and models	• Costs and benefits of purchasing an existing business compared with establishing a new business • Types of legal business structures such as sole trader, partnership, franchise, private limited company, public listed company and the factors affecting choice of business structure • Types of business models such as online business, bricks and mortar business, social enterprise, franchise, importer and exporter
			8 Business support services	• Formal and informal networks • Legal services • Financial services • Technological services • Community-based services • Business mentors
			9 Business planning	• Planning tools such as a SWOT analysis • Features and construction of business plans and benefits of using them • Corporate social responsibility management issues regarding business planning



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		Area of study	Chapter	Key knowledge
UNIT 2	ESTABLISHING A BUSINESS	**Part 1** AOS1 Legal requirements and financial considerations	**10** Establishing a business – legal requirements	An overview of key legal and government regulations to be considered when establishing a business, including: • registration of a business name • registration of a website domain • business tax compliance • trade practices legislation • WorkSafe insurance
			11 Establishing a business – policies and procedures	• The need for policies and procedures to achieve compliance with legal requirements and establish business routines • The importance of establishing bank accounts, financial control systems and record keeping strategies • The importance of choosing appropriate suppliers, including the benefits and limitations of suppliers which meet the corporate social responsibility objectives of the business • Technological and global issues that may affect decision-making when establishing a business, such as generating customer data bases and contacts with overseas suppliers and retailers
		Part 2 AOS2 Marketing a business	**12** Marketing the business	• The relationship between marketing, establishing a customer base and business objectives • External (macro and operating) and internal environment factors affecting the establishment of a customer base and brand identity • Market research practices such as data collection techniques, analysis and interpretation • Target market attributes such as market dimensions, segments, consumer trends and behaviour
			13 Extended marketing mix, related marketing strategies and corporate social responsibility issues	• The 7Ps model of marketing: product, price, place, promotion, people, physical evidence and process • Product life cycle: introduction, growth, maturity, decline, extension and the relationship between each of these stages and the choice of marketing strategy • The features and value of customer relations strategies such as providing quality customer service and establishing customer loyalty programs • Corporate social responsibility management issues with regards to establishing a customer base, such as green marketing
			14 Public relations	• An overview of public relations and its relationship to business objectives • Public relations strategies such as planned and crisis public relations, the importance of maintaining a positive relationship with the customer base and the implications if this relationship is not maintained

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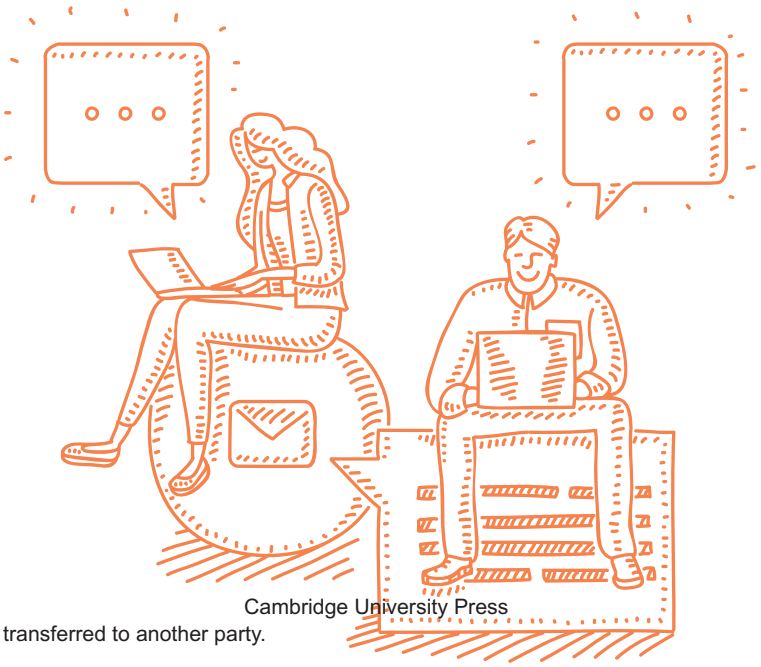
UNIT 2	ESTABLISHING A BUSINESS	Area of study	Chapter	Key knowledge
		Part 3 AOS3 Staffing a business	**15** Staffing a business	• The relationship between the performance of staff and achieving business objectives • Identification of the staffing needs of the business such as the knowledge, skills and ideas staff can contribute to the business • The effects that developments in technology may have on staffing needs

			16 Recruitment and selection of staff	• Job analysis and its relationship to job design and related documentation, job descriptions and job specifications
				• Recruitment methods and the advantages and disadvantages of each method:
				  • internal such as intranet and word-of-mouth
				  • external such as websites, online recruitment agencies and social media
				• Selection methods such as interview, psychological testing, work testing, online selection, and the advantages and disadvantages of each
				• Employment arrangements such as full time, part time, contractual and casual

			17 Expectations and legal obligations	• Employer expectations such as contracts of employment, business loyalty and terms of notice • Employee expectations such as conditions of employment, remuneration, job security and work–life balance • Legal obligations for staffing such as occupational health and safety (OH&S), equal employment opportunity legislation and Workplace Gender Equality Agency • The purpose and common methods of employee induction
			18 Global and corporate social responsibility issues	• Global issues such as overseas recruitment • Corporate social responsibility issues regarding establishing the staffing of a business

(Source: VCAA Business Management Study Design, 2017–2021)



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Key skills-based terms used in outcomes and examination questions

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

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Term	Definition
Recommend	To be able to present and state facts, ideas or feelings appropriate to the issue or response covered in the stimulus material
Record	To write something down or use some other permanent form so that it can be used or seen again in the future
Research	To investigate, explore or study in order to establish facts and reach new conclusions
Select	To choose one in preference to another
Share	To have or use something at the same time as someone else
Understand	To interpret, perceive or view (something) in a particular way

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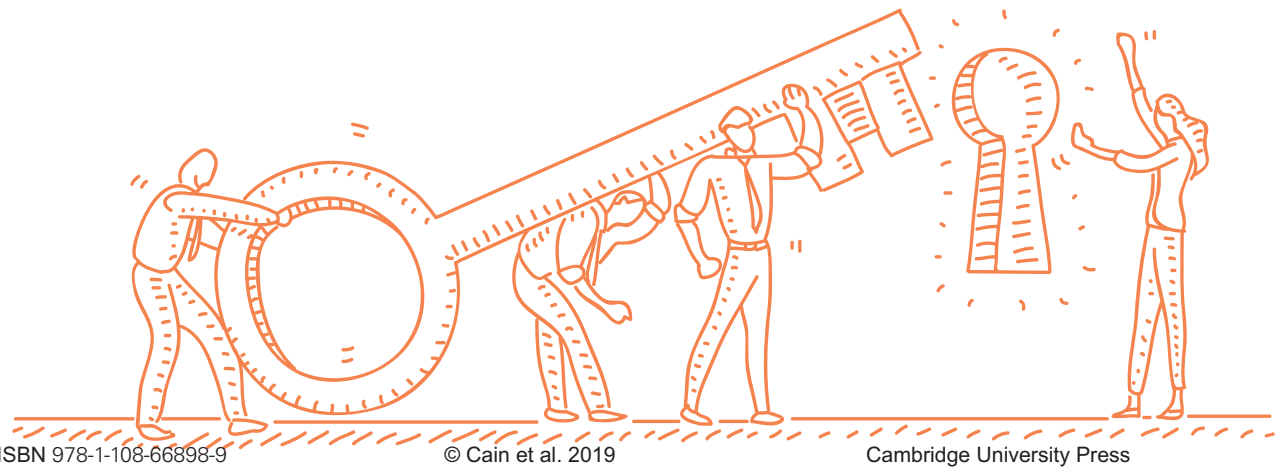

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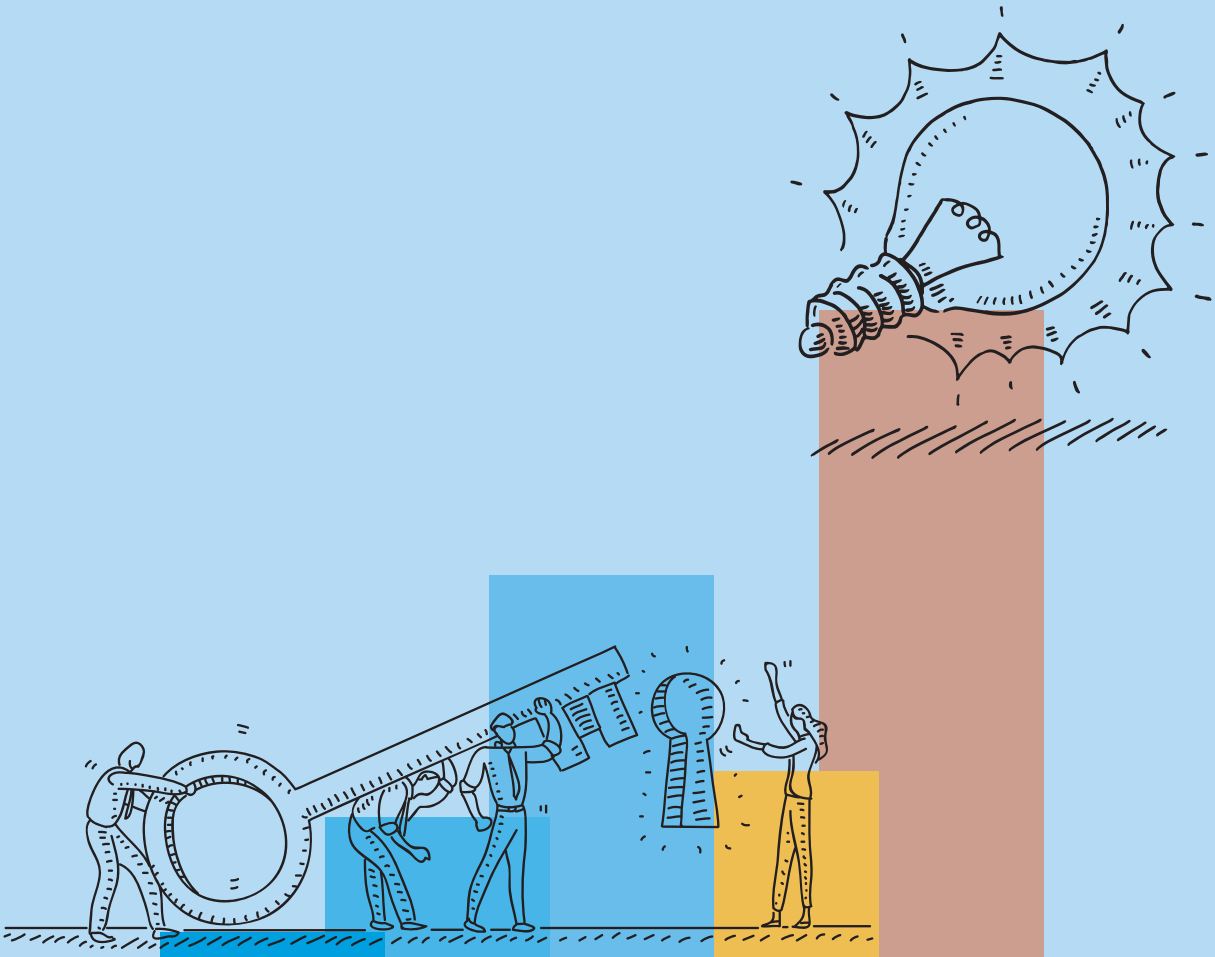

Unit 1
PLANNING A BUSINESS

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Part 1
Area of Study 1
THE BUSINESS IDEA

VIDEO SUPPORT
Assessment advice for this Area of Study is available in the Interactive Textbook

Outcome 1

On completion of this unit the student should be able to describe how and why business ideas are created and developed, and explain the methods by which a culture of business innovation and entrepreneurship may be fostered in a nation.

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

Key skills

- identify business opportunities
- define, describe and apply relevant business management concepts and terms
- acquire, record, interpret and share business information and ideas
- research and analyse case studies and contemporary examples of business management applicable to planning a business
- apply business management knowledge to practical and/or simulated business situations.

(Source: VCAA Business Management Study Design, 2017–2021, p8)

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Chapter 1
The business idea – inspiration and planning

Overview

In this chapter you will initially examine the range of personal motivations behind a business start-up. The personal characteristics and qualities possessed by successful entrepreneurs will follow. You will also be introduced to a range of sources of business inspiration for innovative business ideas and opportunities in the market.

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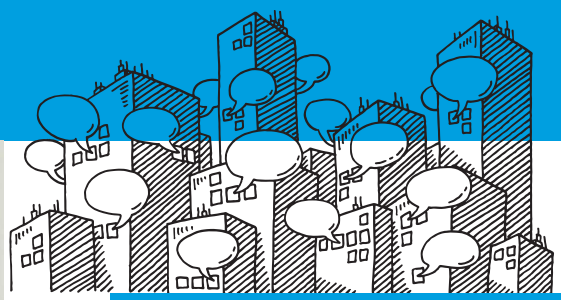

Key terms

- competitive advantage
- decision-making
- demographic
- entrepreneurship
- gap in the market
- global markets
- innovation
- qualities
- research and development
- skills

Key knowledge

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

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

(Source: VCAA Business Management Study Design, 2017–2021, p8)

What's ahead

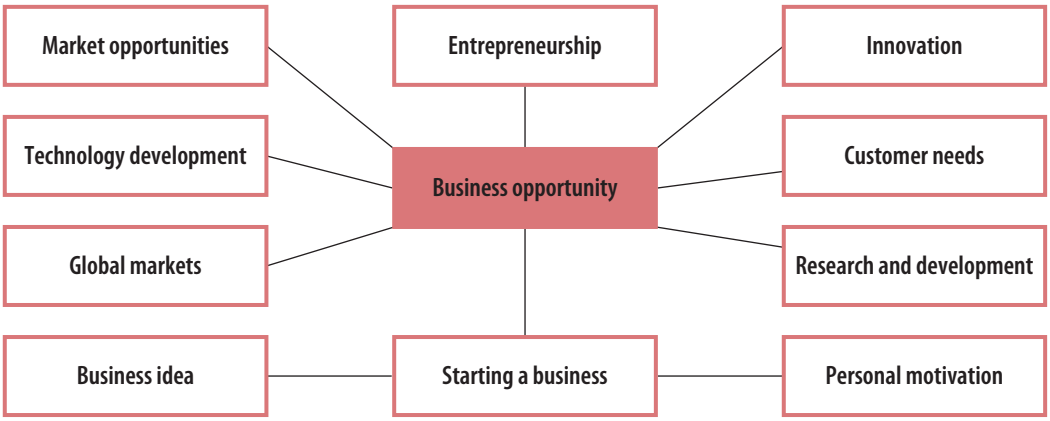

Figure 1.1 Factors to think about when considering a business opportunity

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1.1 Starting a business

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

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

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

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

Assessment of personal suitability to start a business

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

- examining personal motivation, or reasons, for going into business and ascertaining whether or not these reasons are valid
- completing a self-appraisal of personal skills, abilities and personality type, demonstrating whether there is a reasonable chance of success
- establishing and clarifying personal and business objectives.

Personal motivation behind starting a business

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

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

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Figure 1.2 Motivation for some businesses is to meet a community need.

Key motivations behind the establishment of a social enterprise are usually one or more of the following:

- to provide employment, training and support for disadvantaged groups
- to meet a community need by providing products not currently produced, often because they are not profitable
- to generate profits for redistribution to social programs or charities.

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

- their personal objectives in starting a business
- the things that are important to them (family, lifestyle, interests, wealth and status)
- whether the business idea under consideration can realistically satisfy their personal objectives
- whether operating the business will allow them to access things that are important to them.

For example, a person considering opening a business requiring them to work 80 hours a week, and who also sees family and lifestyle as personal priorities, will find the business simply will not allow them to achieve these priorities. A person who values wealth and status, and who is prepared to work long hours, would be better suited to that particular business.

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

ACTIVITY 1.1

Research a social enterprise

Select one of the following social enterprises:

- Ceres Fair Food
- STREAT
- Pollinate Energy
- Asylum Seeker Resource Centre Food Justice Truck
- Social Traders.

Using the internet, research and answer the following questions:

a When was this enterprise founded and by whom?
b What were the original aims of the founders?
c What activities does this enterprise engage in?
d Who benefits? How do they benefit?
e In what ways does this social enterprise operate as a business?

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Motivation for starting a business

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

CASE STUDY 1.1

Synergy Repairs and fulfilling a social need

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

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

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

ANALYSIS

1 Describe the services provided by Synergy Repairs.
2 Identify and describe two factors that indicate Synergy Repairs is a social enterprise.
3 Describe the likely motivations behind the establishment of this business.

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CASE STUDY
1.2

The Sneaker Laundry and a gap in the market

Melbournians' love of fashion seems to have few limits when it comes to investing big dollars especially when it comes to limited edition sneakers. Young Melbournians are known to camp for many hours in the hope of being able to get their limited edition Yeezy or coveted Jordans.

Melbournians' love of sneakers continues to grow and that is how Eugene Cheng first came up with his business idea. 'It was sort of weird that people would clean their clothes but not their shoes,' says Cheng. He found there wasn't anywhere in Melbourne that offered a specialised sneaker and shoe cleaning service. Practising on his own sneakers, Eugene was convinced that there was a real opportunity to fulfil a gap in the market.

Sneaker Laundry was opened by Cheng and his partner Hao Phu late in 2017, offering a convenient drop-off sneaker and shoe cleaning service. The business offers both basic and full detailing of sneakers, sneaker restoration, plus their own range of shoe care products.

Expanding the business into manufacturing seemed a natural progression, and in January 2018 they released 25 pairs of handmade custom sneakers at a price tag of $600 each. All pairs were sold in just 3 minutes!

Sneaker Laundry currently has two retail locations in Melbourne and recently opened a store in Sydney's CBD. Their online presence and the use of social media, including Facebook, has further reinforced business success.

(Source: *Business News Australia*, 'How the founders of Sneaker Laundry are cashing in on the "hype economy"', 19 April 2018)

ANALYSIS

1 Explain how Sneaker Laundry may differ from standard shoe cobblers.
2 Describe the motivation behind starting Sneaker Laundry.
3 Identify the gap in the market found by the owners of this business.
4 Identify the likely motivations behind the establishment of the business.

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

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

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1.2 Skills and qualities of successful business operators

Potential business owners typically promote or take advantage of a natural talent or aptitude that they possess and see a potential gap in the market. However, having a natural ability doesn't necessarily translate to business success. To be successful in business requires numerous **skills**, some specific to the type of business. Many skills are generic, meaning they can be transferred to a range of businesses. They include:

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

- technical skills and appropriate qualifications, which are necessary to successfully complete tasks within the business. For example, a lawyer requires legal skills, knowledge and qualifications. A swimming school operator requires knowledge about how people learn to swim.
- communication skills, which are essential for dealing effectively and successfully with the range of people with whom the business comes into contact, such as staff, customers, suppliers, professional advisers and government agencies
- negotiation skills, important when doing deals with clients/customers, suppliers or anyone with whom the business comes into contact
- leadership skills – someone starting a business may be required to effectively lead both staff and the business as a whole. They may need to oversee teams of people and inspire and motivate them to work towards achievement of business goals and objectives. This requires development of trust, plus excellent communication skills.
- strategic thinking and analytical skills, using the thought processes essential to devising a long-term competitive plan for the business and the ability to analyse or study the nature of a given situation or set of circumstances
- planning skills (including organisational and time management skills), for the many details, activities and actions that need to be coordinated to move the business forward in a time-efficient and effective way
- financial management skills, necessary to monitor the financial position of the business. Good financial management is essential.
- sales and marketing skills, which are required to promote the business and products to potential customers. A business operator must be able to identify who their customers are and devise ways to encourage them to purchase the product the business is selling.
- technology or IT skills, including knowledge of relevant software packages.

Figure 1.3 Successful business owners require a wide range of skills.

ACTIVITY 1.2

Skills audit

Refer to the list of personal skills and qualities below. Consider which of these you think you already have, which you need to acquire, and how you could acquire those you are lacking. Place this information in a table (such as the one below) in your workbook.

The first skill is completed for you.

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

ACTIVITY 1.3

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

1 Manage staff on a day-to-day basis.
2 Ensure that all financial obligations are met.
3 Select and operate an appropriate computer program.
4 Successfully make sales.
5 Plan the steps to produce a product or deliver a service.

Characteristics of successful business managers and business entrepreneurs

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

- *being prepared to take risks*: a start-up business requires an owner to risk personal assets. He/she must be able to live with the possibility of failure. Calculated risk takers who do their homework, and who are constantly looking for advice and mentors, are usually more successful. Fear of uncertainty and potential failure is often a deterrent to the establishment of a business.
- having the ability to *think outside the square*: people able to devise original ideas, who can come up with different ways of approaching things, and who recognise opportunities others cannot, are more suited to starting a business. Successful business operators are often rule breakers who defy conventional wisdom, engaging in smart, aggressive risk taking.

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

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- *being innovative thinkers*: successful business operators are usually able to come up with new ideas, then develop and improve them. This often requires creativity and inquisitiveness.
- *having resilience*: for success, a business operator must be prepared to persist and persevere over the long term. Patience and determination are required to see things through. Establishment of a successful business may require years of hard work. Success rarely happens overnight.
- *having vision*: the ability to spot an opportunity and imagine something that others have not. This requires curiosity, an open mind and listening skills.
- *possessing confidence*: self-belief and enthusiasm are business assets. Successful business development requires a person to possess the self-assurance that they have something the market needs or wants to buy, plus the confidence that they can provide it.
- having the ability to *work independently without requiring guidance (self-starter)*: successful entrepreneurs are often intrinsically motivated to achieve personal goals, enjoy challenges and are naturally competitive
- having the ability to *set goals and work towards achievement*
- *being willing to accept responsibility*
- *being flexible* and having the ability to change direction when required: important when responding to changing tastes, consumer demands and alterations in market conditions. A successful business is able to change course quickly when things do not go to plan. To do this, the business owner must be nimble, adaptable and able to make decisions both quickly and adeptly.
- having the ability to *learn from mistakes*
- *having the capacity and drive for hard work*
- *being ambitious*: needed to achieve long-term goals
- having the ability to be *practical*: be a 'doer', rather than someone who theorises
- *being ethical*: in the long term, clients and customers will lose interest in those who lie and cheat. Long-term business success therefore requires an ethical approach.

Figure 1.4 Successful business owners possess a number of important characteristics.

ACTIVITY 1.4

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

a Surjeet is a qualified chef who has worked in an Indian restaurant for five years. He is highly regarded in the industry and is thinking of opening his own restaurant. He has a temper and often loses his cool with customers and fellow staff members alike. His wife works in marketing. Surjeet's friends say that he is a very determined person who wants to be a multimillionaire within 10 years.

b Emma is a professional dancer with extensive experience appearing in stage and television shows. She is very quiet and lacks confidence, but is noted in the industry as an excellent dancer. Emma is extremely shy about speaking to groups of people, but loves children. She has a teaching qualification.

c Mick has just finished Year 12. He has good computer skills, is confident and spends his days surfing the internet. He wants to set up his own computer repair business. He failed English in his last year of school.

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

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1 Identify the skills Surjeet possesses that could help his new restaurant succeed. What personal qualities could hinder his chances of success and why? Suggest how Surjeet could work towards future improvement.
2 Assess whether Emma should start her own dance school. Identify the skills she has that would help her. Discuss her major drawback and advise how she could learn to overcome this.
3 Identify the skills Mick should try to acquire before he starts his own computer repair business. Recommend somewhere that he could acquire these skills.
4 Propose two actions that Lydia should take. Justify your answer.
5 Suggest and justify an appropriate type of small business for each person.

CASE STUDY 1.3

Successful entrepreneurs and their essential qualities

Self-discipline is essential for success in life as well as business. Successful entrepreneurs don't enjoy every aspect of their work, but with self-discipline, they have learned to plan towards their final goal and to strive towards achieving it. That takes a lot of self-control and hence self-discipline. Unlike many unsuccessful entrepreneurs, those that are successful will not avoid doing things that unsuccessful entrepreneurs avoid.

All successful business is based on trust, hence **integrity** is one of the most valued and respected qualities for any entrepreneurs. It is important to be honest and transparent, as many people, including employees and banks, will rely on your integrity.

Persistence is another vital quality. Essentially an entrepreneur must accept the fact that there will be setbacks and disappointments and they must possess the mindset to persist and not give up. Often an entrepreneur's greatest asset is to be willing to persevere longer than their competitors. Persistent people are highly motivated in their desire to achieve their goals and are prepared to adjust and adapt to new ideas so that the goal can be achieved.

CONTINUED ITEM

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Table 1.1 The Global Entrepreneurship Index is an annual index that measures the health of the entrepreneurship ecosystems in each of 137 countries. It then ranks the performance of these against each other. This provides a picture of how each country performs in both the domestic and international context. In 2018 Australia was ranked fifth on the index.

Rank	Country	GDP World Bank $	GEI
1	United States	52 676	83.6
2	Switzerland	54 933	80.4
3	Canada	42 104	79.2
4	United Kingdom	37 451	77.8
5	**Australia**	**42 149**	**75.5**
6	Denmark	44 005	74.3
7	Iceland	34 541	74.2
8	Ireland	42 012	73.7
9	Sweden	45 533	73.1
10	France	37 948	68.5

Source: 2018 Global Entrepreneurship Index rankings

Entrepreneurs must have a clear sense of **self-direction**. Today's marketplace is rapidly changing and many business owners find that they are reduced to having to stamp out or deal with everyday issues. It is easy to be so absorbed by short-term problems that long-term planning is overlooked. However, entrepreneurs are able to set well-defined targets for every part of the business and ensure that management and employees are also given responsibility and clear direction for their work.

Successful entrepreneurs are **decisive** and **action-oriented**. Perhaps due to their high levels of self-confidence, they make decisions and determine the accompanying actions quickly. Should monitoring or feedback suggest the need for different action, successful entrepreneurs will self-correct, readily adapting to the changed situation.

Figure 1.5 Janine Allis is a successful Australian entrepreneur.

ANALYSIS

1 List and summarise the six essential qualities of a successful entrepreneur.
2 Identify at least five other qualities you believe a successful entrepreneur requires. Justify your suggestions.
3 Select and investigate one of the following successful entrepreneurs:
- Janine Allis
- Lindsay Fox
- Mark Zuckerberg
- Elon Musk
- George Calombaris
- Rupert Murdoch
- Richard Branson
- Mike Kreiger.

a Describe how each founded and grew their business.
b Identify the key qualities and skills demonstrated by the entrepreneur and explain how they contributed to the success of the business.

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ACTIVITY 1.5

Watch the movie *The Founder* (2016), starring Michael Keaton. This film portrays the story of Ray Kroc, who is the founder of the McDonald's fast-food chain.

1 Identify and discuss the skills and qualities that helped Ray Kroc establish and develop such a successful business enterprise.
2 List 10 things you learnt about establishing a successful business through watching this film.

1.3 Sources of business opportunity

Innovation and entrepreneurship

Figure 1.6 Mike Cannon-Brookes (L) and Scott Farquhar (R), Australian entrepreneurs who co-founded and are CEOs of IT software company, Atlassian.

Innovation, or new, improved products or methods of doing things, is often the impetus for a new business venture. An innovation can be a whole new product or a variation on an existing product that improves it, such as colour, design or features. Innovation can be a catalyst for further success and growth, enabling a business to become increasingly competitive in the marketplace.

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

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

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

- new services
- new products (the most common form of innovation)
- new production techniques (these may reduce production costs by either allowing a product to be made for a lower cost or creating a more complex product)
- new marketing techniques (allowing a product to be promoted in a different manner, gaining more attention from potential consumers).

innovation developing and applying new ideas that are an improvement to what is currently offered

entrepreneurship demonstrated by individuals who, in the pursuit of profit, are prepared to take risks in creating new business opportunities

demographic a range of data sets about a population such as age, educational level and religion

Recognising and taking advantage of market opportunities

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

- If the type of people (**demographic**) moving into an area is changing, so too will the products that market seeks to buy. For example, if young families move into a specific area, demand for child care services or children's clothing will increase.
- If government changes a law, often a business opportunity emerges. A change in laws regarding superannuation might see an increased demand for financial planning businesses.

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- As societal attitudes, including lifestyles change, so does consumer demand. For example, increased community interest in diet and exercise has seen demand for personal training, dieticians and weight loss services increase.
- Many entrepreneurs have converted a hobby into a money-making opportunity. Celebrity chefs and fitness experts are examples of people who have recognised and taken advantage of market opportunities.
- An entrepreneur looking for inspiration is well advised to look around and make observations regarding how things could be done better, or what things are not being done at all. Often the simplest ideas and observations can be the beginning of a business. For example, noting an occasion when someone is unable to obtain a specific product or service at the exact time required is often a first step.
- The media can also be used as a source of ideas for a business concept. Regular observation of the media can provide inspiration and innovative ideas. Television shows focusing on entrepreneurship, such as *Shark Tank* or *The Apprentice*, may be useful. Similarly, news and current affairs articles often report changes in consumer needs or fashions. For example, a study about incidence of childhood obesity may be the impetus for a healthy fast-food outlet or a gym designed for children.
- Trade shows and exhibitions provide opportunities to see new products, obtain ideas and may be opportunities for the rebranding of existing products. They also provide opportunities to make important contacts and to network.

Figure 1.7 Michelle Bridges uses her personal fitness experience to run her business and would use knowledge on demographics to help target her business to specific consumers.

Changing customer needs

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

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

ACTIVITY 1.6

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

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

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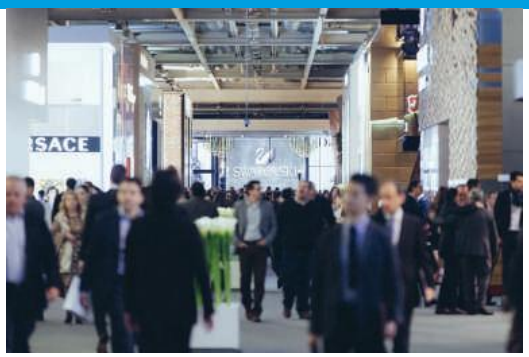

Figure 1.8 Trade shows are often a source of business ideas and inspiration.

Global markets

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

Moving in the other direction, there have been several Australian entrepreneurs who have realised the value of Australian goods and services and taken these overseas to build successful businesses. Following on from polymer bank notes and Google Maps, Melbourne-style cafes have been opening over the past decade in New York, offering their unique mix of top baristas, good food and quality service. Fashion company Fame and Partners enables customers to tailor their own dresses online and have them made and shipped within 48 hours. In 2016 the company landed a $10.2 million funding deal that will see it leave Australian shores to relocate operations in Los Angeles. **Global markets** offer significant opportunities, with many businesses being attracted to the possibilities of expanding their market share, reducing costs and becoming more competitive.

global markets all individuals and businesses that participate, or may participate, in the buying and selling of goods and services across the globe

research and development activity undertaken by businesses to discover, innovate and improve new business ideas and processes

Research and development

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

Inventors and entrepreneurs are always looking for partners in business concept development. It is also possible to identify new products and technologies for potential development through observation of a particular target market and an analysis of products they might be interested in. For example, increasing community concerns about personal security could translate into a market for security products and services.

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

Figure 1.9 Research and development are often sources of innovation.

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Technological development

The development and impending availability of new technologies can be another source of ideas for a new business. Technology is usually developed to meet a human need. As businesses can apply technology in a range of different ways, this also provides increasing possibilities for new technology to be developed to:

- increase production by using technology in the planning stage and during production, or technology can be used to assist in maintaining quality
- use technology for marketing, especially with the internet enabling global opportunities, including the use of social media
- manage financial and payment systems; for example, EFTPOS, PayPal, Afterpay, MYOB and Xero
- improve competitiveness, particularly for small businesses.

For example, the growth and development of the internet, coupled with handheld devices capable of mobile internet access, has enabled the formation and development of many new business ideas. Airbnb and Uber are only two examples. The development of drone technology is another area of technological development offering numerous possibilities for business application.

ACTIVITY 1.7

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

- Tribe
- Afterpay
- Uptick
- Speedlancer
- Agersens
- Platter Co. by Jade

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

Characteristics of a good business opportunity

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

- real demand: a new product or business concept will only be successful if it responds to unsatisfied needs or requirements of customers who are both willing and able to purchase it. In other words, there must be enough customers willing to purchase the product at a price that will generate a profit for the business. Market research is required in order to ascertain this.
- return on investment: there must be potential for sustainable, timely and acceptable returns or rewards for the risk and effort required in developing the business concept. In other words, it must be a worthwhile investment.
- market competitiveness: the product or business must be equal to or better than available products on the market from the customer's viewpoint. It must be better than the competition and have some type of **competitive advantage**.

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

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- objectives of the entrepreneur taking the risk must be feasible/achievable via the business concepts
- resources and skills required for the business to be successful must be freely available. For example, are raw materials available? Are there sufficient qualified and trained staff available?

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

Figure 1.10 By paying attention to consumer demands, new business ideas can be found.

Opportunities for Australian business

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

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

Chapter summary

- A potential business owner/operator must initially assess and evaluate:
  - their personal motivation and goals for entering into business and the validity of these
  - personal skills and qualities and whether these are applicable in business
  - personal and business goals and their compatibility.
- Reasons for going into business may include:
  - desiring independence
  - the potential to make money
  - self-worth
  - flexible working hours and conditions
  - family tradition
  - covering a market gap
  - fulfilling a social need.
- Successful business operators often have several of the following skills:
  - communication skills
  - planning and organisation skills
  - financial management skills
  - analytical skills
  - time management skills
  - IT skills
  - negotiation skills
  - leadership skills.

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- The following personal qualities are often an advantage to business owners:
  - the ability to think outside the square and innovatively
  - resilience
  - vision
  - the ability to work independently and accept responsibility
  - flexibility
  - the ability to learn from mistakes
  - a willingness to work hard
  - ambition
  - ethics.
- Sources of business opportunity may include:
  - innovation and entrepreneurship
  - changing demographics
  - legal changes
  - changes in consumer tastes, lifestyle and income
  - a hobby/interest
  - observation and research
  - media
  - trade shows
  - a recognisable market gap
  - global markets
  - research and development
  - technological developments.
- A viable business opportunity involves:
  - real demand for a good/service
  - a return on investment
  - market competitiveness.

Chapter summary tasks

1 Define the following concepts:
   a entrepreneur
   b innovation
   c gap in the market
   d communication skills.
2 List and explain five possible motivations for going into business.
3 Explain how the motivation for commencement of a social enterprise might be both different and similar to the motivation for entering into another type of business.
4 Outline an example of when an entrepreneur or business operator would require the following:
   a communication skills
   b negotiation skills
   c financial management skills
   d marketing skills
   e technical skills.
5 Explain the connection between entrepreneurship and innovation.
6 Write a paragraph describing five qualities usually found in successful entrepreneurs. Explain how each quality would be advantageous when starting a new business.

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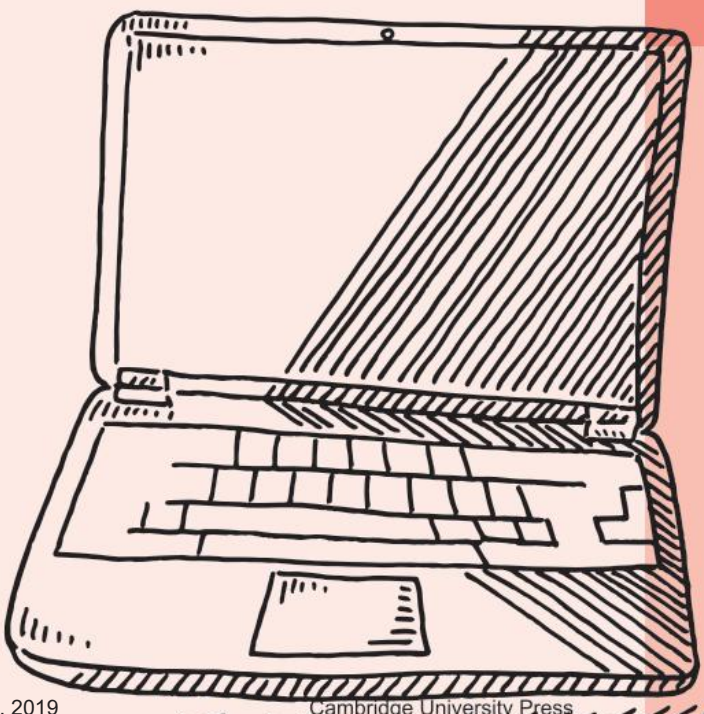
7 Explain how each of the following changes in an area could create an opening for a new type of business:
   a a large number of families with young children move into an area
   b a new hospital is built in an area
   c a large number of retirees move into an area
   d residents in a local area believe in the importance of conservation.

Extension questions

1 Research a successful Australian business. Identify:
   a when the business was founded and by whom
   b the probable motivation for commencing the business
   c the reasons why this business has been successful
   d the skills and qualities held by management.
2 Investigate one of the following successful family-owned businesses and complete the questions from question 1:
   — Blackmores
   — Lucas' Papaw Remedies
   — Linfox Logistics
   — Visy
   — Bundaberg Brewed Drinks.
3 Conduct an interview with a small business owner. Investigate:
   a what the owner's motivation was for going into business
   b the personal qualities of the business owner that enabled them to successfully develop their business
   c the skills that the business owner possessed
   d how the business owner used any innovation or specialisation that set them aside from competitors
   e two skills that the owner has developed since starting the business.



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Chapter 2

Business concept development – 'getting off the ground'

Overview

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

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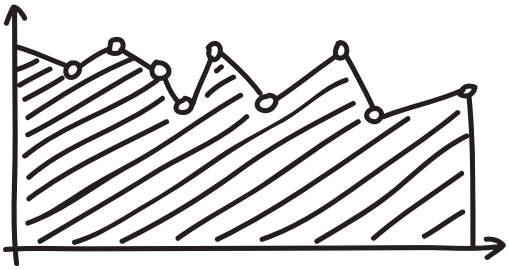


Key terms

- business concept
- business goals
- business objectives
- feasibility study
- intellectual property
- market research
- mission statement
- values statement
- viability
- vision statement

Key knowledge

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

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

(Source: VCAA Business Management Study Design, 2017–2021, p8)

What's ahead

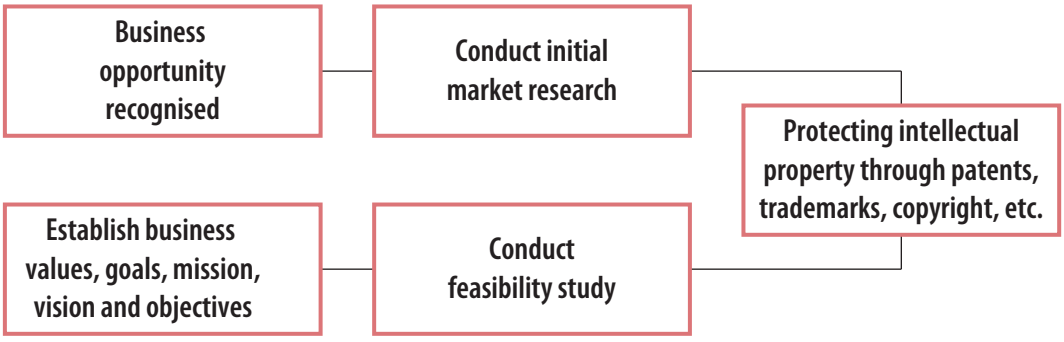
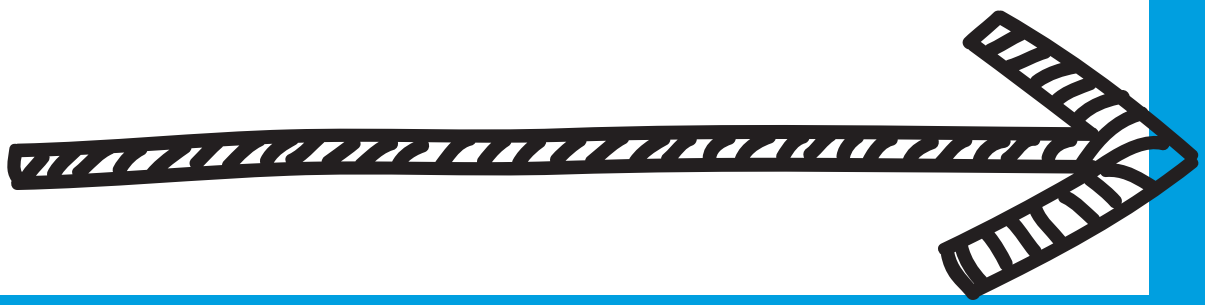


Figure 2.1 Business concept development



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2.1 The importance of business concept development

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

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

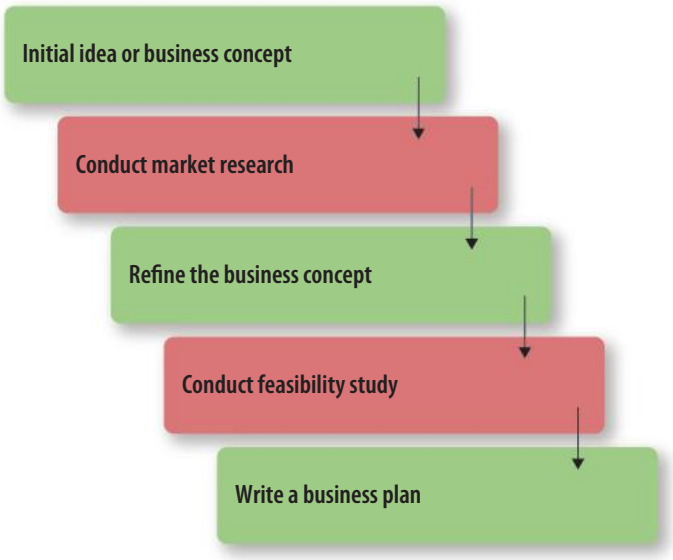

Figure 2.2 The business concept development process

To progress from the initial idea to business concept development, market research needs to be undertaken to gain a general understanding of the industry that the business will be part of, and to assess if there is a potential market. For example, a potential coffee shop business owner should initially undertake research into the general hospitality and fast-food industry. Following this, more targeted research should be undertaken, such as analysing market trends in the cafe industry, competitors, and the supply and pricing of coffee. The potential business owner should also be looking for opportunities that would allow them to differentiate their business from others (such as sourcing and selling organic coffee).

viability whether a business is capable of developing and growing

Once an idea for a business has been determined, the products or services identified, and the initial industry research completed, the next stage should be to conduct a feasibility study that includes an evaluation that considers the **viability** of the business idea, and likely risks and rewards. What is considered feasible will vary depending on the desired return on investment and the degree of risk an entrepreneur is prepared to take. A feasibility study includes an analysis of factors that are likely to impact the business, such as economic, technological and legal factors. The evaluation aspect of the feasibility study will assist in determining if a business is viable, and therefore whether it has the potential to survive and be profitable.

Figure 2.3 Developing a business concept – brainstorming

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2.2 Market research – refining the business concept

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

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

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

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

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

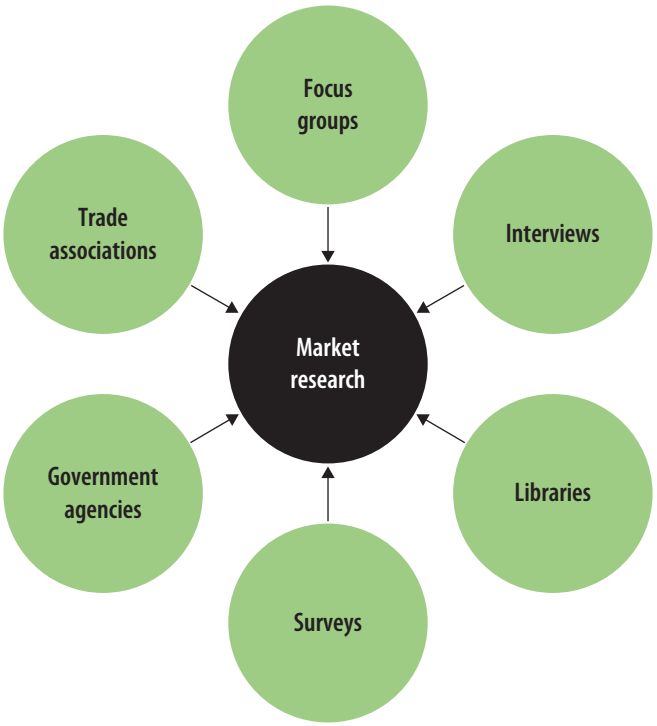

Figure 2.4 Market research is an important aspect of conducting a feasibility study for a business proposal.

Initial feasibility study

The market research already conducted will show whether the market can sustain the business. Using the information gathered about the industry and the potential customer base, the entrepreneur now needs to determine whether the business idea is feasible (can the business survive and be profitable?). This is known as a **feasibility study**.

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

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The report from a feasibility study should contain:

- a description of the business idea, products to be sold, services to be offered, the personnel required to operate the business and an overview of whether the business will succeed
- profiles of the key people involved, including background, skills, personal qualities and qualifications
- a description of the market – who and where the customers are, the size of the market and expected sales based on costs of production. This market analysis sets out the level and types of demand there are for the products to be sold and the capacity for growth.
- supply analysis – looking at the life cycle of the industry and whether it is a good time to be entering into it. For example, if the products of competitors have been selling well for a long time, it is likely that demand will begin to drop off in the near future. (See 'Product life cycle' in Chapter 13.)

Figure 2.5 A feasibility study is vital for a business plan.

- whether there is a threat of substitute products entering the market in the future
- identification of the competition, their strengths and weaknesses and how a competitive advantage might be gained. In order to do this, the following questions must be examined:
  - How is the product different to that of competitors? Why will customers purchase from you rather than competitors?
  - Are there any barriers to entering the market, such as the need to gain a licence or be registered?
  - What makes the competitors successful?
- assessment of financial feasibility. This involves preparation of a sales forecast, an estimate of start-up and working capital requirements, an estimate of profitability, an assessment of financial viability, and a simple break-even analysis.
- location and site layout – whether these are likely to affect the success of the business
- personal circumstances of the person driving the business idea, including their financial situation, skill set, expertise and experience in the particular industry, as well as their level of commitment to the business idea
- a brief analysis of the proposed operation.

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

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

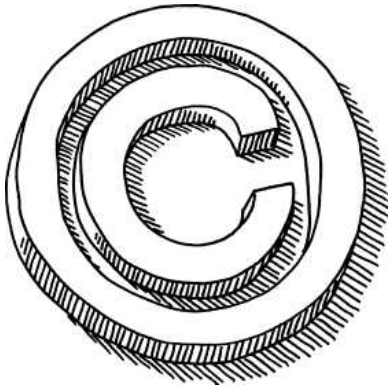
Protecting intellectual property

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

Types of intellectual property include:

- patents: the official right to exclusively own, make and sell a product, method or invention
- trademarks: the name, symbol, logo, phrase or other aspect of marketing that designates an item as belonging to a particular company, and which therefore cannot be used by another company

Figure 2.6 Copyright is a form of intellectual property.



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- designs: features of shape, configuration, a pattern or ornamentation that make a product unique
- copyright: the original expression of ideas (not the ideas themselves); for example, in art, songs, literature, films, computer programs, articles and photos
- trade secrets/confidentiality: intended to stop employees from releasing ideas to others; for example, a secret recipe.

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

ACTIVITY 2.1

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

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

2.3 The importance of goal setting in business

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

business objectives specific, measurable steps that a business takes to achieve its business goals

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

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

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

The importance of establishing goals and objectives cannot be overstated. Without clear goals, a person or business will have no defined purpose and nothing to strive for. Consequently, they will most likely stagnate and struggle for meaningful accomplishments. The absence of goals is akin to a person setting out on a journey with no destination in mind.

Figure 2.7 All businesses must establish goals and objectives.

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Goals and objectives are stepping stones to an end result. They must exist in every aspect of business planning. The first step of planning is the establishment of clear goals. A business plan sets out the strategy to be implemented to achieve business goals. The ability of a business to meet its stated goals is referred to as 'business effectiveness'. The terms 'goals' and 'objectives' are often used interchangeably, but as previously explained, they are different and are used in different stages of the business planning process.

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

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

Business goals

Business goals generally:

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

Goals, however:

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

CASE STUDY **2.1**

Brambles and its 2020 Sustainability Goals

Brambles Limited (ASX: BXB): Brambles helps move more goods to more people, in more places than any other organisation on earth. Its pallets and containers form the invisible backbone of the global supply chain and the world's biggest brands trust Brambles to help them transport their goods more efficiently, sustainably and safely. As pioneers of the sharing economy, Brambles created one of the world's most sustainable logistics businesses through the share and reuse of its platforms under a model known as 'pooling'. Brambles primarily serves the fast-moving consumer goods (e.g. dry food, grocery, and health and personal care), fresh produce, beverage, retail and general manufacturing industries. The Group employs approximately 11,000 people and own approximately 630 million

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pallets, crates and containers through a network of more than 850 service centres. Brambles operates in more than 60 countries with its largest operations in North America and Western Europe.

GOAL 1: BETTER PLANET

Objectives: Zero Deforestation, Zero Emissions, Zero Waste

- Aim for 100% chain of custody for all global timber supply
- Aim for 20% reduction in carbon emissions
- Aim for zero wood and plastic waster to landfill

GOAL 2: BETTER COMMUNITIES

Objective: Helping Food Security, Helping Education, Helping the Environment

- Improve involvement in food waste projects by contributing to charitable donations and volunteering
- Improve involvement in education projects
- Improve involvement in reforestation projects

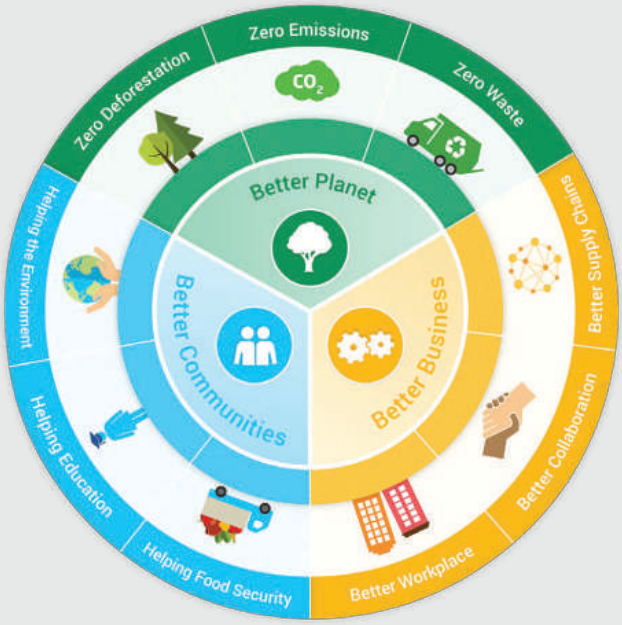

Figure 2.8 Brambles' 2020 Sustainability Goals

GOAL 3: BETTER BUSINESS

Objectives: Better Supply Chains, Better Collaboration, Better Workplace

- Annual improvement in reducing carbon emissions and waste within the supply chain
- Annual increase in customer collaboration
- Create a better workplace through diversity, health and safety

(Source: Brambles' 2020 Sustainability Goals, Brambles website)

ANALYSIS

1 Go to the Brambles website and investigate Brambles' 2020 Sustainability Goals. Select one of the three goals and examine the strategies employed by Brambles that aim to support its 2020 Sustainability Goals.
2 Are these goals aspirational or realistic? Justify your response.

Businesses typically link company goals and objectives to their company's business statement. When devising goals for a business, the following aspects of business performance should be considered for inclusion in its goals:

- profit/profitability: targets for levels and growth in profits and profitability over the long term
- efficiency: targets for improvements in the ratio of costs of production to the value of output
- expansion goals: for example, to increase the number of outlets and open up in new markets
- satisfaction levels of both customers and staff: to achieve a staff turnover rate of less than 5% per annum
- corporate social responsibility and environmental sustainability goals, as outlined in case study 2.1.

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Business objectives

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

Table 2.1 Sample business goals and related objectives

Business goal	Related objectives
'We seek to be the leading manufacturer and supplier of uniforms in the Southern Hemisphere.'	• To increase sales by 10% annually over a four-year period • To achieve a 30% market share within five years
'Our goal is 100% customer satisfaction.'	• To reduce the number of customer complaints by 50% within 12 months • To achieve 95% positive rating on customer surveys over a six-month period

Figure 2.9 The hierarchy of objectives

Objectives should:

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

Establishing business goals

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

1 core values – these must be established as they are the priorities and principles important to the business and the people within it. Values demonstrate what the business stands for, its principles and beliefs. Core values often form part of the official culture of a business.

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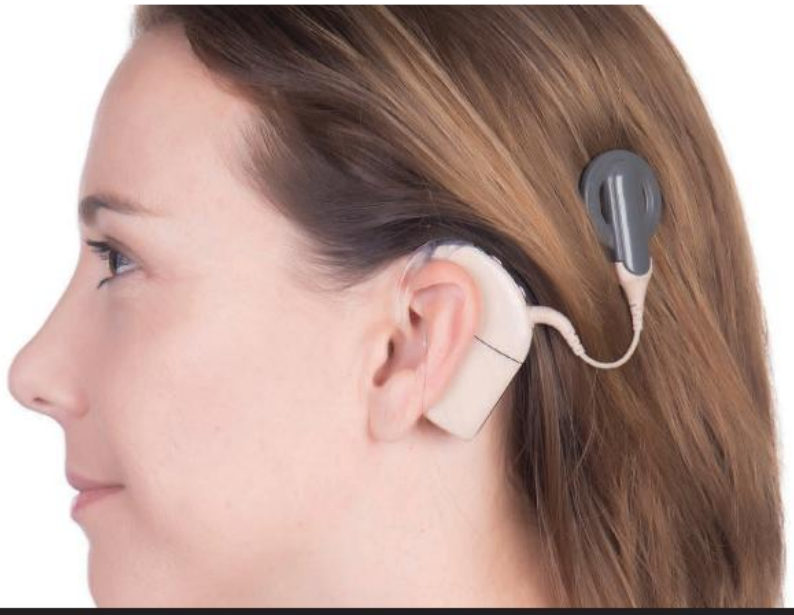
2 mission statement – this is a global statement that reflects a business's reason for being or purpose, and the way it will be managed in order to reflect its business values
3 **vision statement** – using the values of the business, the next step is to construct a vision statement defining the long-term aspirations of the business. Goals may be specified within a vision statement.

vision statement outlines the aspirations and values of the business



CASE STUDY **2.2**

Cochlear Limited: mission statement, goals and guiding principles

Cochlear is the global leader in implantable hearing solutions with products including cochlear implants, bone conduction implants and acoustic implants. Today, Cochlear is a Top 50 listed Australian company with a market capitalisation of over A$10 billion.

(Source: *2018 Cochlear Limited Annual Report*)

OUR MISSION

We help people hear and be heard.

We empower people to connect with others and live a full life.

We transform the way people understand and treat hearing loss.

We innovate and bring to market a range of implantable hearing solutions that deliver a lifetime of hearing outcomes.

(Source: Cochlear website, 'About Cochlear')

CUSTOMER FOCUS

We focus on bringing customers lifetime value with:

- innovative, high-quality products and services that help implant recipients interact more fully with their world.

CONTINUED ITEM

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- a continuous service-oriented experience from start to finish. Every customer interaction and experience is seamless, consistent and positive.
- customer information systems that deliver products and services to match customer preferences and needs.

ORGANISATIONAL PERFORMANCE

Ours is a dynamic, performance-focused organisation, poised to achieve its full potential with:

- a corporate culture and core values that attract and retain high-quality talent.
- leadership capabilities that ensure a lasting, compelling future for employees.
- tools and processes for managing performance.

SHAREHOLDER VALUE

Cochlear creates shareholder value and meets stakeholder expectations through:

- maximised sales revenues and an optimised sales revenue mix.
- maximised return from the effective management of working capital and other assets.
- optimised return through a well-managed dividend policy.

(Source: Cochlear website, 'Company profile')

GUIDING PRINCIPLES

Innovate for leading performance

At the heart of Cochlear's product development is one simple idea – innovation. Whether that innovation is focused on performance or features, the principle is the same: think of ways to deliver capabilities that nobody has thought of before, and improve those that already exist. That's how we've come to lead the industry with the highest-performing, feature-packed cochlear implant systems that include:

- Revolutionary sound technology designed to mirror the intricacies of natural hearing. This means better hearing in different listening environments, including noisy, crowded places.
- Future sound processing capabilities to deliver sound to the hearing nerve with ultra-fine timing accuracy. With more than 1000 times the timing accuracy, Nucleus® Freedom® is designed to offer performance improvements as these advancements emerge.
- Award-winning Contour Advance™ 22-channel electrode designed to deliver clear sound to the hearing nerve and to protect the delicate cochlear structures during insertion.
- The industry's broadest range of coding and customisation options to meet individual unique needs.
- A next-generation, digital microchip for a strong sound engine, with plenty of power to spare for future innovations.

Deliver world-class design

We incorporate world-class design in every aspect of our product development, delivering an unrivalled listening experience. Our world-class design includes:

- Innovative, flexible modular design that fits easily into the lifestyle of adults and children alike.
- The toughest materials available – tested to the highest military standards and designed to last a lifetime.
- Sweat- and splash-resistant speech processors – built to withstand perspiration, humidity and moisture.

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- Comfortable speech processors, with sleek curves that fit snugly behind the ear. Our small, slim silhouette ensures a good fit on very young children and offers extra comfort for those wearing glasses.
- An extensive range of audio connection accessories to enjoy tunes on an iPod or watch a movie at home or in a theatre.
- Industry-first, push-button controls that allow processor adjustments without cumbersome dials and switches.

Lifetime commitment – assure lifelong service

Our products are designed to last a lifetime. When you choose Cochlear, you choose a lifelong partner dedicated to the quality of your hearing today, tomorrow and always. Our lifetime service includes:

- Technology upgrades without additional surgery or implant replacement.
- Collaboration with a worldwide community of leading scientists in 70 countries, with global research and development conducted at our facilities in Australia, Belgium and the United States. Our dedication and innovation never stops.
- Long-lasting reliability thanks to implants that are built to the highest standards.
- Service centres around the world – always there to help solve any problem.

(Source: Cochlear website, 'Guiding principles')

ANALYSIS

1 Summarise the mission statement of Cochlear Limited.
2 Identify and describe Cochlear's company goals.
3 Outline the guiding principles of Cochlear Limited.
4 Explain how the company goals and guiding principles differ.

ACTIVITY 2.2

1 Visit the website of two of the following businesses:
   - BHP Billiton
   - Coca-Cola Amatil
   - Westpac
   - David Jones

   Locate the vision/mission and values statements. Identify the following for each:
   a the purpose of the organisation
   b its basic philosophies and values
   c the goods and services offered
   d its target market.
2 Imagine you are in the process of establishing a small business. Identify an example of each of the following types of goals that would be relevant:
   a strategic
   b operational
   c service
   d social.

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Chapter summary

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

Chapter summary tasks

1 Define the following terms. Then, use each in a sentence to demonstrate your understanding:
   a market analysis
   b feasibility study.
2 Explain what market research is. Discuss the purpose of conducting market research as part of the process of developing a business concept.
3 Explain the purpose of, and process involved in, conducting a business feasibility study.
4 Describe the purpose of registering intellectual property.
5 List and describe the different types of intellectual property that a business may need to register. Cite an example of each.
6 Identify the type of intellectual property to be registered for each of the following:
   a a soft drink producer develops a new flavour of drink
   b a collection of knitwear designed by a designer
   c a logo
   d a distinctive type of packaging
   e a jingle to be used in an advertisement for a new car
   f a slogan.
7 Identify and explain the purpose and importance of the establishment of business goals and objectives.
8 Define:
   a business goals
   b business objectives.
9 Discuss the differences and similarities between business goals and business objectives.
10 Analyse the relationship/link between business goals and objectives.
11 Identify and explain the relationship/link between business values, mission and vision statements.

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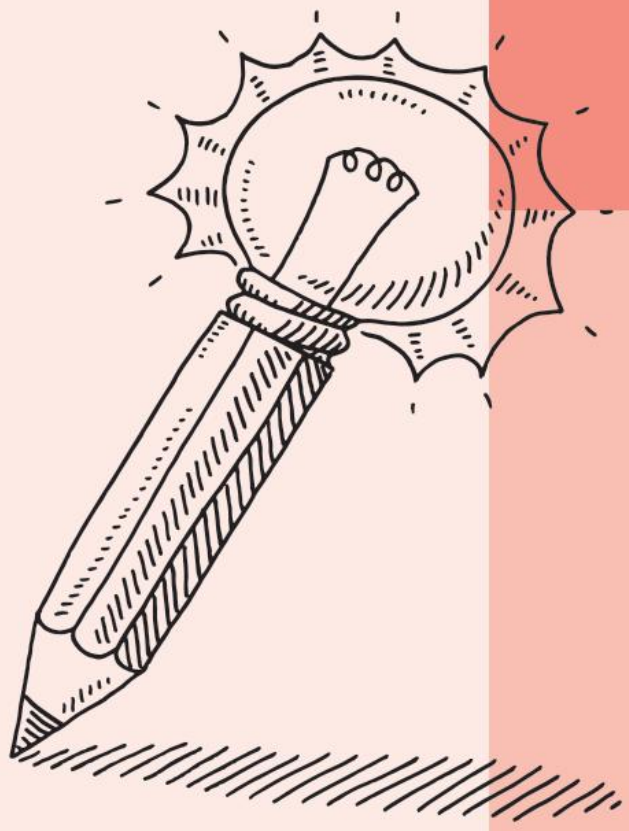
12 Classify each of the following as a business goal or a business objective:
- **a** be the leading producer of handheld devices in the world
- **b** increase sales by 30% over two years
- **c** launch three new product lines by the end of the financial year
- **d** increase profitability
- **e** reduce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

Extension questions

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

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

Using the values statement of Chef's Night In, propose:
- **a** an appropriate mission statement
- **b** an appropriate vision statement
- **c** three business goals
- **d** four business objectives.



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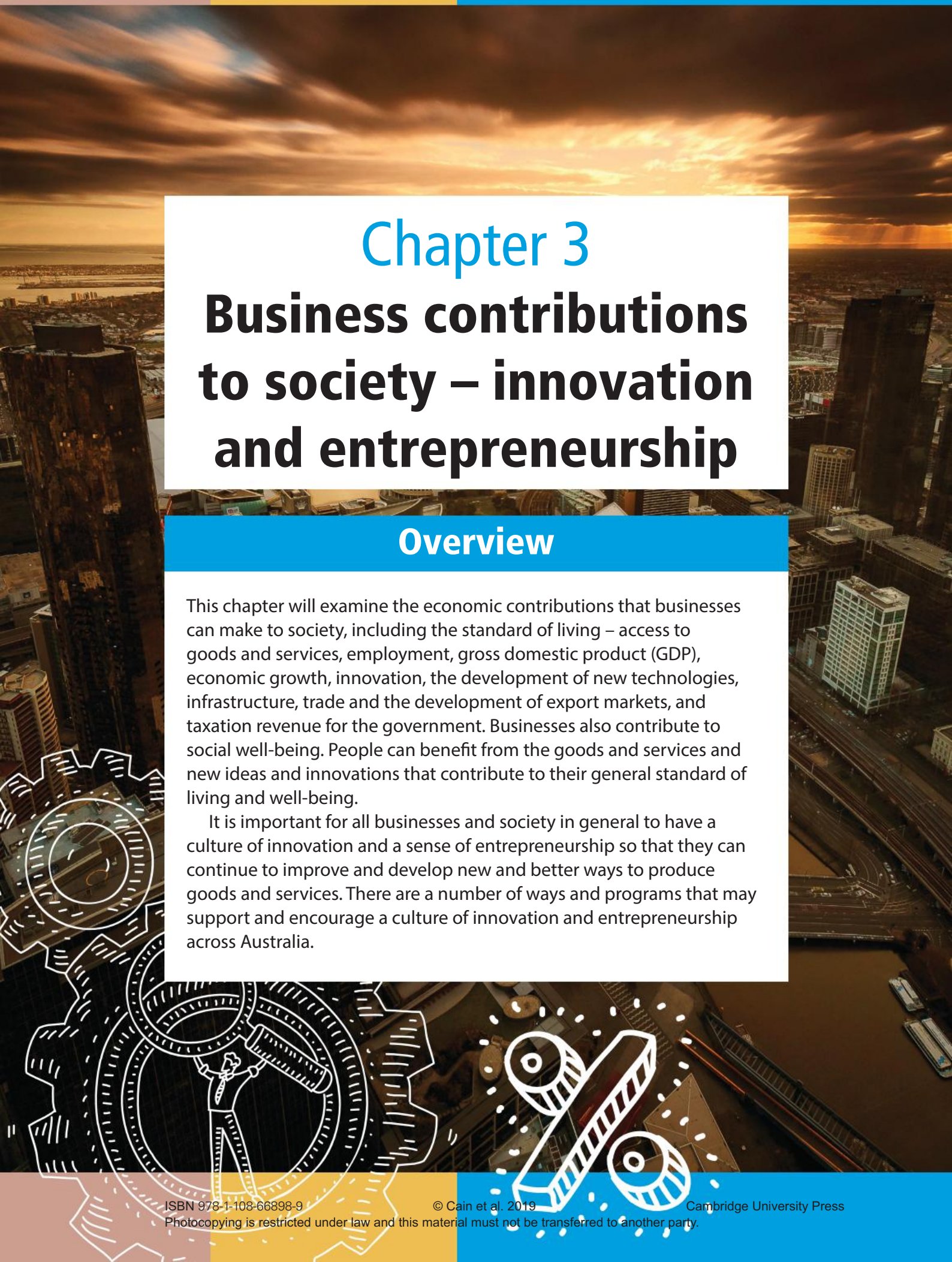

Chapter 3
Business contributions to society – innovation and entrepreneurship

Overview

This chapter will examine the economic contributions that businesses can make to society, including the standard of living – access to goods and services, employment, gross domestic product (GDP), economic growth, innovation, the development of new technologies, infrastructure, trade and the development of export markets, and taxation revenue for the government. Businesses also contribute to social well-being. People can benefit from the goods and services and new ideas and innovations that contribute to their general standard of living and well-being.

It is important for all businesses and society in general to have a culture of innovation and a sense of entrepreneurship so that they can continue to improve and develop new and better ways to produce goods and services. There are a number of ways and programs that may support and encourage a culture of innovation and entrepreneurship across Australia.

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Key terms

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

Key knowledge

In this chapter you will learn about:

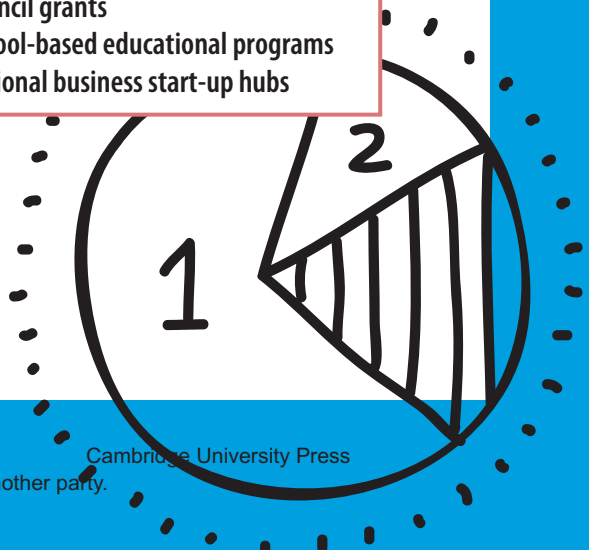
- the contribution that businesses make to the economic and social wellbeing of a nation
- the methods by which a culture of business innovation and entrepreneurship may be fostered, such as government investment in research and development, council grants for new businesses, business mentorships, school-based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

(Source: VCAA Business Management Study Design, 2017–2021, p8)

What's ahead

Contribution of businesses	Methods to foster innovation and entrepreneurship
– economic well-being – social well-being	– government investment – council grants – school-based educational programs – regional business start-up hubs

Figure 3.1 Business contributions to society



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3.1 Contribution to the economic well-being of a nation

well-being a good or satisfactory condition of existence, usually centred on health, happiness and prosperity

mixed market economy an economy based on both privately owned businesses and the government (public sector) providing goods and services

Businesses, regardless of their size, contribute to the economic and social **well-being** of a country in many ways.

Economic contribution of businesses in Australia

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

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

Employment

Businesses employ workers and provide them with an income to purchase goods and services. People employed by businesses produce or deliver goods and services for others. Paid work is important, and employment levels are closely linked to economic growth and living standards.

According to the Australian Bureau of Statistics, small and medium-sized businesses employ approximately 70% of the total workforce in Australia, and it is important for the government to develop policies to ensure that these businesses are supported and encouraged to employ as many people as possible.

ACTIVITY 3.1

1 Using your favourite search engine, find the latest Australian Labour Force statistics online at the Australian Bureau of Statistics website. Identify trends in the employment rate between May 2018 and May 2019 and what the current rate is.
2 Using the same link that you used in question 1, answer the following questions:
   a What proportion of people are employed in full- and part-time work?
   b Has the rate of unemployment increased or decreased in the past six months? Give one reason why this may have happened.
3 Describe how businesses can contribute to the employment opportunities of Australians.

Economic growth/gross domestic product (GDP)

gross domestic product (GDP) the total value of all goods and services produced within a country, usually measured over one year

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

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

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CASE STUDY
3.1

Australia and its GDP

AUSTRALIAN ECONOMY GREW BY 1.0%

Australia's gross domestic product (GDP) grew by 1.0% in the March quarter 2018, following a 0.5% rise in the December quarter. The Australian economy has grown 3.1% through the year.

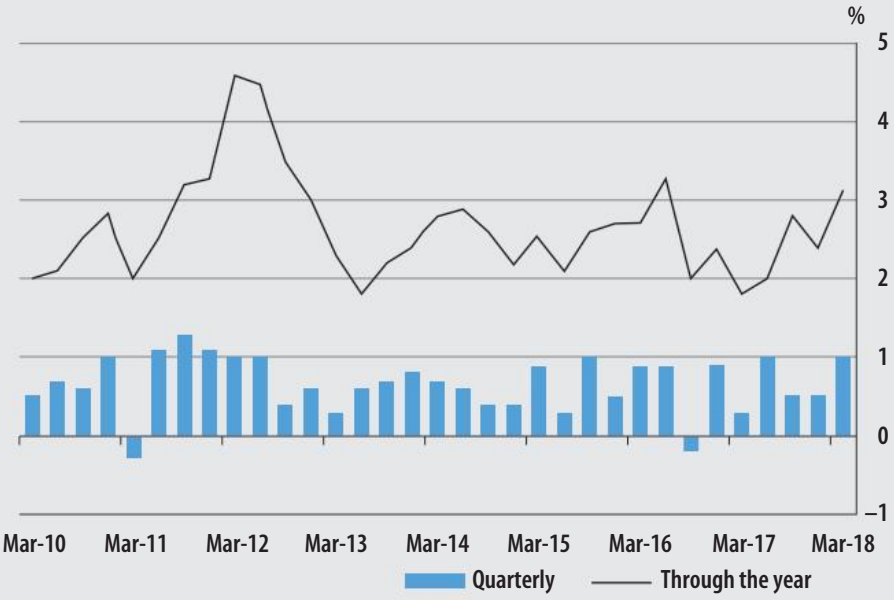

Figure 3.2 Gross domestic product, volume measures: seasonally adjusted

EXPORTS CONTRIBUTED TO GROWTH

Exports of goods and services rose 2.4% following a fall of 1.5% in December. Through the year exports of goods and services are up 4.6%. Exports of goods were up 2.9% driven by non-rural exports (3.3%) with mining commodities, Liquefied Natural Gas (LNG), Coal, Iron Ore and Non-Monetary Gold the main drivers.

CONTINUED ITEM

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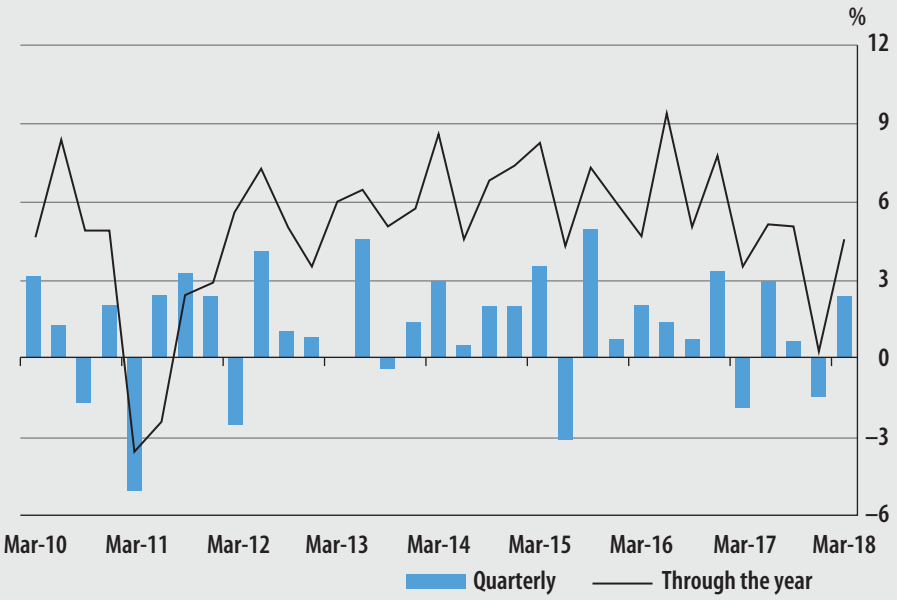

Figure 3.3 Exports of goods and services, volume measures: seasonally adjusted

STRENGTH IN PRIVATE BUSINESS NON-MINING INVESTMENT CONTINUES

Private business non-mining investment rose 3.6% this quarter, to be up 14.0% through the year. This growth was driven by machinery and equipment and continues the longer term trend of private business non-mining investment offsetting the decline in private business mining investment. Private business mining investment fell 6.0% this quarter and is down 16.4% through the year.

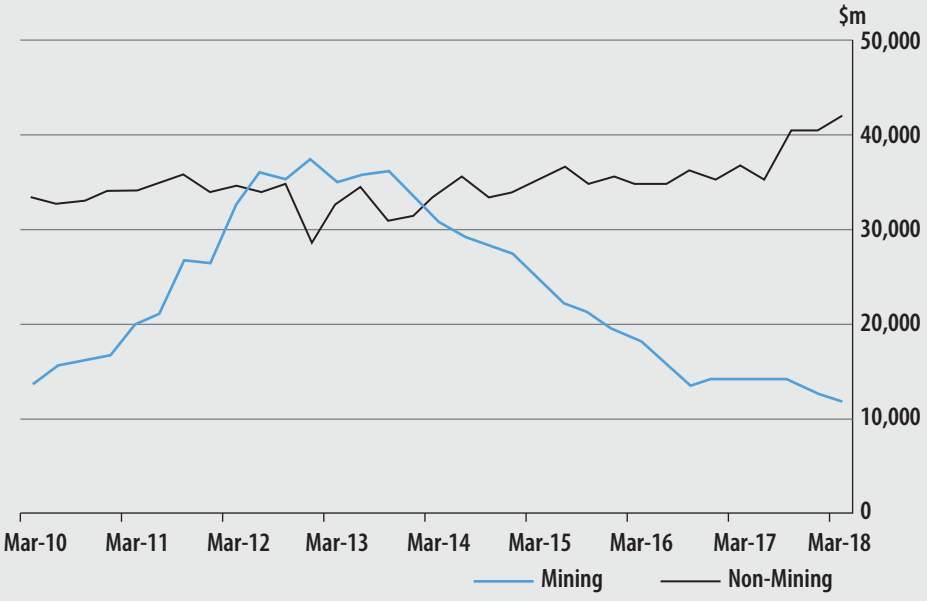

Figure 3.4 Private business investment – mining and non-mining, volume measures: seasonally adjusted

CONTINUED STRENGTH IN GOVERNMENT EXPENDITURE

Total government final consumption expenditure rose 1.6% this quarter and remains strong through the year. Continued spending on health, aged care and disability services were the main contributors. State and local government expenditure also had strong growth with a rise in employee expenses, particularly in frontline services.

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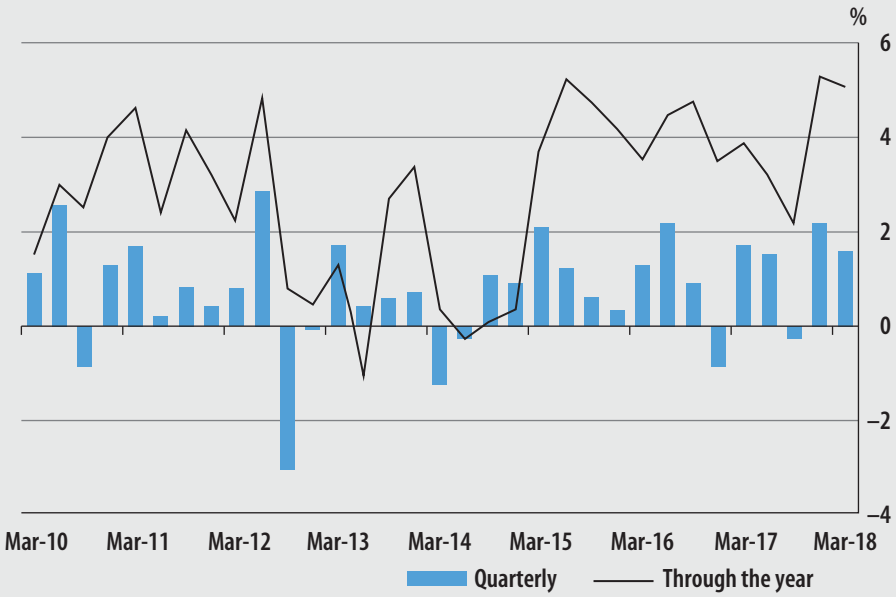

Figure 3.5 Government final consumption expenditure, volume measures: seasonally adjusted

(Source: ABS website, 'Australian National Accounts: National Income, Expenditure and Product, Mar 2018')

ANALYSIS

1 Outline the trends in economic growth and GDP since 2010.
2 Describe the domestic factors that may have contributed to economic growth in Australia.
3 Analyse the link between GDP, international trade, private investment and government expenditure.

International trade

International trade is important to a nation as it gives businesses and individuals access to goods they may not otherwise be able to purchase. Businesses can also use imported parts and materials in the production of goods in Australia. The level of trade between one country and another can be measured using the **balance of payments**, which measures the movement of money and capital in and out of a country. It includes total **imports** and **exports**. Many businesses import and export goods and services, which give people access to a greater variety of goods and allow businesses to earn revenue by selling products to other countries. Over the past few years, the federal government has signed free trade agreements with a number of countries, including China, Japan and South Korea. Agreements still in negotiation include those with Peru and the European Union.

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

imports goods and materials that come into Australia from other countries

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

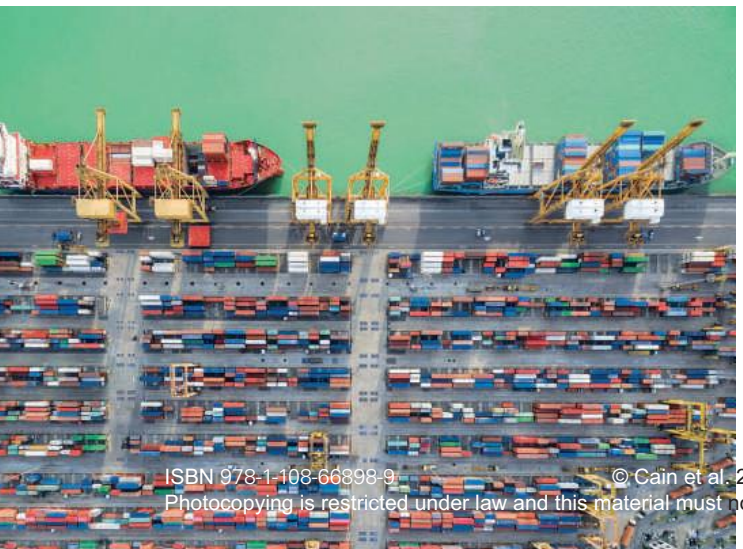

Figure 3.6 Importing provides access to more goods and services.

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ACTIVITY 3.2

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

CASE STUDY **3.2**

Australia's strong economic performance and its effect on living standards

AUSTRALIA IS A TOP 20 COUNTRY

Australia is known as a country that is active at a global level.

Table 3.1 Australia's economic performance

Area/topic	Performance and success
Economy	• Australia is in its 27th consecutive year of annual economic growth, one of the few economies in the post-WWII period to achieve this – (2017–18). • Australia is the 2nd wealthiest nation in terms of wealth per adult after Switzerland. • The Australian dollar is the 5th most traded currency. • Australia is estimated to have the world's 13th highest GDP and 11th highest GDP per capita (per head or person). • The Australian Stock Exchange is the 16th largest stock exchange in the world.

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International trade and investment	• Australia is the number one global exporter of iron ore, coal and unwrought lead, the 2nd largest exporter of aluminium ores and the 3rd largest exporter of copper ores and zinc ores • Australia is the 4th largest global exporter of liquefied natural gas (LNG) (by quantity) • Australia is the 3rd largest global exporter of zircon and pearls and the 7th largest exporter of gold (by value) • Australia is the 2nd largest exporter of beef and lentils, the 3rd largest exporter of sugar, and the 5th largest exporter of wine (by value) • Australia is the largest global exporter of wool and 2nd largest exporter of cotton (by value) • Australia is the 9th largest global exporter of vegetables and 12th largest exporter of dairy products (by value) • Australia is the 15th largest exporter of orthopaedic appliances (by value) – (2017) • Australia receives the 10th largest international tourist spend from overseas visitors
Doing business	• Australia is ranked equal 2nd (with Japan) on the Web Participation Index • Australia is ranked 5th for economic freedom • Australia is ranked 5th on the Global Entrepreneurship Index • Australia is ranked 8th on economic resilience • Australia is ranked 11th on the Global Talent Competitiveness Index • Australia is ranked 12th on business environment for 2018–22 • Australia is ranked 14th on ease of doing business • Australia is ranked 15th on world digital competitiveness • Australia is ranked 19th on world competitiveness • Australia is ranked 19th on world talent
Education and training	• Australia is the 3rd largest destination for international students (tertiary) behind the United States and the United Kingdom

(Source: Department of Foreign Affairs and Trade website, 'Australia is a top 20 country', October 2018)

ANALYSIS

1 Examine the information on the economy, trade and investment. Explain what effect these have had on the living standards of Australians.
2 Describe why the other information in the table is important and the implications it has for the standard of living in Australia.

Taxation revenue

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

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infrastructure the foundations and investment needed to provide the means for the economy to operate, including transport, communications, education, power and electricity services

Infrastructure

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

CASE STUDY **3.3**

Transurban's partnerships with governments

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

Transurban has road and freeway networks across Sydney, Melbourne and Brisbane. Examples include CityLink (Melbourne), Cross City Tunnel, Eastern Distributor, Hills M2, Lane Cove Tunnel, M5 South West (Sydney) and Gateway Motorway (Brisbane).

ANALYSIS

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

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Research and development

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

Figure 3.7 Businesses often invent and innovate to benefit society.

ACTIVITY 3.3

1 Discuss how research and development can contribute to the well-being of people in Australia and around the world.
2 Evaluate why it is important for individuals and businesses to continually look for ways to develop new ideas.

Social contribution

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

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

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

Australia's overall well-being as measured by the BLI is very strong, relative to most other countries. Australia's civic engagement is top-ranking, and it also enjoys an above-average rating in health status, environmental quality, personal security, jobs and earnings, education and skills, subjective well-being (general happiness) and social connections. Australia does, however, have a below-average rating in work–life balance, and there is an increasing gap between the richest and poorest in society.

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

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

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

Figure 3.8 Princess Mary of Denmark presenting to the OECD Forum. The OECD measures economic quality of life worldwide.

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Table 3.2 Results from the Better Life Index – Australia for income, employment and satisfaction with life

General happiness (satisfaction with life)	Workforce (employment)	Income per capita (average household)
• Findings show that Australians are generally satisfied with their lives. • Results show that Australians are above the OECD average.	• Australians work longer hours, with 13% of employees working above the OECD average number of daily working hours. • Australia's number of paid employees is above the OECD average: where 72% of Australians between the ages of 15 and 64 are in the paid workforce.	• Findings show that Australians earn more than the OECD average. • However, there is a wide gap between the poor and the rich, causing a difference in wealth distribution.

ACTIVITY 3.4

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

1 Analyse how Australia rates on the indicators set out in Table 3.2.
2 Establish whether there has been any improvement or a decline in these indicators.
3 Identify and explain any areas that may adversely impact on the quality of life of Australians.
4 Evaluate how businesses have contributed to these results.

CASE STUDY 3.3a *Minimising environmental impact by setting recycling targets*

Please see the Interactive Textbook to access this case study.

While businesses contribute in many ways to the social and economic well-being of a country, they can also negatively affect society. This could be through businesses reducing the number of staff they employ, decreasing their research and development budgets, cutting back on production of goods and services, paying less company and other taxes, or importing more goods than they export (this leads to issues with trade deficits, or shortfall). The impact of business activity on the environment may also affect the population's standard of living.

Figure 3.9 When businesses decrease their research and development budgets, it can negatively affect the social and economic well-being of the economy

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3.2 Building a culture of innovation and entrepreneurship

Global Innovation Index (GII) ranks countries in relation to their overall successes in innovation. It identifies the complex elements of innovation and also helps to promote long-term output growth, improved productivity and job growth by providing the tools to tailor policies.

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

Innovation can be defined as an improvement or invention that enhances or extends a business and provides another product or service to the economy. Australian businesses and individuals have a solid track record of new ideas and inventions. Innovation can be measured using the **Global Innovation Index (GII)**, which seeks to identify the complex elements of innovation and also promotes long-term output growth, improved productivity and job growth by providing the tools to tailor policies.

It also provides information on the factors and the environment necessary to create innovation, and allows these to be evaluated.

Table 3.3 Examples of Australian innovations and inventions

Description	Innovation/ Invention
Artificial ice manufacturing was developed by James Harrison in 1879 so that meat could be exported to Great Britain.	Invention
Lawrence Hargrave undertook the first powered flight in 1894 with four box kites stitched together.	Innovation
The surf lifesaving reel was designed by Lyster Ormsby and built in 1906.	Invention
A pedal-powered radio was developed by Alfred Traeger in 1929 for the Royal Flying Doctor Service.	Innovation
The utility truck, or 'ute', was developed in 1934.	Innovation
The Hills Hoist rotary clothes line was developed in 1945.	Invention
In the 1940s, Howard Florey developed a way for penicillin to be manufactured and processed.	Invention
In 1952 the Victa lawn mower (a two-stroke engine rotary lawn mower) was invented by Mervyn Victor Richardson.	Invention
David Warren developed the black box flight recorder in 1953.	Invention
Baby safety capsules for cars were invented by Richard Heath and Colin Nagel, employees of Rainsfords (now known as Britax) in 1984.	Invention
Long-wearing contact lenses were introduced in 1991.	Innovation
Anti-counterfeiting technology for bank notes was developed for Australian currency, and first issued in 1992.	Invention
Spray-on skin for the treatment of burns victims was first developed in 1993 by plastic surgeon Fiona Wood and scientist Marie Stoner. It has now been approved for use in Australia, Europe, China and Canada.	Invention
Gardasil, the vaccine against the two main variants of the human papilloma virus (HPV) that cause cervical cancer, was developed over the 1990s, and approved for use in Australia in 2006.	Invention

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CASE STUDY 3.4

Overcoming roadblocks to promoting innovation in the workplace

YOUR COLLEAGUES ARE NOT DINOSAURS – IT'S WORKPLACE ROUTINES THAT MAKE INNOVATION DIFFICULT

In many sectors, the disruptive changes now occurring are so major that they have been described as the 'fourth industrial revolution'. In response, organisations are focusing on innovation. Unfortunately, many innovations do not make it through to implementation.

Many explanations are offered. One is change resistance, but this is oversimplified and usually inaccurate. A more nuanced view is that implementing innovations is much harder than thinking them up in the first place.

An essential factor in being able to implement innovations is to diagnose the sources of resistance. One major source is the routines we find in all organisations. Routines exist to enable the organisation to function more efficiently, and to help people carry out their jobs.

[But innovations can be disruptive, meaning that] routines would need to be rebuilt for the innovation to be successful.

Even a seemingly minor innovation can pose implementation conundrums. Often these are legitimate and have nothing to do with resistance to change.

The good news is that routines can often be flexible. However, 'flexing' or redesigning organisational routines is probably not going to happen in response to every promising prototype that comes out of the innovation lab.

FIVE WAYS TO PROMOTE INNOVATION

Based on an understanding of business routines some strategies can support the implementation of new routines and innovation. These include:

1 Analyse affected routines as part of the implementation plan. The scope should include micro-level routines (how people perform their jobs), meso-level routines

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(organisational systems, IT systems, processes, knowledge and shared understanding), and macro routines (inter-organisational or national policies and systems, legislation). Be realistic about the scale of the change required. Does the value of the innovation justify it?

2 Modify the innovation to reduce major disruption to routines. Can the innovation be modified so existing routines can be 'flexed' rather than disrupted completely? Can you remove or limit macro-level disruption, as these routines will be the hardest to change?

3 Develop new routines to replace the old ones. Organisations need routines to function efficiently. The innovation implementation process needs to include the design of new or changed routines.

4 Create a separate organisational unit or brand. New routines can be developed and trialled before being rolled out to the whole organisation.

5 Aim for a more agile organisation overall. Many apparently promising innovations genuinely do not justify the effort involved in implementation. However, if there is a regular pattern of innovations never making it out of the lab, a wider examination of your organisation's agility and change readiness may be required.

(Source: Mary Tate, 'Your colleagues are not dinosaurs – it's workplace routines that make innovation difficult', *The Conversation*, 14 August 2018)

ANALYSIS

1 Describe why innovation is important for businesses.
2 Explain two reasons why innovation may not progress to implementation.
3 Suggest how a business could try to overcome obstacles and resistance to new ideas.

Figure 3.10 Australians have developed many useful inventions, such as the Hills Hoist.

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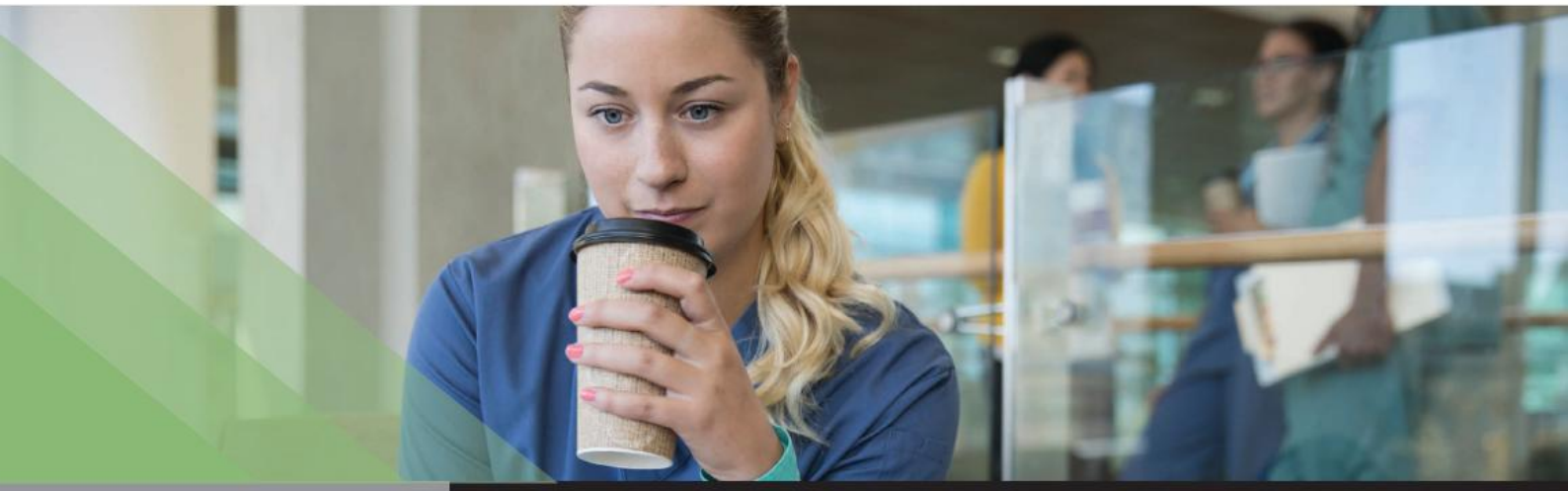
Entrepreneurship

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

Individuals, businesses and countries need the right skills to succeed in the global economy. As the economy has changed, knowledge has become increasingly important – successfully acquiring, managing and applying knowledge to business practices is the key to growth. Australia is performing well in the creation of knowledge. In the WEF Global Competitiveness Report 2016–17, Australia was ranked 22 overall in all of the countries involved in the study. While Australian businesses and individuals come up with many new ideas and innovations, not all of them are carried through to production, so there is capacity for greater innovative activity. One way to help Australian businesses to become more innovative and entrepreneurial is for programs and support mechanisms to be established by governmental and other bodies.



CASE STUDY 3.5

Night Fix: an innovative business targeting a gap in the market

After running a coffee van for a number of years, Steve Taylor was looking for a new challenge. A chance meeting with a nurse in Frankston gave him that challenge – her suggestion was to use his van to service night shift workers in hospitals, an untapped clientele base. Hospital cafes close by the early evening and many visitors and hospital staff would love to be able to buy a coffee, especially those working the night shift. Steve teamed up with his friend Shane Leighton, they did their research, and then began a trial using Steve's existing coffee van. The Facebook page for their business, Night Fix, sent out alerts of the van's location and arrival times, and word travelled fast. Before long, they purchased a second van.

The business owners have two separate routes and sell between 300 and 400 coffees a night. Between them they visit 15 locations, including The Alfred Hospital, Austin Health, St Vincent's Hospital and the hospital precinct in Parkville. They canvas a huge area from the eastern to northern, inner western and out to the southern suburbs of Melbourne.

ANALYSIS

1 Describe how this business idea developed.
2 Explain why this business idea has been successful.

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CASE STUDY
3.6

Australia's top female entrepreneurs

Australia has produced a number of successful female entrepreneurs. Some well-known examples are:

Name: Lesley Gillespie
Company: Bakers Delight
Established: 1980 (became a franchise in 1988)
Despite Lesley Gillespie saying that Bakers Delight was not founded on the assumption that there would be a store in all of Australia's shopping centres, the bakery franchise edges closer to achieving this each year. It now boasts more than 700 bakeries across Australia, New Zealand and Canada.

Name: Katie Page
Company: Harvey Norman
Established: 1982
As chief executive of Harvey Norman, Katie Page is one of only a handful (3.5%) of women to have the top job at an ASX 200 company. Alongside her husband and Harvey Norman founder, Gerry Harvey, Page controls the global homewares and electronics retail empire.

Name: Janine Allis
Company: Retail Zoo
Established: 2000
Founder of Boost Juice parent company Retail Zoo, Allis has stayed on board as executive director of Retail Zoo, which also owns Salsa's Fresh Mex, Cibo Espresso and Hatch Chicken Shop brands, and helped grow company revenue.

Name: Carolyn Creswell
Company: Carman's Fine Foods
Established: 1992
Carolyn Creswell is the founder of Carman's Fine Foods and a former Telstra Business Woman of the Year. Carman's muesli products are sold in all major Australian supermarkets, as well as local delis and cafes and stockists in 32 countries around the world.

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Table 3.4 Australia's top female entrepreneurs in 2018 according to Smart Company data

Rank	Name	Company	Revenue
1	Gina Rinehart	Hancock Prospecting	$4.45 billion
2	Katie Page	Harvey Norman	$3.16 billion
3	Vicky Teoh	TPG	$2.49 billion
4	Maxine Horne	Vita Group	$674.6 million
5	Lesley Gillespie	Bakers Delight	$595 million
6	Naomi Milgrom	The Sussan Group/ ARK Holdings	$459 million
7	Janine Allis	Retail Zoo (Boost Juice)	Over $350 million
8	Yenda Lee	Bing Lee	$320.6 million
9	Charlotte Vidor	Toga Group	$285 million
10	Lorna Jane Clarkson	Lorna Jane	$280 million
11	Sue Hollis	TravelEdge	$250 million
12	Iris Lustag-Moar	Lustig and Moar	$171 million
13	Gillian Franklin	Heat Group	$130 million
14	Sarina Russo	Sarina Russo Group	$122 million
15	Diana Williams	Fernwood Fitness	$113.8 million
16	Violet Roumeliotis	Settled Services International	$113.4 million
17	Jo Hogan	Mecca Brands	More than $100 million
18	Irene Patsalides	Mirenesse	$100 million
19	Barb de Corti	Enjo	$100 million
20	Carolyn Creswell	Carman's Fine Foods	$100 million

(Source: 'Australia's Top Female Entrepreneurs 2018', *SmartCompany*, 2019.)

ANALYSIS

Examine the examples in this case study.

1 Why do you believe these women were successful? What characteristics does an entrepreneur need to have?
2 Research three pieces of information about one of the successful entrepreneurs (for example, how long the business has been running, whether the business has expanded into other areas).
3 What has happened to each of the businesses now? (You may need to do some further research.)

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Methods to foster a culture of innovation and entrepreneurship

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

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

Government investment in research and development

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

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

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

Singapore has invested over $1 billion to expand creation and entrepreneurship over time and to change the country's economy from labour-driven to productivity-driven industries by supporting entrepreneurship research and innovation.

The federal government has a program to encourage entrepreneurs in Australia that forms part of the National Innovation and Science Agenda. The program offers support to businesses using four elements:

- **Accelerating Commercialisation** – helps small and medium businesses, entrepreneurs and researchers to commercialise novel products, services and processes
- **Business Management** – experienced Business Advisers and Facilitators review business operations, including business direction, strategy, growth opportunities and supply chain. They provide a report with strategies for business improvement and work with you to make them happen.
- **Incubator Support** – assists New and Existing Incubators to improve the prospects of Australian start-ups achieving commercial success in international markets, through helping them to develop their business capabilities.
- **Innovation Connections** – experienced Innovation Facilitators work with your business to identify knowledge gaps that are preventing your business growth. The outcome is an Innovation Facilitation Report.

Practical support for businesses includes:

- advice from people with relevant private sector experience
- co-funded grants to commercialise new products, processes and services
- funding to take advantage of growth opportunities
- connection and collaboration opportunities.

(Source: Australian Government Business website, 'Entrepreneurs' Programme')

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The National Innovation and Science Agenda assists innovators with access to funding. Undertakings include:

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

In an effort to motivate and induce high-performing employees, the government has enabled businesses to offer employees' shares. Businesses are now able to enter and extend global markets through multiple contacts. The government also assists innovative start-ups in regional and agricultural areas by granting access to public data and scientific research.

The Commonwealth Scientific and Industrial Research Organisation (CSIRO), associated businesses and universities receive funding from the federal government to support research. The government backs research and development in science and for innovative and up-and-coming businesses. It provides funding to the workforce to assist in the development of research skills in areas such as engineering, mathematics, science and technology. The government also examines applied research, which looks at real-world applications of learning to support the private sector. Privately run businesses also invest and implement practices and ideas based on such research.

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

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

ACTIVITY 3.5

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

Council grants for new businesses

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

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

Figure 3.11 Mentoring programs are offered in each state.

Business mentorship

Mentoring for small businesses is encouraged and supported by the Australian Government. At a state level, there are **business mentorship** programs to help small business owners. For example, Victoria has a range of programs and schemes such as Business Victoria's Small Business Mentoring Program, Future Industries, New Energy Technologies, Victoria–Israel Science Innovation and Technology Scheme (VISITS) and the Future Industries Sector Growth Program.

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ACTIVITY 3.6

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

School-based educational programs

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

In the next decade it is estimated that 75% of the fastest-growing jobs will rely on STEM (science, technology, engineering and mathematics) skills. To meet the needs of these industries, the federal government has allocated money to support several programs, including:

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

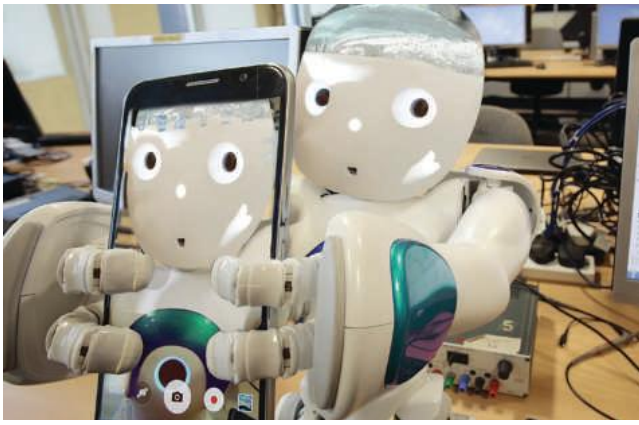

Figure 3.12 A large number of future jobs will require STEM skills.

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

Creation of regional business start-up hubs

A **business hub** can be described as a place where businesses and individuals are able to go for work and networking without renting their own office space. These spaces can be used for meeting clients, meeting other business people or technology use where it might not be possible from home, and some hubs also provide childcare services. Sometimes it is as simple as someone wanting a different place to work to get out of the home office space. In many cities in Australia and around the world there are hubs for people to use.

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

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

ACTIVITY 3.7

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

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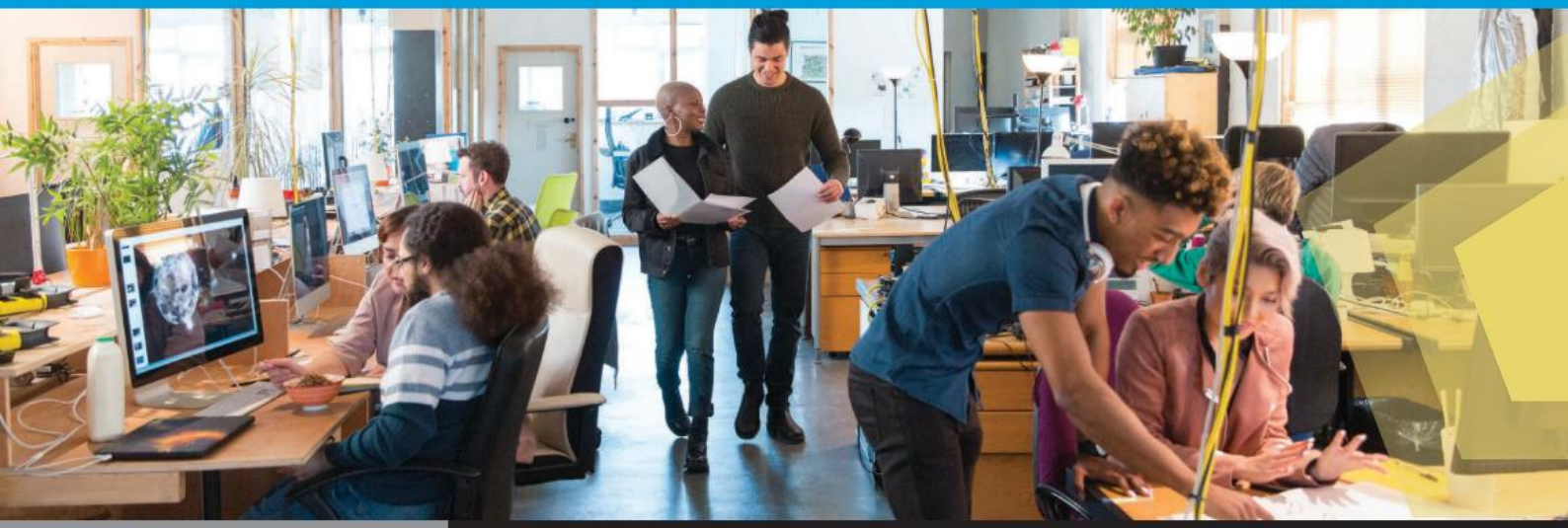

CASE STUDY
3.7

Coworking spaces: an important resource for entrepreneurs

In both Melbourne and Sydney there has been a move towards developing coworking spaces. This set-up allows different businesses and those who may be self-employed or freelancing to share a working space. It is a way to gain support and connect with other entrepreneurs dealing with similar issues. It also removes much of the isolation that can come with working from home or working alone and replaces it with a supportive community. There can be opportunities to bounce ideas off the network of co-workers, and talk about what is working or not working.

Twospace is a Sydney-based start-up that challenges people to 'office differently'. It is turning restaurants and bars (usually unused during the day) into coworking spaces.

ANALYSIS

1 Describe the concept of a 'business hub'.
2 Outline the benefits of 'coworking' for entrepreneurs.
3 Suggest why a business hub could use restaurants and bars during the day. What would be the flow-on benefits for the owners of these businesses?

ACTIVITY 3.8

Investigate at least one person from the table on the right and answer the following questions.

1 What business did they start or do they run?
2 What experience do they have?
3 How successful is their business?

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

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Chapter summary

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

Chapter summary tasks

1 Copy and complete the following table – some of it has been done for you.

Contributions of businesses to the economy		
Contribution	**Positive**	**Negative**
Gross domestic product (GDP)	Businesses produce goods and provide services to the economy, which increases GDP.	
Employment		When businesses reduce their staff this can lead to greater unemployment.
Balance of payments and trade		
Research and development (innovation)	Businesses can encourage employees to discover new ways of doing things, which benefits society.	
Infrastructure growth		
Pollution/waste reduction		Businesses can contribute to pollution through the scale and size of their operations.

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2 Describe how businesses contribute to the economic and social well-being of a nation.
3 Explain how economic growth is measured.
4 Explain why businesses import and export goods and how this contributes to the well-being of Australians.
5 Providing infrastructure is important. Discuss how businesses support this.
6 Describe how a business can support society through research and development.
7 Describe why it is important for businesses and governments to promote and support innovation and entrepreneurship.
8 Define the Global Innovation Index (GII).
9 Explain why local councils offer programs to support new businesses in their area.
10 Describe why STEM is important for the future of the Australian economy.

Extension questions

1 You have been employed as a reporter for Open Media and have been asked to present on the contribution of businesses to Australia. You are to argue that businesses do contribute in a positive way to the economy. You may use a PowerPoint presentation, Prezi, blog, podcast or video to make your presentation.
2 Read the quotes below regarding innovation and entrepreneurship. Pick two quotes and explain how they relate to the idea of building a culture of innovation and entrepreneurship.
   a David Rohrsheim, general manager of Australia and New Zealand at Uber:
   In order to become a genius, you must first risk being seen as a fool.
   b Naomi Simson, founder and CEO of RedBalloon:
   Goals without routines are wishes; routines without goals are aimless.
   c Lisa Messenger, founder and CEO of The Messenger Group:
   Hire fast, fire slowly.
   d Fred Schebesta, founder of Finder.com.au:
   Focus on the one thing that you can be the best in the world at and just do that over and over again.
   e Daniel Flynn, co-founder and managing director of Thankyou:
   Leadership is learning, just in front of more people.
   f Mitch Harper, co-founder of Bigcommerce:
   Get really good at learning.
   g Ruslan Kogan, founder of Kogan.com:
   Make sure your business has a competitive advantage and work relentlessly to flaunt it.
   h Nicolette Maury, managing director of Intuit Australia:
   Be the best version of yourself.
   i Eugene Trautwein, vice president of worldwide customer support at Commvault:
   Put yourself in the other person's shoes.

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Part 2
Area of Study 2
EXTERNAL ENVIRONMENT

VIDEO SUPPORT
Assessment advice for this Area of Study is available in the Interactive Textbook

Outcome 2

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

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

Key skills

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

(Source: VCAA Business Management Study Design, 2017–2021, p9)

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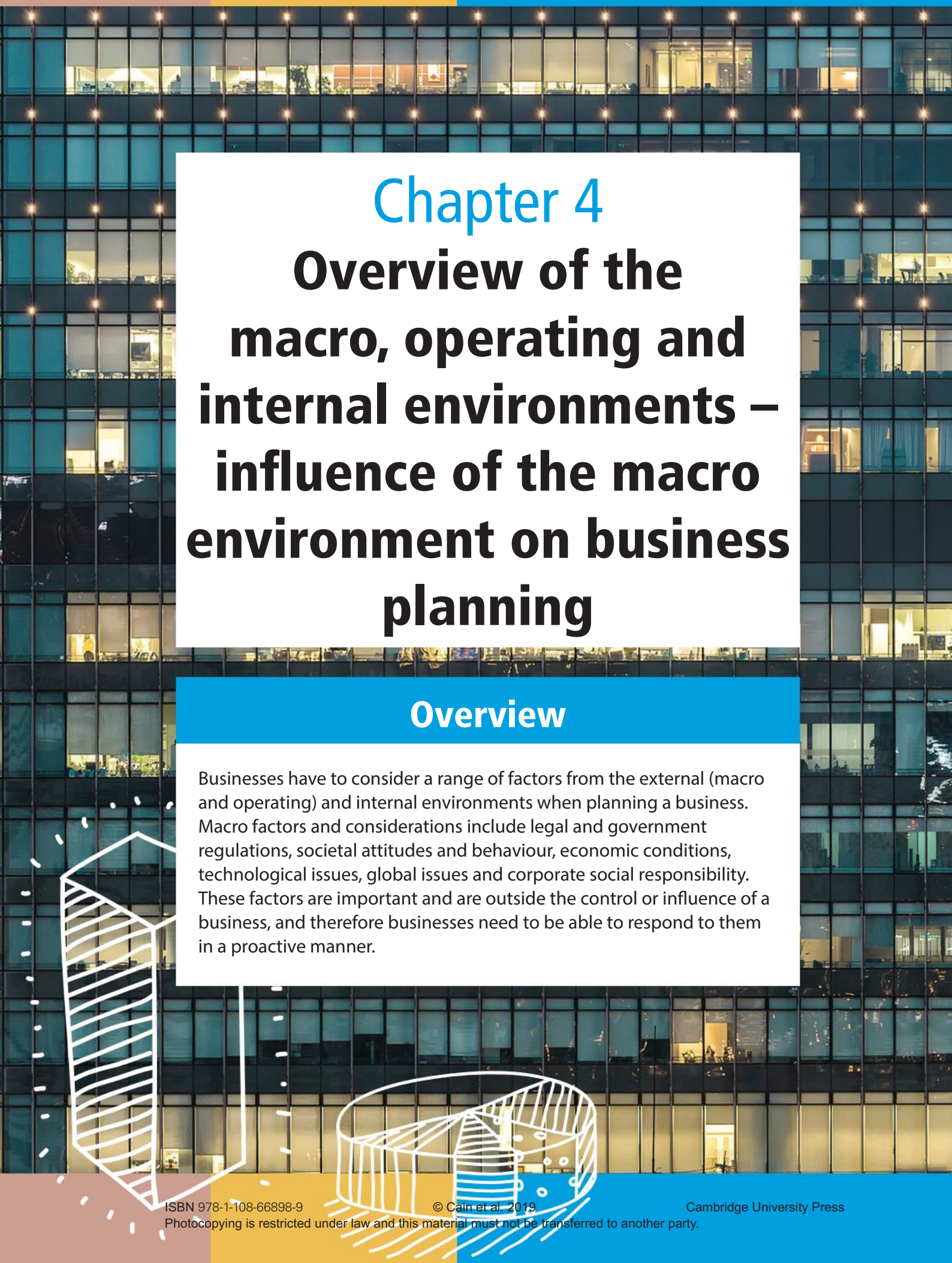

Chapter 4

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

Overview

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

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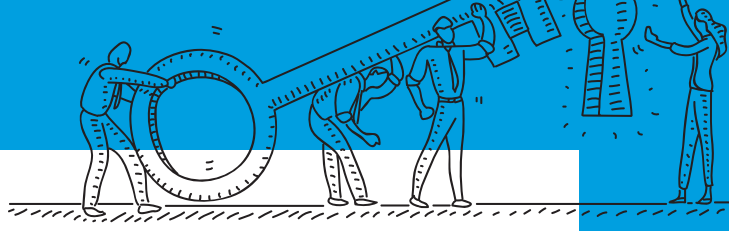

Key terms

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

Key knowledge

In this chapter you will learn about:

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

(Source: VCAA Business Management Study Design, 2017–2021, p9)

What's ahead

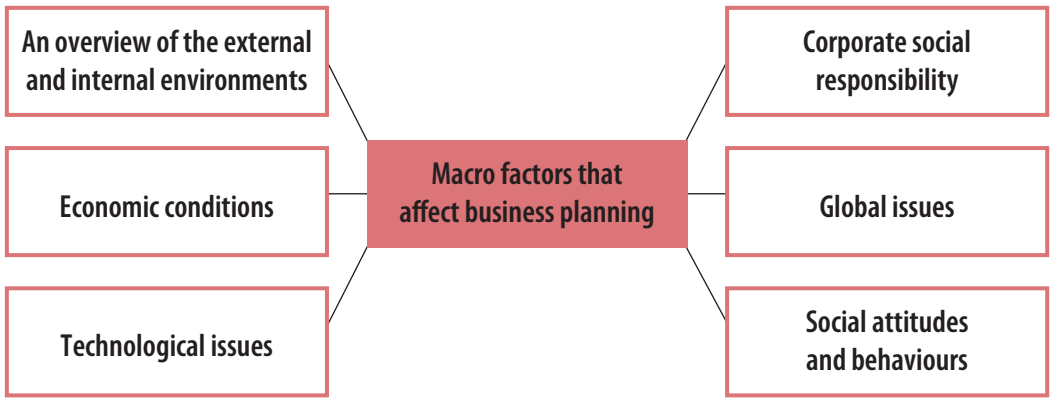

Figure 4.1 Macro factors that affect business planning

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4.1 Macro factors affecting business planning

macro factors factors directly affecting businesses that are outside their control, such as economic factors, government policy, changes in law and global issues

Businesses must take into consideration a range of issues and conditions when developing and planning their business, as it is a complex task. **Macro factors** are those that impact on the business and are outside the control of any one business. Businesses need to respond to macro factors when considering business planning issues.

4.2 Key legal and government regulations

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

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

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

Taxation arrangements

Before starting any trading activities, Australian business owners should register a business name and ensure they meet all other requirements and taxation obligations. These can include acquiring an Australian Business Number (ABN), registering for goods and services tax (GST), and applying for a tax file number (TFN) and Pay As You Go (PAYG) income tax.

Figure 4.2 Businesses must have the correct licences and permits to allow them to operate under the law.

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Licences and permits

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

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

ACTIVITY 4.1

1 Think of a business you would like to establish (e.g. a mobile food van). Go to the ABLIS website and, using your suburb or postcode, work through the questions.
2 Identify the types of legal and other considerations that would need to be addressed as part of the initial planning for your business.

Typical kinds of planning and building permit applications include:

- setting up a food premises or store
- setting up a business
- making alterations to a shopfront
- renovating a premises' internal fit-out
- putting signs up on a building
- placing outdoor seating on a footpath
- running a business from home.

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

Figure 4.3 Understanding occupational health and safety is vital.

Occupational health and safety laws

Occupational health and safety (OH&S) in Victoria is governed by a set of laws, regulations and compliance codes that outline the responsibilities of employers and employees to ensure that the workplace is safe. Business owners need to consider a range of variables such as the types of equipment and training required, and the conditions of a workplace or building to ensure that the business is compliant.

ACTIVITY 4.2

1 Using your favourite search engine, find the page on compliance codes and codes of practice on the WorkSafe website.
2 Select one area or code and outline three main requirements a business needs to address.
3 Explain how this code can affect a business in the planning stage.

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Trading laws and other requirements

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

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

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

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

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

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

Figure 4.4 Businesses must be compliant with the CCA, which includes ensuring that unfair market practices, such as estate agents underquoting on real estate prices, do not occur.

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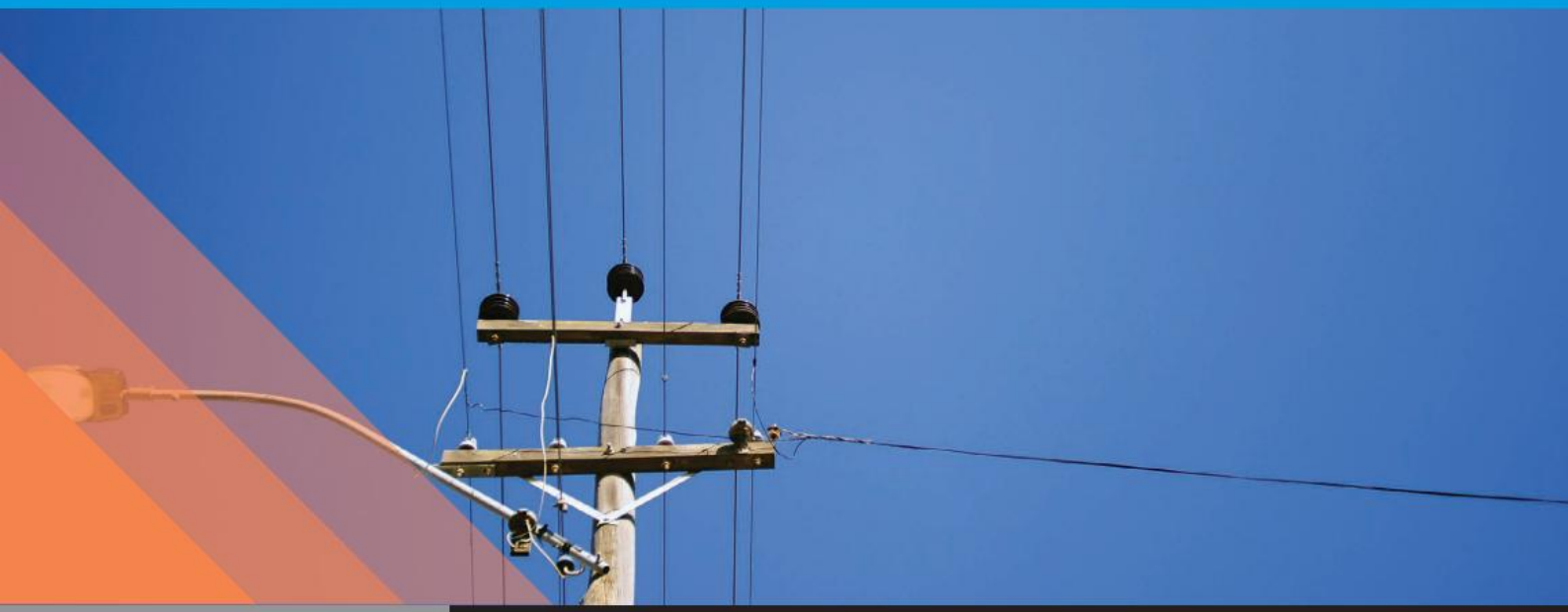

CASE STUDY 4.1

The ACCC as a regulatory body

CONSUMERS LET DOWN BADLY BY ELECTRICITY MARKET: ACCC REPORT

The Australian Competition and Consumer Commission has called for sweeping reform of the national electricity market to lower power prices and restore consumer confidence.

In its damning report … the ACCC says consumers face a confusing and unfair market. Discounts are misleading and need to be made fairer; customers should be able to compare these against a benchmark rate set by the Australian Energy Regulator.

The ACCC backs the … government's push for its National Energy Guarantee (NEG), calling on other governments to commit to it. The federal government is presently trying to bed down the NEG with states and territories, against a distracting background of criticism from former prime minister Tony Abbott.

…

The ACCC's recommendations would require action by federal and state governments.

The ACCC says the electricity market is facing its most challenging time, with the present situation being unacceptable and unsustainable. But it holds out the prospect of 'significant gains' for consumers and businesses if the changes it recommends are made.

Urging a reset, it says reform can 'bring down prices and restore consumer confidence and Australia's competitive advantage.' Unnecessary costs need to be got out of the system to save consumers hundreds of dollars annually.

The ACCC urges changes to get greater competition among wholesalers and retailers, and says network charges must fall.

Tougher powers should be given to the Australian Energy Regulator to deal with 'market manipulation.'

The customer transfer process needs to be speeded up, enabling people to move to new offers quickly. Special conditions like pay-on-time discounts should not operate in a harsh punitive manner.

CONTINUED ITEM

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The ACCC says small businesses should get access to the same improved rules as households.

Third-party sites showing comparisons in prices should state their commissions, it says.

The ACCC says there is a case for government support to underpin long-term contracts for large commercial and industrial users that brings on new dispatchable generation from operators that do not currently have a large market share.

It says big generators and retailers ('gentailers') have market strength and often charge a large premium when selling wholesale electricity to their own retail operations.

It recommends a cap on any further merger or acquisition by a company with more than 20% generation market share – although such a company would be permitted to build new generation capacity.

(Source: Michelle Grattan, 'Consumers let down badly by electricity market: ACCC report', *The Conversation*, 11 July 2018. Full article available online.)

ANALYSIS

1 Explain why there are regulatory bodies such as the ACCC to check on the activities of businesses.
2 Outline the main issue identified in the article.
3 Identify why the ACCC made recommendations about the Australian energy industry.

CASE STUDY 4.1a

'No refund' signs and consumer rights

Please see the Interactive Textbook to access this case study.

CASE STUDY 4.1b

Sports and Recreation Facilities Operation – Australia Market Research Report

Please see the Interactive Textbook to access this case study.

Environmental legislation

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

- licensing and works approvals
- land and groundwater
- landfills
- noise

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- waste
- water
- National Pollutant Inventory.

ACTIVITY 4.3

1 Go to the federal Department of the Environment and Energy website and view the *Environment Protection and Biodiversity Conservation Act 1999* (located under the tabs 'About Us', then 'Legislation'). Outline two areas covered by the Act that might need to be considered when planning a business.
2 Now go to the Victorian Department of Environment, Land, Water and Planning website and outline how you can apply for a planning permit. Look at the local government area or council you live in (there are links on the website). Identify what you need to do to gain a permit.

4.3 Societal attitudes and behaviour considerations

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

CASE STUDY 4.2

Changes in societal attitudes towards women as professionals

HOW WOMEN LED THE RISE OF PROFESSIONAL WORK IN THE AUSTRALIAN ECONOMY

In the late 19th century, a very small percentage of Australians in the workforce – around 3% – worked in professional occupations like law, medicine, engineering, accounting and teaching. By the end of the 20th century about 40% were professionals.

CONTINUED ITEM

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We are often told that women were excluded from this process. This leads to the impression that women lawyers, doctors and engineers are an artefact of progressive reform. But the story is more complicated than that.

My research shows that women were actually central to the growth of professional work. While professionals made up 2% of the male workforce in 1881, professionals were 5% of the female workforce. And while male professionals grew to 10% of the male labour force in the first half of the 20th century, professionals grew to 25% of women in the workforce.

In the first half of the 20th century all of the professions increased at a greater rate than the rest of the labour force. The economy was changing in ways that demanded more accountants, engineers and journalists. Scientific advances encouraged increased health care. And education of the whole population was increasingly necessary, requiring more teachers.

... the professions that grew the fastest were arguably those that contributed the most to the professionalisation of the economy.

These were not the traditional professions, like law and medicine. Rather, as a result of increased expectations for scientific health care and the growth of compulsory schooling, nursing and teaching grew far more rapidly than all the others.

THE RISE OF WOMEN PROFESSIONALS

There were women professionals in almost all fields, though women dominated in areas that drew on women's traditional authority over what an older middle class defined as the 'domestic sphere.'

Women had always worked. Work performed by both men and women once took place at or near the family home. Gradually, as work industrialised, it moved away from the home and into spaces dedicated to work. This occurred earlier for men than for women, which is the process that created a *separate* sphere, and left women in it.

But as the economy professionalised ... women saw opportunities to build a professional sphere for themselves. Nursing and teaching drew on the work that women had always done – caring for the sick and teaching children.

For some women, this also gave them the authority to become medical practitioners. Women, not men, had traditional responsibility for health care, the earliest women doctors argued.

Social work emerged from 19th-century charity work performed by middle-class women determined to work also outside the home.

DOES THIS MEAN WOMEN WERE NOT DISADVANTAGED AFTER ALL?

Even though they had a significant place in building professional work, women were nevertheless disadvantaged. The new middle class that emerged with the growth of the professions was based on a hierarchy. Women always clustered at the bottom of that hierarchy.

When they carved out professional spaces for themselves, those professions were often the first – like nursing and teaching – to suffer cuts in pay and conditions ...

(Source: Extract based on Hannah Forsyth, 'How women led the rise of professional work in the Australian economy', *The Conversation*, 15 August 2018. Full article available online.)

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ANALYSIS

1 Outline one change in societal attitudes mentioned in the article.
2 Describe the types of professions women generally went into.
3 Look at the Australian Bureau of Statistics (ABS) website and examine the top occupations for women. Identify any changes in the type of work women are employed to do.

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

social attitudes an acquired tendency to evaluate social things in a specific way; for example, positive or negative beliefs, feelings and behaviours towards others or a particular entity

In 1966 more than 25% of the workforce was in manufacturing, but this is now around 6.5%. In 1940, 6% of all factory workers were under the age of 16, but people are now staying in education and training a lot longer. The majority of the workforce is now employed in service industries because the nature of work is also changing. People with a tertiary education (those with a university or TAFE qualification) are more likely to have a job than those who have not done a post-school qualification.

According to the ABS report of June 2017 titled 'Feature Article: Population by Age and Sex, Australia, States and Territories', the composition of Australia's population is also changing; the population is ageing. The median age increased from 34 in 1996 to 37 in 2016. Between 1996 and 2016 the numbers of the population aged between 15 and 64 was fairly stable, and at the same time the percentage over 65 years of age increased from 12% to 15.3%. Organic population growth will slow, and life expectancy has also increased. These changes also provide many opportunities for businesses to go into industries and sectors of the economy that previously did not offer prospects.

Figure 4.5 The Australian population is both changing and ageing.

ACTIVITY 4.4

Go to the ABS website and conduct some research to answer the following questions.

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

CASE STUDY 4.2a

Generational attitudes and behaviours in the workplace

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Figure 4.6 Business owners might need to borrow money to set up their business.

4.4 Economic conditions

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

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

Interest rates

If the **rate of interest** (the cost of borrowing for a business) is low then it is more likely that business owners might borrow to set up a business, because the repayments will also be less and therefore easier to manage and maintain.

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

rate of interest the percentage of interest that is charged by a lender to a borrower for the use of their money or other assets

CASE STUDY 4.2b *The Reserve Bank and interest rates*

Please see the Interactive Textbook to access this case study.

ACTIVITY 4.5

1 Using information from the website of one of the banks or financial institutions, describe the types of loans available to businesses.
2 Outline why a new business may need to have access to a loan or extra finance.

Tax rates

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

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If a business is set up as a company then the tax rate is different – 30% for most companies and 27.5% for businesses with a turnover of less than $25 million. Businesses also pay other taxes to state governments, such as payroll tax.

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

Figure 4.7 Banks have lenders dedicated to assisting businesses.

ACTIVITY 4.6

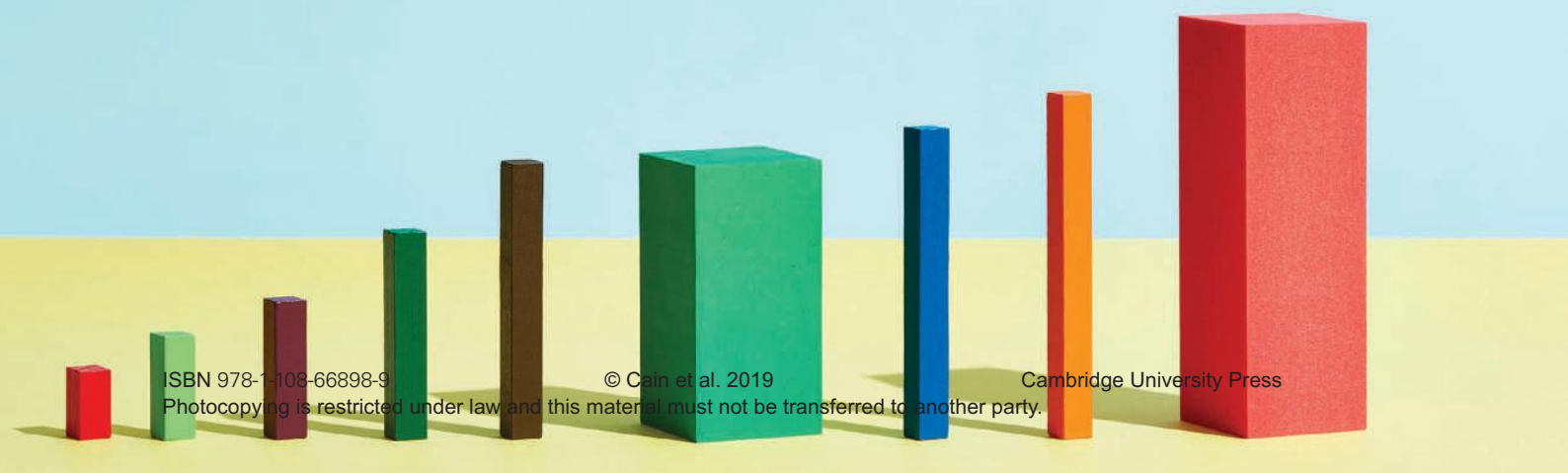
Franca and Ali want to set up a small painting and decorating business that they will run from home. They are not sure about how much tax they might need to pay. Both have agreed to set up a company. They anticipate that the revenue or sales will be around $180 000 in the first year.

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

Business and consumer confidence

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

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



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CASE STUDY
4.3

Consumer confidence and its impact on business

FACE VALUE: BUSINESS LEADERS NERVOUS ABOUT CONSUMERS SPENDING LESS AND REGULATION

Business leaders in health and consumer discretionary sectors are feeling less positive about the year ahead because consumers are feeling the pain in the hip pocket, according to our analysis of the outlook of leaders of Australia's ASX 200 companies. The threat of changes in regulation also features in business leaders' fears.

Approximately four out of five Australian workers earn their living from private businesses. Therefore it is important that Australians care about how business leaders are feeling about their future as it impacts on all of us.

The consumer discretionary sector encompasses industries that tend to be the most sensitive to economic cycles. They include businesses that produce goods like cars, clothes and leisure equipment but also services like hotels, restaurants and media.

Business sentiment in the consumer discretionary sector fell in March 2018 relative to the September 2017 business reporting season.

The glum business sentiment is in sectors related to consumer spending. A decline in consumer spending could be because household finances are under pressure from slow income growth and wealth.

Slow household income growth is driven by slow wage growth. The wage price index grew by 2% over the past year, and less on a per hour basis, which means it is barely keeping up with consumer prices. The second factor is the slowing growth in household net wealth due to a slowdown in house prices and financial assets.

Similarly, another consumer sentiment index in Australia dropped in early 2018.

Overall business sentiment is roughly the same as at March 2017 and 2016. Some sectors are higher, such as telecommunication services (up from 0.05 to 0.08), materials (up from 0.07 to 0.11) and information technology (up from 0.13 to 0.23). This is offsetting the weaker sentiment about the year ahead in consumer discretionary, health care and energy.

(Source: Extract based on Ross Guest, Ben Hachey and Leonardo dos Santos Pinheiro, 'Face value: business leaders nervous about consumers spending less and regulation', *The Conversation*, 6 March 2018)

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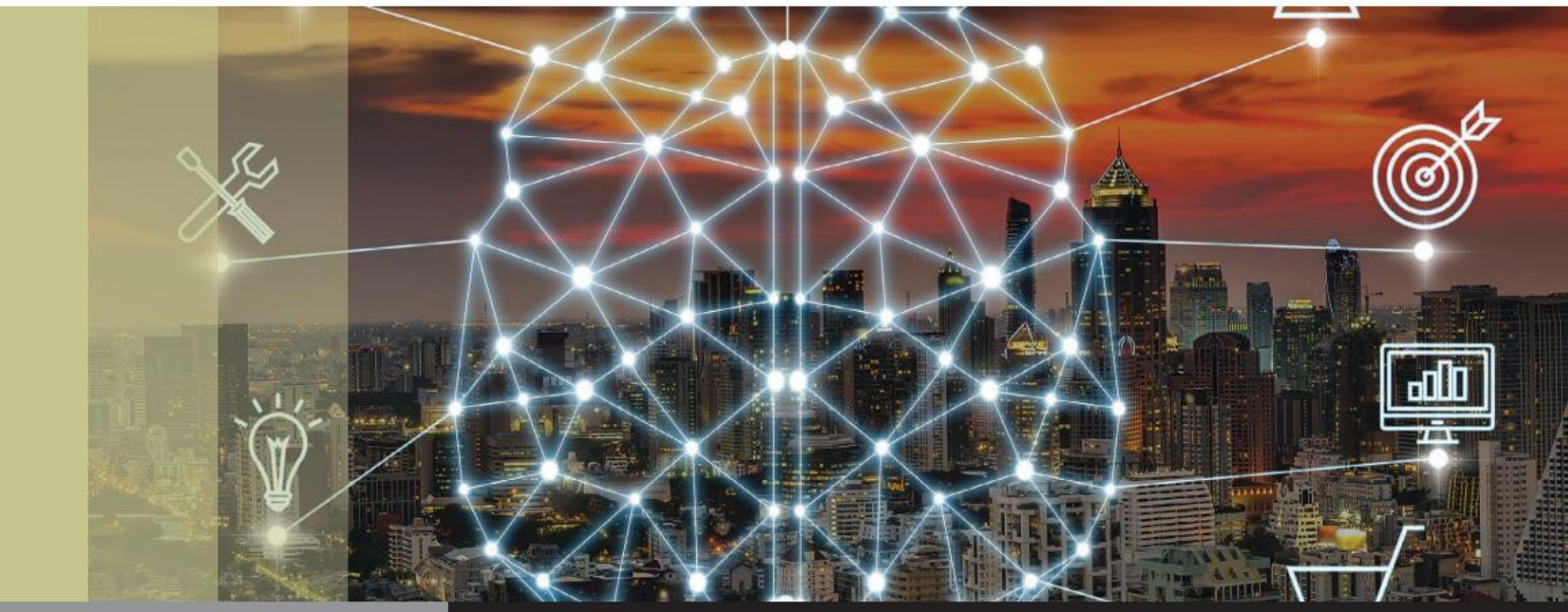
ANALYSIS

1 Define consumer confidence. Explain how it can be influenced by economic conditions in Australia and the rest of the world.
2 Examine how consumer confidence can influence decisions about business planning.

4.5 Technological issues

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

technology practical application of science to achieve commercial or industrial objectives



CASE STUDY 4.4

The impact of technology on future lifestyles and business

5 PREDICTIONS FOR WHAT LIFE WILL BE LIKE IN 2030

You are just waking up in the spring of 2030. Your Internet of Things bedroom opens solar powered e-windows and plays gentle music while your smart lighting displays a montage of beachfront sunrises from your recent vacation.

CONTINUED ITEM

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Figure 4.8 The 'Internet of Things' will become part of our daily lives

Your shower uses very little water or soap. It recycles your grey water and puts the excess heat back into your home's integrated operating system. While you dress, your artificial intelligence (AI) assistant shares your schedule for the day and plays your favourite tunes.

You still start your day with caffeine but it comes from your IoT refrigerator which is capable of providing a coffeehouse experience in your home. A hot breakfast tailored to your specific nutritional needs (based on chemical analysis from your trips to the 'smart toilet') is waiting for you in the kitchen.

When it's time to leave, an on-demand transport system has three cars waiting for you, your spouse and your kids. On the road, driverless cars and trucks move with mathematical precision, without traffic jams, routine maintenance or road rage. Accident rates are near zero.

On the way to work you call your research and development team in Shanghai, review cloud based data from Shenzhen, talk to your quality assurance team in Melbourne and have it summarised by your business' Artificial Intelligence unit.

This is the future and it will be here sooner than you think.

Here are five technologies that stand a good chance of impacting your daily life by the year 2030.

1. Say goodbye to your screens: In the future, Light Field Displays may eliminate the need for a headset or display altogether, projecting 4D images directly onto your retinas from a point of focus. These devices may eventually be as unobtrusive as a pair of sunglasses. As next-gen 'displays' replace our TVs, iPads and phone screens, the $3 trillion consumer electronics industry will reinvent itself.

2. Say hello to your pet 'Crispy': CRISPR (Continuous Regularly Interspersed Short Palindromic Repeats) is a biochemist's way of saying that we can cheaply and reliably edit genes. Today, cat lovers crave exotic breeds, such as the toyger. Tomorrow, your family pet may be a genetically engineered tiger, yet the size of a common housecat.

3. Biofacturing – growing organs and skyscrapers: Perhaps the single most disruptive change will follow developments in genetic engineering, as bacteria, algae and other cells become the factories of tomorrow. If you like the idea of being vegetarian, but love meat, perhaps you can be 'degan' and only eat meat that was produced without killing. Today, companies like Beyond Meat and Memphis Meats are perfecting deathless protein. Imagine a guilt-free steak with beneficial omega 3 fatty acids in lieu of cholesterol. Tomorrow, products like automobile frames may be 'woven' from graphene and spider silk or skyscraper frames grown from bedrock to the clouds by an array of microscopic creatures with little human intervention.

4. Ads – a necessary evil: Someone has to pay for all of this change, and it is still going to be us in the form of targeted advertising. Your communications device, or whatever replaces functions currently served by today's cellphone, may be free or heavily subsidized. But you won't be able to skip the latest immersive advertising, at least without paying a fee. You will

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be more connected than ever before, though advertisers will find clever ways to influence your behaviour, based on the same biometric technology that monitors your health.

5. The age of implantables: As our world changes, scientists believe that humans' brains will continue to get bigger, our lifespans will increase, and our cultures will continue to evolve and merge as we adapt to new environments.

(Source: Extract based on Mike Moradi and Lin Yang, '5 predictions for what life will be like in 2030', World Economic Forum, 31 October 2017)

ANALYSIS

1 Take three of the trends and ideas mentioned in this extract and describe how they could possibly impact on future businesses.
2 Talk to your relatives, parents or grandparents or older friends. Ask them to describe some of the changes that have taken place in their work and lives over the past few decades.

4.6 Global issues

Australia's future prosperity relies on Australian businesses adapting appropriately to changing global conditions, and implementing and retaining competitive business practices. Living standards will continue to increase only if productivity growth and trading relationships are maintained. Australia received a healthy head start to an increasingly globalised economy from economic reforms introduced in the 1980s.

All businesses are now operating in a global economy and must contend with regulations, practices and laws in many different countries. Business operations have undergone fundamental changes due to a variety of factors, including increased access to international trade, the presence of developing economies in the international business world and technological improvement.

exchange rate the rate at which one currency can be exchanged for another

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

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

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

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

Figure 4.9 Australian businesses must be able to work across the world.

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Overseas competitors

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

Overseas markets

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

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

The 2017 Australian International Business Survey found 93% of businesses in the survey were involved in exporting and 48% in importing, and 23% were involved in other international activities. International activities included research and development, licensed manufacturing of goods and employing temporary workers.

Recent surveys also confirm that local culture, business practices and language remain the most significant barriers to breaking into some overseas markets. Payment issues, business practices, product standards and tariffs were also cited as important considerations for businesses to plan for.

In the surveys India, Indonesia and China were identified as challenging business environments. These three markets, along with the United States and United Kingdom, were also identified as key target markets.

ACTIVITY 4.7

Go to the Department of Foreign Affairs and Trade website and find the Trade and Economic Fact Sheets. Select one country and examine the types and amount of trade Australian businesses have with that country. Explain how this information could be useful for a business setting up to export products.

Offshoring labour

offshoring labour work done in another country to that in which the business is based

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

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

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

1 Changes in technology, particularly the development of cloud computing, the growth of bring your own device (BYOD) work policies, rapid advances in mobility and the influences of **big data** have made it easier for businesses to go offshore.
2 The relaxation of legislation and regulations has removed many of the legal barriers to companies taking work offshore. New trade agreements and the removal of tariffs have also reduced the cost of offshore work.
3 The growth of particular locations as offshore hubs, including India, Poland, the Philippines, China, Romania, Mexico and parts of South America.
4 The pressures of globalisation, which have forced businesses to reduce costs and become more competitive. Globalisation has also created access to skilled workers from developing markets, such as those in Asia.

big data very large sets of data that are produced by people using the internet, and that can only be stored, understood and used with the help of special tools and methods

Exchange rates

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

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

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

CASE STUDY 4.5

Australia's expansion into new markets

CHINA'S SOFT SPOT FOR AUSSIE SOFT SERVE

Frosty Boy Australia is a leading manufacturer and distributor of a range of powdered desserts and beverages. Having exported its products around the world since 2001, the company is continuing to expand its business in Asia, thanks to Australia's Free Trade Agreement with China.

CONTINUED ITEM

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Frosty Boy is best known for its range of soft serve ice-creams, frozen yoghurts and beverages.

The Gold Coast-based company has 70 employees located predominately in Brisbane, as well as in India and its newly opened Philippines office, and has grown significantly in the last 12 months.

The secret to the company's success lies in understanding its local and global markets, having a robust business expansion plan and continually driving innovation throughout the business.

Exporting grows businesses

In 2001, after 25 years of successfully supplying the Australian market, Frosty Boy turned its sights to the global market. Since then, the company has expanded its export trade to 56 countries.

Managing Director of Frosty Boy, Dirk Pretorius, says exports have played a vital role in the company's growth: 'We have not only increased the number of product lines we export, but due to the growth in our exports, we've also invested in new dairy equipment and accessories to increase our production.'

'Our exports now make up 70 per cent of our business. Since 2001, we have seen an average yearly growth of about 17 per cent,' he says.

'It is definitely our exports that have enabled us to achieve this kind of growth.'

'China's population is vast, and with that comes a large demand for dairy. By focusing on this market, we've estimated our exports from this market will continue to double each year,' Pretorius says.

Many exporting businesses experience challenges, and Frosty Boy has been no different. Cultural expectations differ between markets, and Frosty Boy found that food preferences necessitated the development of new flavours to meet customer expectations.

Pretorius recommends doing thorough research before starting an export business. In the same way that a local business needs to identify a niche in the market, assess its potential competitors and accurately determine pricing, an export business must do the same, but in the countries concerned. He also recommends seeking advice from Austrade, as it is a useful resource.

(Source: Extract based on 'China's soft spot for Aussie soft serve', Austrade, July 2018. Full article available online.)

ANALYSIS

1 Explain why it is important for a business to understand the market they wish to move in to.
2 Discuss why Australian businesses try to expand in to other markets. What are the benefits to the business and the Australian economy?

Patenting

patent an official right to exclusively own, make and sell a product, method or invention

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

There are two types of patents granted in Australia – standard and innovation. When planning to apply for a patent, a business owner needs to research both types before

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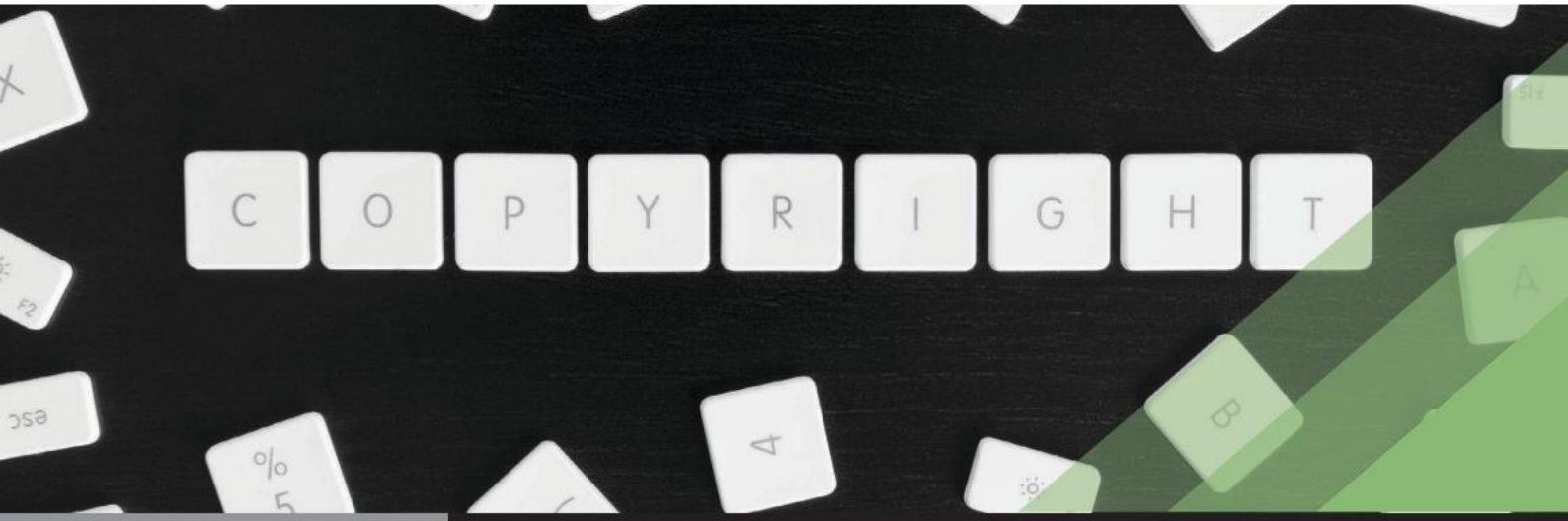
deciding which one suits the needs of the business. There are differences in the cost of the patents, the length of protection they offer, the time taken to process them and the type of invention covered.

Copyright

Another factor a business must consider in the planning stage is **copyright** restrictions and requirements. Copyright exists to protect the original expression of ideas (not the ideas themselves). Copyright in Australia is free and automatic and tends to cover works such as books, films, music, newspapers, magazines and artworks. Copyright also protects originally created databases, computer programs and media broadcasts. Copyrights are overseen by the federal Attorney-General's Department. Because copyright is automatic there is no official registry or application process. Copyright protection is provided under the *Copyright Act 1968* in Australia, although copyright laws vary between countries. It does not protect a business from the independent creation of similar work. Copyright usually lasts for 70 years from the year of the author's death or from the year of first publication after the author's death. Copyright for films and music is generally 70 years. Copyright does not protect names, titles or slogans, although there may be issues around trademarks.

copyright exists to protect the original expression of ideas (not the ideas themselves), and is free and automatic in Australia



CASE STUDY 4.6

The impact of copyright law on Australian businesses

AUSTRALIAN TECH START-UPS STAND TO LOSE OUT IN PROPOSED COPYRIGHT REFORMS

The Australian government … introduced the Copyright Amendment (Service Providers) Bill 2017 to the Senate …

The bill was passed and came into effect in January 2019.

Safe harbours protect internet hosts and platform providers from monetary liability for copyright-infringing content posted or shared by their users. For example, if you post the latest *Thor* movie to YouTube, YouTube won't be responsible for copyright infringement if it takes down that video. In Australia, we only extend this protection to internet services providers, not general purpose websites.

CONTINUED ITEM

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This matters because technology firms rely on limits to liability to manage their risks. Companies like Facebook or YouTube, which host millions of pieces of user content, would face serious difficulty starting in Australia because our laws on copyright infringement are so strict.

...

Excluding platforms from safe harbours does discourage Australian tech start-ups from the chance to experiment in a reduced-risk environment.

It's the second time this year that the government has amended Australia's copyright laws. They improve our existing copyright law, but they don't make many changes.

The government is staying well clear of the more contentious, though far more impactful, potential reforms to the Copyright Act recommended by bodies such as the Australian Law Reform Commission and the Productivity Commission.

WHAT ARE THE COPYRIGHT SAFE HARBOURS?

The copyright safe harbours came about as a result of the US Digital Millennium Copyright Act (DMCA) in 1998. The DMCA represented an important bargain struck between the established content industry, such as big film and TV studios, and the burgeoning tech industry.

The content industry got a 'notice-and-takedown' regime that required online service providers to remove material that infringes copyright. In exchange, the tech industry got copyright safe harbours.

Under this system, the service provider must quickly and efficiently remove infringing content if they are informed about it by the copyright owner. This notice-and-takedown scheme has become fundamentally important to the way the internet works today.

WHY ARE AUSTRALIAN SAFE HARBOURS SO LIMITED?

In the 2005 Australia-US Free Trade Agreement, Australia agreed to adopt these provisions into Australian domestic law.

...

Essentially, Australia only gave protection to internet service providers like Telstra, Optus and TPG, and not to platform providers like Whirlpool, RedBubble, YouTube or Facebook. For more than a decade, this has been a critical difference between US and Australian copyright law.

...

This is a seriously missed opportunity for Australian innovators. There is a real risk for businesses, both large and small, who want to provide online spaces for people to communicate.

Our copyright laws potentially make hosts liable for much of the copyright infringing content that users may upload or share. But it can be prohibitively expensive and time-consuming to pre-screen all content before it is uploaded.

...

At the same time, copyright owners want higher payments. They use the term 'value gap' to describe what they see as the difference between sites like Spotify that pay hefty licence fees to make content available to users and sites like YouTube that do not.

(Source: Extract based on Kylia Pappalardo, 'Australian tech start-ups stand to lose out in proposed copyright reforms', *The Conversation*, 8 December 2017. Full article available online.)

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ANALYSIS

1 Discuss why it is important for a business to try to ensure it takes action against copyright infringements.
2 Explain how the new laws introduced by the federal government can impact on businesses in Australia.
3 Greta and Harley McCarthy want to use a song they really like as part of the marketing for their new burger and takeaway business. Advise Greta and Harley about the possibility of using this and what the possible consequences might be.

Trademarks

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

trademark a name, symbol, logo, phrase or other aspect of marketing that designates an item as belonging to a particular company, and which therefore cannot be used by another company

A trademark can be a powerful marketing tool, as it can clearly identify the origin of a unique product or service. A trademark is a means of identifying a business's unique identity, and is often called a brand.

Trademarks are different from business, company and domain names. One well-known example of a trademark is Qantas's flying kangaroo.

A business trademark allows consumers to easily distinguish the business of origin. Trademarks are enforceable under intellectual property law. The travel guides publisher, Lonely Planet, has protected itself from other businesses using its logo by registering the Lonely Planet logo as a trademark.

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

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

A business also needs to ensure that it has registered any designs as well as trademarks. A new design must be unique and distinctive in terms of its configuration, shape, pattern or ornamentation.

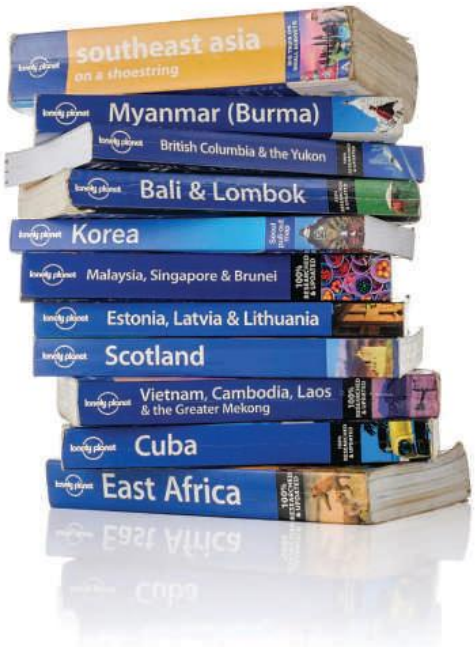

Figure 4.10 The Lonely Planet logo is the registered trademark for its travel guides.

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CASE STUDY
4.7

Kit Kat and the importance of a distinctive trademark

KIT KAT LOST ITS TRADEMARK CASE: WHAT YOU NEED TO KNOW

Picture your favourite chocolate treat. The brand, the packaging – and sometimes the shape of it – will no doubt come to mind. This is the idea behind trademarks: that consumers can easily identify products or services they want to buy from a company they recognise. If a brand can demonstrate this recognition, it is known as being 'sufficiently distinctive' in the market.

Trademarks not only protect consumers with quality and consistency, they also provide a significant business advantage. Other companies can't use these marks because that would confuse customers and possibly cause reputational or financial damage to the original brand.

Due to the potentially indefinite duration of protection, trademarks can confer significant brand value, so many popular brands have become involved in lengthy court cases when competitors challenge a mark's validity. As the EU is a global leader in world chocolate production – and consumption – this is no trifling matter for confectionery companies.

THE KIT KAT CRISIS

In July 2018 the more than decade-long legal battle to protect the 'four-fingered' shape of Nestlé's Kit Kat bar concluded with Kit Kat losing its appeal against Kvikk Lunsj (owned by Cadbury, now Mondelez), a Norwegian four-fingered chocolate biscuit. Kit Kat's EU shape trademark is annulled, meaning the Kit Kat shape is no longer a valid trademark across the EU. It is now only valid in member states where Nestlé has made a successful application as a national trademark.

Some may be surprised to learn that chocolate is a highly litigious subject. A case for Lindt's gold-foiled chocolate bunnies failed on distinctiveness, and Poundland's 'copycat' Toblerone bar, Twin Peaks, was settled out of court.

Outside of chocolate, litigation has also arisen from less digestible shapes such as London black cabs and LEGO blocks, in both cases where trademarks on shape were unsuccessfully defended.

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Dispute over shapes is complex in trademark law. It can be a more straightforward prospect to protect a word as a trademark – and the Kit Kat name itself is. Marks like Kit Kat are inherently distinctive, meaning they're made up, so only have meaning in relation to that brand. But in the case of shapes, distinctiveness may need to be acquired through commercial use and the average consumer associating the shape with the brand. So with the Kit Kat shape, the court considered whether the use was proved to acquire distinctiveness.

Generally, longevity in a mark is helpful with proving aspects of distinctiveness, but both companies have used the shape in their confections for a long time. Kit Kat began using the shape in 1935, and Kvikk Lunsj two years later in 1937 (although Nestlé only applied for trademark registration of the shape in the EU in 2002).

A shape may come to mind when identifying the product, but Kit Kat runs into problems here because the shape is not visible when you pick it up in its wrapper. Since an average consumer must be able to recognise the brand by a clear and precise trademark, this can present a higher hurdle for the shape.

An application may be refused or challenged for many reasons, but one creative challenge to the Kit Kat shape came in the UK courts in 2015, when Cadbury argued that the Kit Kat shape was all to do with a technical or design issue rather than an identifying brand feature – that is, it was designed to allow consumers to easily break one bar into four smaller parts. So if the four-fingered shape was actually fulfilling a function, it couldn't be a trademark.

Figure 4.11 The Norwegian chocolate bar Kvikk Lunsj

THE EU ANGLE

Ultimately, the most recent European Court of Justice (ECJ) decision came down to sufficient distinctiveness. Companies can apply for a domestic trademark at their national intellectual property office, but how would sufficient distinctiveness be proved when applying for an EU-wide trademark? An applicant must show that the mark is commonly recognised throughout the European Union, under the EU Directive 2015/2435.

The EU Intellectual Property Office (EUIPO) granted the Kit Kat shape mark in 2002 on the basis that Kit Kat had achieved recognition in ten of the then 15 EU countries. But this newest ECJ decision found that, if the EU coverage is insubstantial or omits a single member state, then the mark hasn't been proved to have acquired distinctiveness.

THE FUTURE

The ECJ decision in many ways is a pragmatic solution, given the challenge of achieving consumer recognition in 28 individual countries. But current trademark registrations granted on a similar basis as Kit Kat may also leave existing EU trademarks open to challenge.

...

The trademark annulment will surely impact the EUIPO's consideration of applications for trademark registration and of trademark oppositions, as this decision holds that proving distinctive character in a substantial part of the territory is not enough.

CONTINUED ITEM

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Shapes, in particular, are a challenge to protect under trademark law, and recent decisions demonstrate how difficult it can be for a shape to acquire the necessary level of recognition and brand association. New applicants for trademark protection should perhaps seriously consider creating a mark that is inherently distinctive, rather than a mark that needs to acquire protection through use, like Kit Kat.

(Source: Megan Rae Blakely, 'Kit Kat lost its trademark case: what you need to know', *The Conversation*, 1 August 2018. Full article available online.)

ANALYSIS

1 Describe what a trademark is.
2 Explain why a business would wish to register a logo, symbol, letter or number when establishing and running a business.
3 Explain why Nestlé was unsuccessful in this case.
4 Describe the possible implications of this decision for trademarking brands.

Online sales

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

Online sales provide an opportunity for businesses to expand and take advantage of many potential customers. Businesses of any size can sell products and services to anywhere in the world. It is important that any potential business examines ways it can sell via the internet. Being able to sell online also means that a business can save on the physical space and rent required; an office can be set up at home and goods can be stored in a garage. Larger businesses can also take advantage of online sales because they use less space and staff to sell products. Operations can be focused on goods and storage rather than on a 'bricks-and-mortar' store.

Figure 4.12 Amazon is an example of a successful online business and it expanded into Australia at the end of 2017.

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An increasingly important element of the Australian retailing landscape is ecommerce, which presents great opportunities for small and medium businesses to build and grow online presence.

The latest findings of the Summary of IT Use and Innovation in Australian Business survey from the ABS show that 31% of businesses have a social media and web presence and that of all the businesses with internet access, 53% state that mobile internet is of major importance.

The complexity of website creation, the amount of time and administrative work involved, and a lack of computer literacy have been some of the reasons put forward by various business owners for not taking up online retailing. However, to avoid being taken over or overtaken by competitors, small businesses must consider incorporating online sales as part of their sales strategy.

Small and medium businesses tend to start their online retailer journey on marketplaces, with eBay, Etsy and Shopify examples of some commonly used platforms. Low barriers to entry, and low set-up costs (all you really need are products to sell and the ability to fulfil them), make it a logical choice.

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

CASE STUDY 4.7a *Retail trends and their implications for business*

Please see the Interactive Textbook to access this case study.

Businesses of all sizes should consider the following:

- Information is the key – a business should spend the time and effort to publish as much information about products or services as possible. The more information put forward, the easier it is for shoppers to find the product on the internet or social media.
- Manage inventory – a business needs to maintain careful management of orders and inventory levels so that products are distributed effectively via each channel.
- Invest in a website – lets the business 'take back control' of the customer experience and control branding.
- Seek out advice – there are several options that retailers can take up to kick-start or grow their online business.
- Research and understand the benefits of an online presence through online sales, Facebook and social media.

CASE STUDY 4.7b *Online business and marketing on a budget*

Please see the Interactive Textbook to access this case study.

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4.7 Corporate social responsibility

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

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

Businesses of all sizes should strive to become good corporate citizens, and it is important that this is considered when the business is being planned. Volunteering in the community, establishing grant programs, collaborating with other businesses, developing sustainable business practices, and supporting local and global causes are examples of ways in which businesses can contribute socially. As a business grows, the scope of its social involvement should grow with it.

Environmental concerns and planning the production of goods and services

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

Figure 4.13 Businesses should model social responsibility.

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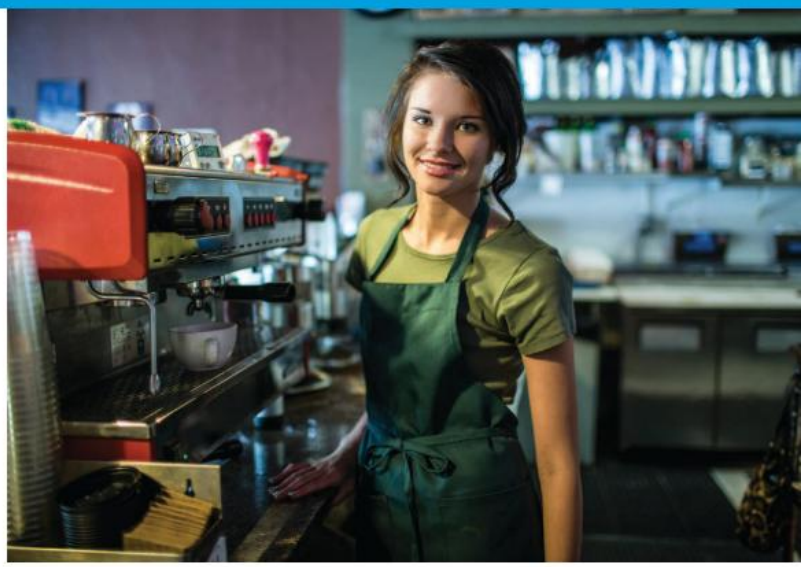

Planning should also include taking steps to reduce environmental risks, putting in place control measures and then developing an action plan if environmental issues arise.

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

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

Figure 4.14 Some members of the hospitality industry are being socially responsible by running on-the-job training for young or disadvantaged people.

CASE STUDY
4.8

Appealing to customers through corporate social responsibility

TAKEAWAY COFFEE IS THE EPITOME OF COOL – IT SHOULDN'T BE

It's not just the straws or plastic bags. One of the worst offenders when it comes to plastic is the single use, disposable coffee cup due to its plastic lining. The humble coffee cup has become one of the defining objects of modern Australia: It tells people, 'I'm busy and don't have time to stop' and is carried like a badge of honour.

CONTINUED ITEM

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Despite the campaign by responsiblecafes.org, which enlists cafes to give people a discount for bringing their own cup, the keep-cup revolution still has a way to go.

Most people don't realise that disposable coffee cups cannot be recycled. These coffee cups are the second biggest source of landfill in Australia – more than a billion a year.

(Source: Anna Warren, 'Takeaway coffee is the epitome of cool – it shouldn't be', *The Age*, 30 July 2018)

ANALYSIS

1 Explain why corporate social responsibility is an important consideration for a business.
2 Outline the benefits associated with the possible change to takeaway coffee cups.
3 Evaluate the effectiveness of socially responsible measures implemented by businesses. Using a company or business website, outline the types of CSR programs the business is involved in.

Chapter summary

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

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Chapter summary tasks

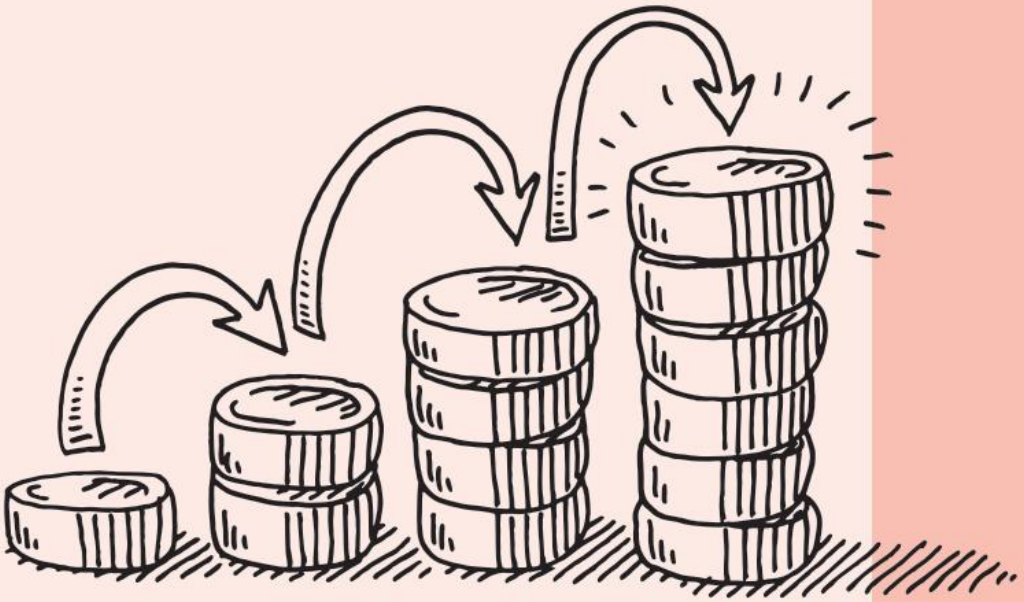
1 Distinguish between the macro, operating and internal environments.
2 Describe why it is important for a business to investigate taxation and other legal obligations that may be required when planning a business.
3 Explain how some of the recent changes in Australian trends and attitudes could affect planning.
4 Describe how the ageing population might influence the types of businesses created.
5 Explain how the interest rate in Australia can have an impact on business planning.
6 Discuss how the level of business and consumer confidence in Australia can influence business planning.
7 Technology is an important and continually developing concern. Suggest how a business could try to plan for the constantly changing technology available.
8 Explain why businesses need to investigate patents, trademarks and copyrights for their products.
9 Account for the reasons why businesses are increasingly moving into selling products online.
10 Ask six people you know about their online shopping experiences. Compare the results with your class. Identify the use of online sales and how common it is.
11 Explain why CSR is an important consideration for all businesses when planning.

Extension question

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

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

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



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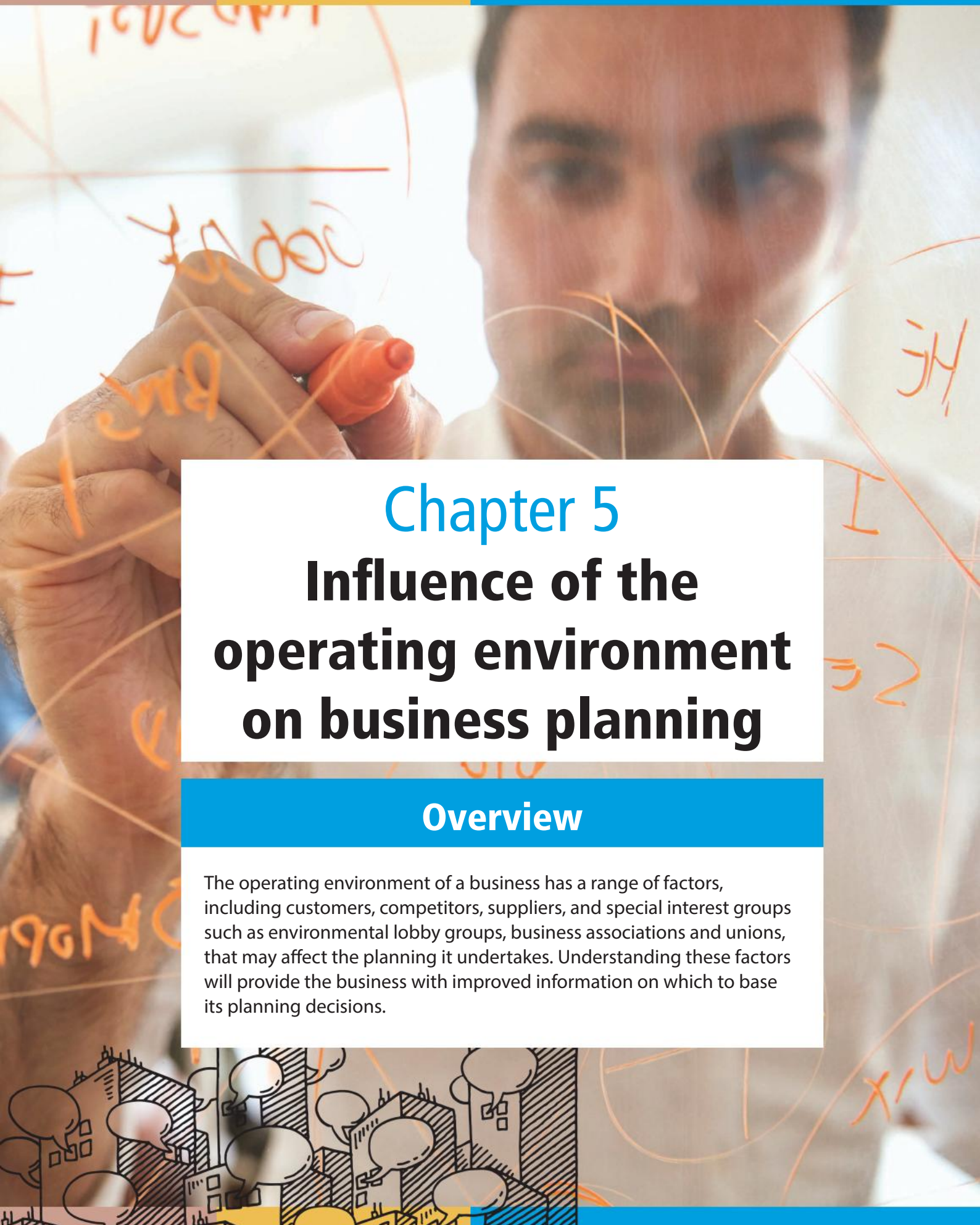

Chapter 5
Influence of the operating environment on business planning

Overview

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

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Key terms

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

Key knowledge

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

- customer needs
- customer expectations
- competitor behaviour
- suppliers and the supply chain such as the resources required for the business and the considerations about where these resources are sourced and how they reach the business
- special interest groups such as environmental lobby groups, business associations and unions.

(Source: VCAA Business Management Study Design, 2017–2021, p9)

What's ahead

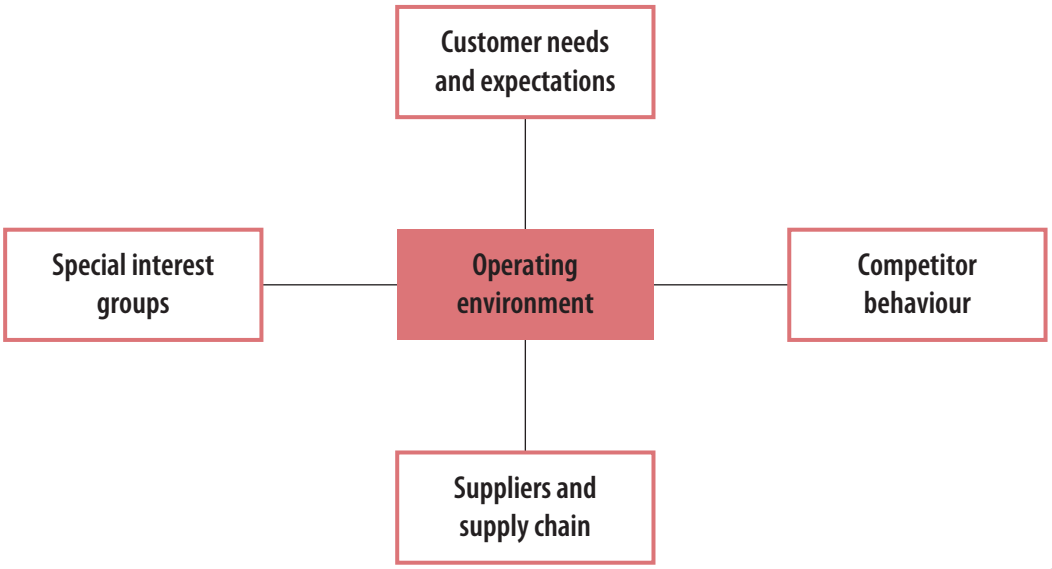

Figure 5.1 The operating environment of a business

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5.1 Customer needs and expectations

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

customer someone who buys goods or services

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

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

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

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

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

- providing high-quality goods and services at an attractive price
- delivering high levels of customer service (pre- and post-sale)
- being ethical and socially responsible in the way they operate
- being environmentally aware and sourcing clean, green and safe products
- being able to establish long-term positive relationships with the customers
- ensuring that the products are Australian made or grown
- providing an opportunity for customers to support an Australian-owned business
- meeting the demands of customers for 'ultra-convenience' when purchasing products and services.

Figure 5.2 Registered certification of Australian products, including the bar showing the percentage of product grown, produced or made in Australia

Figure 5.3 Australian products can use their status to appeal to discerning shoppers, as well as display additional certifications and nutritional information on their packaging.

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Customers are now more discerning and educated in their consumer choices. They have become more health conscious, and in food are looking for products that are low in fat, salt and sugar and that contain no additives or preservatives. Customers often make a product selection based on whether the product was grown, produced or made in Australia. Legislation effective from 1 July 2018 provides for product labelling that specifies the country of origin as well as the proportion of Australian ingredients. If the product has been grown, produced or made in Australia, the kangaroo logo may also be included.

CASE STUDY 5.1

Coca-Cola product range and changing consumer preferences

Coca-Cola used to offer two sugar-free drinks: Diet Coke and Coke Zero. The company identified that customers struggle to make a choice when looking for a sugar-free option in their Coca-Cola range, and decided to re-brand its product.

In June 2018 Australia was one of the first countries to drop the brand 'Coke Zero', gradually replacing it with 'Coca-Cola No Sugar'. Coke identifies its market as consumers above 12 years of age, with the core target being consumers between 18 and 49, so the new product was launched by handing out free samples to two million Australians at sporting events and giving away promotional vouchers.

As part of Coca-Cola's strategy to offer beverages for all occasions, tastes and consumer preference, in September 2018 it acquired an Adelaide-based company, Organic & Raw Trading Co., producers of the MOJO brand of kombucha (a naturally fermented tea drink). Coca-Cola believes this acquisition fits perfectly with the growing popularity of organic probiotic drinks.

ANALYSIS

1. Describe the level of importance you place on being able to purchase a sugar-free cola soft drink or an organic probiotic drink.
2. Identify and describe what you consider to be the consumer needs of customers buying soft drinks and beverages.
3. Would the fact that Coca-Cola is trying to reduce the amount of sugar consumed by people make this 'no sugar' drink more appealing to customers? Justify your opinion.

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Figure 5.4 Bendigo Bank – a community bank

Another customer expectation is that businesses operate in an ethical and socially responsible manner. This expectation then flows on to the customer's purchasing decisions. Customers of the major banks, incensed by branch closures in many suburban shopping centres and country towns, have shown their anger by closing their accounts. This positive action by customers caused some banks to rethink their strategy, while providing an opportunity for community banks to establish and prosper. Bendigo Bank anticipated this customer need and based its approach to banking on putting time and effort into innovation in the communities within which it operates. It has been rewarded and is now ranked the fifth-largest bank in Australia.

ACTIVITY 5.1

Visit the Bendigo Bank website and answer the following questions.

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

5.2 Competitor behaviour

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

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

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

Offering inducements, incentives, memberships and loyalty schemes is another strategy used by businesses in their quest to gain a competitive advantage.

ACTIVITY 5.2

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

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Figure 5.5 Businesses that deliver food direct to your door, such as Uber Eats or Deliveroo, fulfil customer desires for 'ultra-convenience'.

In early 2018 Brad Banducci, CEO of Woolworths, stated that he was worried about food delivery services such as Uber Eats and Deliveroo, where delivery drivers using bicycle, motorbikes and cars bring restaurant food to customers' doors. These services are in direct competition to Woolworths, which has traditionally supplied the ingredients to customers to prepare meals for their families. Woolworths has recognised that there is customer demand for 'ultra-convenience' being met by businesses such as Uber Eats and has reacted by establishing its 'click-and-collect' facility to over 1000 Australian stores, improving its online shopping and home delivery service.

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

Figure 5.6 The four major banks

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The entertainment industry is going through a period of unprecedented transformation. Industry disrupters (competitors) are forcing free-to-air (FTA) networks and pay TV operators to evaluate their business models. FTA networks are experiencing issues due to viewers now being able to skip advertisements that provide the income stream for the network. They are also being troubled by the arrival of new and efficient streaming content providers such as Netflix and Stan that give viewers what they want to watch at a reasonable price point with no lock-in agreements. This assists customers who want to cancel the service as they may do this at any time without incurring fees, unlike Foxtel. An additional disrupter is the wide use of smart phones to watch movies, live sport and newsfeeds. Pay TV operators and FTA networks still hold a competitive advantage over streaming services with their ability to provide access to live TV, particularly newscasts, sporting and other major events.

ACTIVITY 5.3

1 Conduct a survey of class members to find out how many of their families:
   a watch free-to-air TV in real time
   b watch free-to-air TV recorded and advertisements skipped
   c subscribe to a pay TV provider
   d subscribe to a streaming service
   e use their smart phone to watch shows or movies.
2 Analyse the results and conduct a class discussion on the findings.

5.3 Suppliers and the supply chain

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

supply chain a system or process in which resources, information, organisations and people collaborate to move a product or service from suppliers to manufacturers and then on to consumers

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

It is important for a business to plan, establish and then manage its **supply chain**. This is a system that incorporates planning and organising the resources, people, information and activities (such as sourcing and procurement, manufacturing and/or conversion and logistics) which are required to process raw materials and components into finished products that are ready to be purchased by the end customer. In addition, the supply chain links the major business functions and processes, such as sales, marketing, design, information technology and finance, within one business with those of another business. Essentially, the aim of a supply chain is to balance demand and supply for a product or service with the minimal level of inventory (stock).

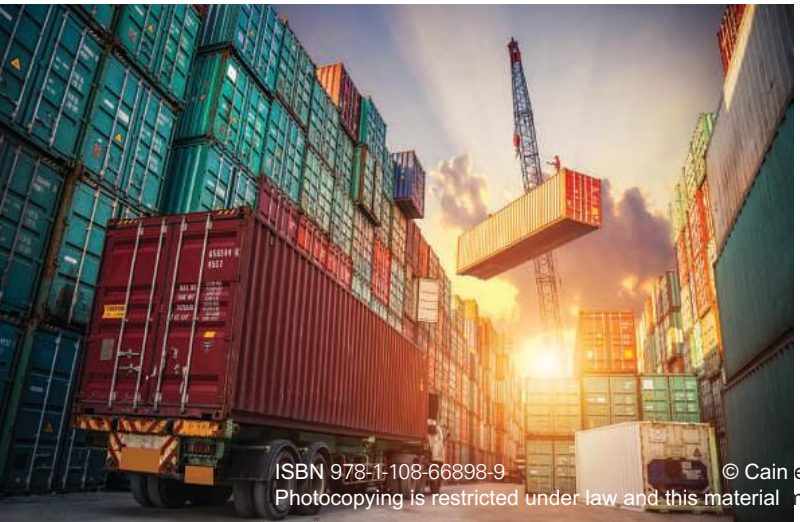

Figure 5.7 Businesses rely on long-term suppliers for their supply chain.

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

- liaising directly with suppliers to eliminate bottlenecks
- entering into long-term contracts with suppliers to tie them into specific prices and quantities
- sourcing resources and products locally
- outsourcing their transportation and distribution to a third-party logistics provider
- implementing just-in-time techniques to optimise manufacturing flow

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- creating a mix of locations of factories and warehouses to best serve customer markets
- using technology, such as global positioning systems (GPS), to analyse transportation routes
- optimising their logistics to maximise distribution efficiency.

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

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

CASE STUDY **5.2**

McDonald's and its supply chain

FROM THE MCDONALD'S AUSTRALIA WEBSITE: 'OUR SUPPLY CHAIN'

Macca's supply chain is unique. Our supply chain model is based on a culture of partnership and collaboration which makes it possible for us to serve consistently safe and high quality food.

It is important to us that our suppliers operate sustainable and profitable businesses and benefit from their partnership with McDonald's Australia. It is equally important to us that we source our products in a responsible and ethical manner that contributes to the development of sustainable agriculture and food manufacturing processes.

CONTINUED ITEM

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Within our supply chain we consider that we have responsibilities to our suppliers and the community in three key areas:

- Economic
- Ethical
- Environmental

ECONOMIC

Macca's is committed to supporting Australian producers and manufacturers and our first preference is always to source produce from within Australia whenever it is viable and appropriate to do so.

In an average year Macca's spends more than $650 million on Australian produce.

This includes purchasing an average of:

- More than 430 million buns
- 100 million kilograms of potatoes
- More than 25 million kilograms of beef
- 5 million kilograms of cheese
- More than 13 million kilograms of chicken
- 57 million litres of fresh milk
- 5.6 million kilograms of lettuce

McDonald's does not own any businesses that supply to us and we have long term relationships in place with many of our suppliers, for example, we have been working with Ingham for over 25 years.

ETHICAL

We know that our influence in the market place brings with it a responsibility to ask for more than quality and price. As well as our environmental guidelines for suppliers, we have guidelines and programs in place in relation to social responsibility and animal welfare.

- The foundation of our social responsibility supplier program is our global Code of Conduct for Suppliers which outlines McDonald's minimum requirements in the areas of employment and workplace practices. The aim of this program is to protect the health, safety and human rights of workers and audits are regularly conducted in Australia to ensure suppliers are meeting our social responsibility expectations.
- Our animal welfare expectations currently meet or exceed all minimum standards in Australia. We also adhere to McDonald's Animal Welfare Guiding Principles in relation to animal welfare. We believe that animals should be 'free from cruelty, abuse and neglect'. Our guidelines are based on technical standards and a comprehensive audit program which was developed using the knowledge of third party experts. To ensure supplier compliance, our beef, poultry and pork suppliers' processing plants are annually audited by independent third party auditors from AUS-MEAT.

ENVIRONMENTAL

We work with all our suppliers to assist them to provide us with an uninterrupted, long term supply of quality food and packaging in a way that minimises our impact on the environment. We also encourage the protection of resources that our suppliers share with the communities in which they operate.

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We use a scorecard to measure supplier environmental performance for water, energy, waste and air quality related to the manufacture of McDonald's beef, poultry, and pork, potato and bakery products. Our major consumer packaging suppliers also participate in this scorecard. Some of our suppliers have made significant improvements to their business operations and have been acknowledged for this in Australia and internationally.

(Source: McDonald's website, 'Our supply chain')

ANALYSIS

Read the article above and answer the following questions.

1 Describe what it means when McDonald's states that its supply chain is based on a culture of partnership and collaboration.
2 Explain some of the ways that McDonald's ensures that suppliers in its supply chain act ethically.
3 Outline the standards McDonald's expects of its suppliers of animal products.

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

food miles a system of measurement that calculates the distance a food product travels from production to consumption

Farmers' markets are a popular choice for small producers to sell their locally produced products directly to the public. If a producer decides to sell their products at a farmers' market, as in any other marketplace, it needs to undertake research prior to entering that market. The areas of research need to cover the potential customer (i.e. target market), the type of product they will sell and how it will be marketed, the market guidelines for stallholders, and the legal requirements (e.g. labelling of food and food safety) specific to the product they wish to sell.

5.4 Special interest groups

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

special interest group a group or organisation seeking or receiving special advantages or privileges

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

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

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Figure 5.8 Members of the Australian Wilderness Society protesting the sale of Reflex paper sourced from the logging of native forests

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

fair trade a system of trade in which buyers from developed countries purchase products from producers in developing countries for a fair and ethical price

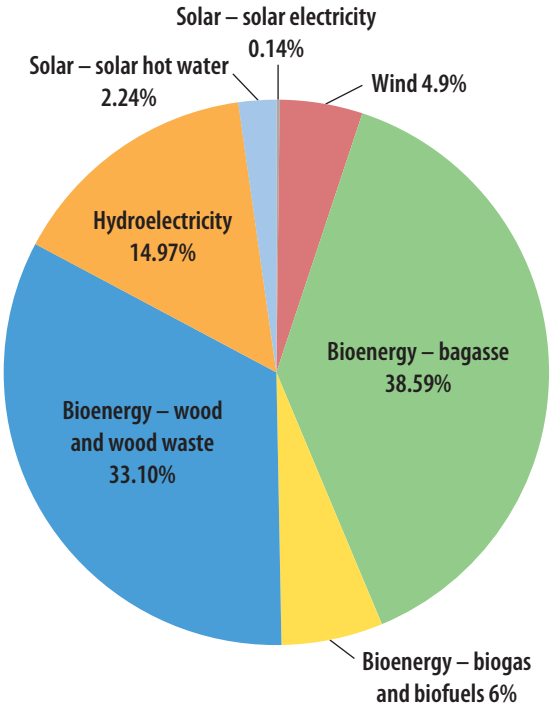
Environmental lobby groups

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

The Wilderness Society is a national, community-based, environmental advocacy organisation that seeks to protect, promote and restore wilderness and natural processes across the nation for a greater purpose of protecting life on Earth.

In recent times the society has actively sought to protect the iconic river red gum national parks along the Murray River and old-growth forests in east Gippsland. It has lobbied individuals and businesses to think twice about their choice of paper through its Ethical Paper campaign.

Figure 5.9 Australian production of renewable energy (petajoules)



(Source: Parliament of Australia, Parliamentary Library Briefing Book, 'Powering Australia from renewable sources')

It has become a big issue for businesses when planning their operations to demonstrate that they are responding appropriately to the growing pressure to control and reduce their level of waste. Proper waste management helps to protect the environment through reducing, reusing and recycling waste as it decreases the amount of waste for disposal, saves space in landfill and conserves natural resources. It also assists with the health and safety of the population. Beyond environmental benefits, a business can be positively impacted by its reputation being enhanced and costs being reduced. For instance, the NSW EPA research paper on recycling for small to medium businesses (2018) has found that for an average cafe or restaurant, it is estimated that food waste comprises more than 60% of its total waste, with paper and cardboard another 18%. These businesses could respond to their environment by composting or recycling, which would help to save the massive amount of waste currently going to landfill.

The use of energy resources is another area where environmental lobby groups can affect the plans businesses are formulating. A fact worth considering by businesses is that despite the fact that Australia has the highest average solar radiation per square metre, less than 2% of renewable energy production can be attributed to solar energy accounts (see Figure 5.9). Consumers appear to be adopting this alternative

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energy source, as Energy Australia states that 15% of Australian homes now have solar panels fitted to their roofs.

Many commercial properties have panels fitted to their roofs to generate solar energy for their own use while also having the potential to sell it back to the electricity grid. Businesses wishing to participate in renewable energy projects cite that cost, especially the upfront capital cost (in particular the cost of batteries to store the generated energy), is a major barrier to adopting these technologies.

Business associations

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

industry association representative body for a particular industry group

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

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

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

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

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

Figure 5.10 General industry bodies

Figure 5.11 Master Builders Australia is an industry association that represents builders.

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Founded in 1979 and incorporated in 1985, the Council of Small Business Organisations Australia (COSBOA) has become Australia's premier organisation representing small business. COSBOA has three main goals:

- Promote and support the development of small businesses in Australia;
- Advocate advancing the interests of small business in Australia, including through policy change and regulatory reform;
- Foster an increased awareness and understanding of the role of small business in Australia amongst public servants and elected government officials, larger businesses, the media and the general community.

(Source: Council of Small Business Australia website, 'COSBOA history and goals')

COSBOA COUNCIL OF SMALL BUSINESS ORGANISATIONS AUSTRALIA

Figure 5.12 COSBOA is the peak body for small businesses in Australia.

Unions

union a group of workers and employees who have banded together to achieve common goals such as higher pay, better working conditions and job security

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

Figure 5.13 Unions focus on improving conditions for workers.

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According to the Australian Bureau of Statistics (ABS), the health, education, public safety, retail, construction, manufacturing, transport and warehousing industries have the highest rate of union membership. In the private sector, union membership is low, with only one in nine employees choosing to belong to a union. In the public sector, union membership is 38% of the workforce. The current national workforce union membership sits at 1.5 million people.

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

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

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

Figure 5.14 The CFMEU is the second-biggest union by membership in Australia.

ACTIVITY 5.4

The Australian union movement conducted a survey of its members in late 2017 (published in February 2018), which resulted in the following findings:

- 81.4% say it's hard to get a decent pay rise in their workplace
- 91% are worried about the loss of permanent jobs for the next generation of workers in Australia
- 95.6% agreed unions should be able to bargain with the decision makers, whether it's at enterprise, franchise, sector or industry level
- 83.5% say it's 'extremely important' to change the rules so employers cannot get away with underpaying workers.

(Source: Australian Council of Trade Unions)

1. Union membership for blue-collar workers (those engaged in trade work, labouring, machinery operators and drivers) has been declining. Identify reasons why this decline in membership may be occurring.
2. Union membership for managers and professionals (media, information technology, health, finance and education) employed in the public sector has seen an increase. Identify reasons why this increase in membership may be occurring.
3. Workers employed in the category of unskilled and semi-skilled workers (sales, clerical work, community and personal service) have traditionally had low union membership figures. Identify reasons why you believe this category of union membership could be low.

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Chapter summary

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

Chapter summary tasks

1 Define the following terms and use them in a sentence to demonstrate your understanding:
   a business association
   b environmental sustainability
   c supply chain
   d union
   e customer.
2 Identify and describe three expectations customers have when purchasing food.
3 Describe the impact on a business of a competitor introducing a new product or service.
4 Outline four strategies that a business can adopt in its quest to gain a competitive advantage.
5 Identify two product types for which environmental impact would be a factor in your choice of product; for example, when buying laundry detergent would you look for products that are 'clean, green and safe for the environment'?
6 Identify and describe which major functions of one business are linked through the supply chain of another business.
7 Describe two strategies that a business can implement to optimise its supply chain.
8 Explain the difference between a customer and a consumer.
9 Identify why it is important that a business is aware of where its supplies are sourced and how the supplies reach the business.

Extension questions

1 Discuss whether you believe unions are a thing of the past and not relevant in the current workplace or are important to the efficient functioning of Australian businesses.
2 'The customer is always right' is a common policy adopted by businesses. Identify and describe ways that a business needs to plan and operate if it wants to respond to this policy.

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Part 3

Area of Study 3

INTERNAL ENVIRONMENT

VIDEO SUPPORT
Assessment advice for this Area of Study is available in the Interactive Textbook

Outcome 3

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

To achieve this outcome the student will draw on key knowledge (listed at the start of each chapter) and key skills outlined in Area of Study 3.

Key skills

- define, describe and apply relevant business management concepts and terms
- acquire, record, interpret and share business information and ideas
- research and analyse case studies and current examples of business management applicable to planning a business
- apply business management knowledge to practical and/or simulated business situations
- develop and construct business plans
- use a planning tool to analyse a business's current situation and interpret the information
- discuss the decisions made in response to the internal factors that affect a business.

(Source: VCAA Business Management Study Design, 2017–2021, p10)

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Chapter 6
Resourcing, locating and financing a business

Overview

When developing a business concept, the business operator needs to make crucial decisions regarding the business's resource requirements in terms of natural resources, labour and capital resources, and how these requirements can be met in the most efficient and effective manner. Choices must also be made about the best location for the business. When making these decisions, the type and potential scope of the business must be considered.

Different sources of business finance and capital must also be assessed and a decision made as to which is best for the particular business.

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Key terms

- bootstrapping
- business angel
- business layout
- business location
- capital resources
- complementary business
- crowdfunding
- ergonomics
- foot traffic
- initial public offering (IPO)
- labour
- merchandise
- natural resources
- overdraft facility
- venture capital
- wholesalers
- work environment
- workforce planning

Key knowledge

In this chapter you will learn about:

- business resource needs and factors affecting their choice: natural, labour and capital resources
- business locations and factors affecting their choice
- sources of finance available to establish a business and factors affecting their choice.

(Source: VCAA Business Management Study Design, 2017–2021, p10)

What's ahead

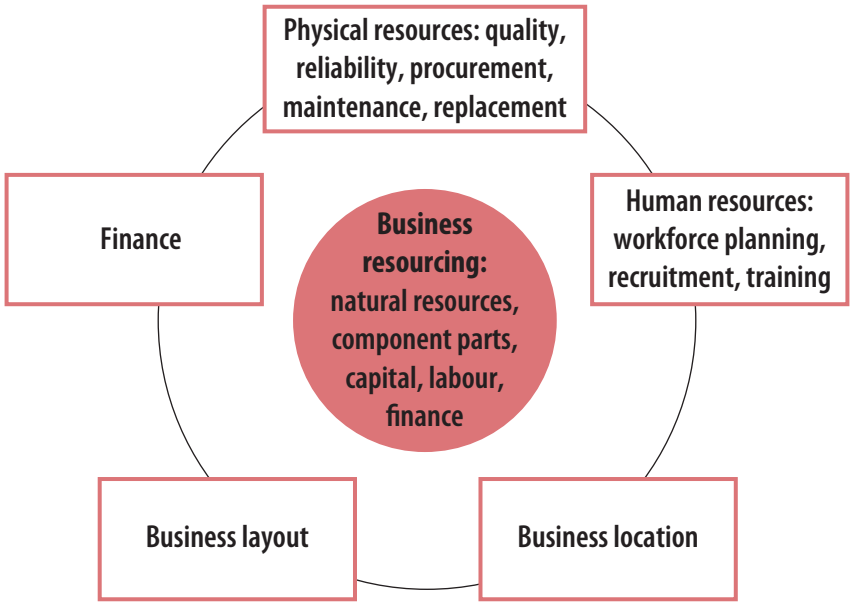

Figure 6.1 Business resourcing

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6.1 Business resource needs and the factors affecting their choice

A business must plan on an ongoing basis to ensure future human and physical resource requirements are met. Correct provision of physical input resources is essential if the business is to create and sell quality products in the quantities demanded by the market.

Businesses have differing resource requirements according to the nature of their operations. These will also change throughout the life of the business as it expands into new markets or diversifies the product range.

As shown in the previous chapter, the establishment and maintenance of a reliable and cost-efficient supply chain is vital to business competitiveness.

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

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

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

Types of resources

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

1. **Natural resources**: these are unprocessed items used in the operations process when finished goods and services are created. A restaurant, for example, will need a supplier of fruit and vegetables.
2. Component parts: these are input products that have been already processed. For example, a restaurant might purchase cakes and bread from a bakery supplier.
3. **Labour**: these are workers or human labour. For example, a restaurant might use an employment agency to employ waiting or kitchen staff.
4. **Capital resources**: these are human-made items used in the process of production. Machinery and equipment are examples. The restaurant would require capital items such as kitchen equipment, point of sale technology, a coffee machine, tables and chairs.

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

- development of a procurement policy with guidelines regarding selection of suppliers. These guidelines should reflect the values, vision and mission of the business. For example, if a business espouses values such as wishing to be environmentally friendly, the procurement policy should stipulate that suppliers must meet designated standards regarding sustainability.
- negotiation of leasing and/or purchasing arrangements for buildings, equipment and other inputs
- maintenance of a positive relationship with suppliers
- making arrangements for servicing and maintenance of equipment and other capital items. This may involve contracts with service providers and the establishment of maintenance procedures.
- replacement of capital resources when they reach the end of their life cycle; for example, vehicles, information technology (IT) equipment and software.

Figure 6.2 Business plans include allocation of a range of resources.

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Factors affecting choice of resources

Planning to meet human and physical requirements is an ongoing process. The ongoing costs of maintaining existing resources and sourcing new ones when required must be taken into account when budgeting. A delivery van, for example, will involve more than the initial purchase costs. Ongoing operating costs such as servicing, petrol and replacement parts must also be budgeted for. At some stage in the future, the van will also need to be replaced.

Figure 6.3 All businesses must plan to purchase equipment and maintain it on an ongoing basis.

Generally, a business needs to consider the following when resourcing:

1. quality: selecting suppliers who provide quality resources will ensure that high-quality production standards are maintained, which will make for a more competitive business
2. reliability: suppliers who are reliable and deliver what is required on time enable a business to maintain production and remain competitive
3. social responsibility: in order to gain and maintain a reputation for being ethically and socially responsible, a business must select suppliers who have similarly high standards.

As a business expands, resource requirements also grow, increasing the operating costs of the business.

When managing human resources, **workforce planning** is carried out in order to attract and maintain a sufficient and sustainable supply of labour with the skills required to keep the business operating at the required level.

workforce planning a continual planning process used to align the needs and priorities of the business with those of its employees to ensure it can meet its production and service requirements and business objectives

Workforce planning involves forecasting the likely future demand for employees and taking steps to ensure that this demand is met. This may involve establishment and maintenance of relationships with an employment agency or a labour hire firm that supplies temporary workers. Agreements with contractors may also need to be negotiated.

Policies and procedures must also be developed regarding:

- employing staff with appropriate skills and qualifications while meeting legal requirements around equal opportunity laws
- training staff
- motivating staff
- dealing with seasonal variations in employment requirements; for example, employing more staff as casual workers during busy periods such as Christmas
- monitoring staff turnover and assessing reasons for staff departures.

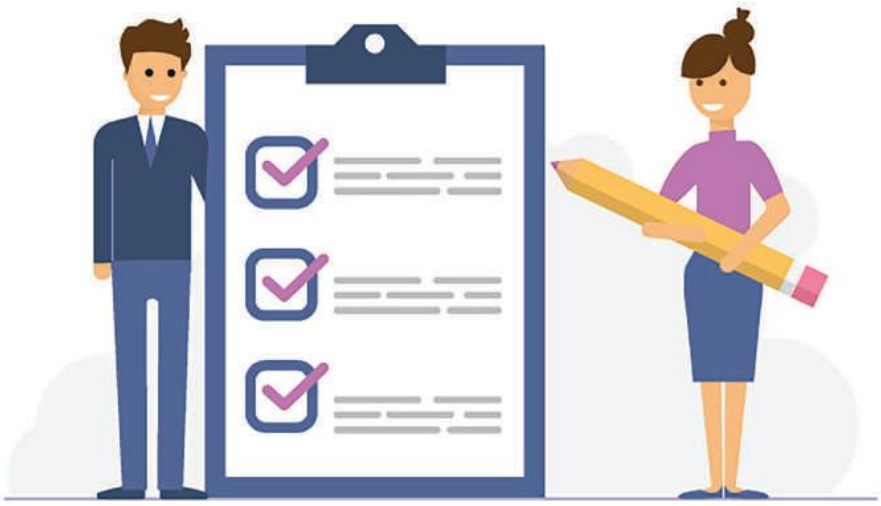

Figure 6.4 Businesses must anticipate changes to workforce requirements.

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6.2 Business location and factors affecting choice of location

One of the most critical initial decisions the business owner must make is location. It is both difficult and costly to physically move a business once it has been positioned. Poor location choices are therefore usually difficult to repair.

business location geographical site of a business

A **business location** provides a link between the business and its customers/clients, as well as suppliers who provide the essential raw materials, products and labour. A good location will establish a balance between these factors.

Figure 6.5 Choosing the right location is crucial to business success.

Different business types have different location requirements.

Factors to consider when selecting a location

Selecting a business location will generally depend on two types of factors: quantitative and qualitative. Quantitative factors are those that can be numerically calculated, such as the cost of purchasing or renting premises. Qualitative factors are those that deal with the psychological and emotional aspects of location, such as proximity to public transport or consideration for the welfare of workers. Some points to consider are:

- personal factors – the business operator's personal situation is important. For instance, a desire to live and work in a certain locality or to stay close to family nearby often determines location. Other factors may include the distance people are prepared to commute.
- style of operation – a business owner needs to ascertain the style or image the business is to have, and then determine if a specific location is in keeping with that image. For example, is the business formal, casual, urban chic, traditional? A hipster-style coffee shop would fit best in an inner suburban area, for example, whereas a high-end designer clothing store is best suited to an exclusive shopping centre rather than an outer suburban shopping strip.
- area profile – the area under consideration must be analysed for its ability to provide access to a sufficient number of paying customers (proximity to customer base). The business owner must evaluate the site with their target market in mind. Factors to consider include:
  - area demographics – assessment of the population in regard to its age patterns, incomes, interests, ethnicity, education levels and so on, which will indicate whether there are sufficient potential customers in the area to maintain a viable business. The products offered for sale must also match the demographics of the location. For example, a store selling high-end designer handbags would not be suited to a lower socioeconomic area.

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— economic and social trends – assessment of changes occurring such as demographic shifts in the area; for example, younger people moving into the area, changes in the birth rate. How will the business fit with these trends?
— proximity to other businesses
— **complementary businesses** – are there established businesses that complement the new business, and have potential to enhance sales in the area? For example, a pharmacy would be well positioned next to a doctor's surgery, or a newsagent next to a large office complex.

complementary business offers products that are related to one's business and may be of use to that business's customers; for example, a bridal wear store and a florist

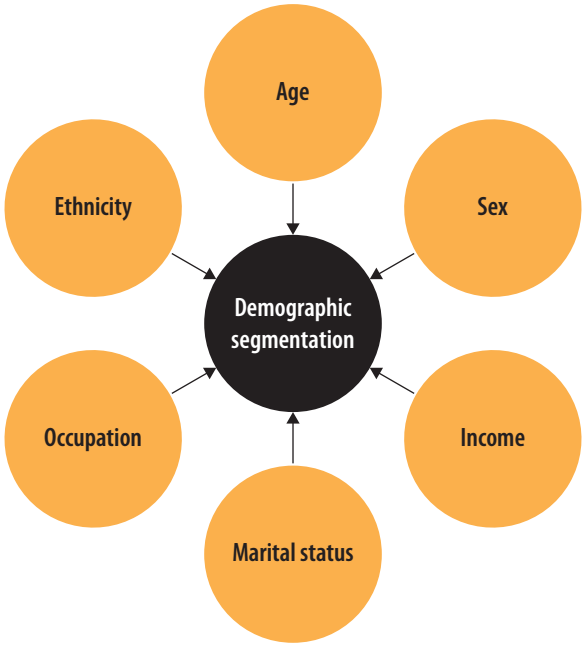

Figure 6.6 The demographics of an area are a major consideration when selecting a business location.

— suppliers – are suppliers nearby? Can they easily deliver to and access the business? Often manufacturing businesses set up near relevant primary producers. For example, fruit canneries are usually near orchards, and Quiksilver manufactures its wet suits in South America as this is the source of many of the world's rubber trees.
— are there cafes for staff to lunch at? Is the level of services and amenities in the area, such as banking and child care, adequate? Is the location close to public transport?
— will neighbouring businesses work for or against you? Issues may include:
  • the amount of competition. Sometimes when comparative shopping is involved it is good to have competitors nearby as people come to an area in order to make planned purchases (such as furniture, cars and appliances). This is how specific locations gain reputations as restaurant precincts or for car sales.
  • looking up which businesses were located in a particular location and assessing the reasons they either relocated or failed
  • will the amount of **foot traffic** passing the location generate the desired level of income, especially if a business relies heavily on unplanned purchases?

foot traffic pedestrian visitors to a business or commercial site

Figure 6.7 Locating near complementary businesses is wise.

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- local government by-laws, especially zoning regulations – what developments, if any, are allowed in the area? Will permits be required to build, extend or put up signage?
- pending planning proposals – must be checked at the local council; any future development by surrounding businesses could have significant effects (positive or negative)
- site accessibility and visibility – are the required number of customers, staff and suppliers able to locate and access the business? Will the parking and disabled access be sufficient?
- suitability of the buildings – the actual buildings must meet the physical requirements of the business, such as storage space, building design and floor space
- costs – the budget of a start-up business is usually limited. Therefore, the operator may need to compromise on site location to accommodate this. Generally, the cost of premises will increase in relation to the size and quality of the premises, level of accessibility to services, visibility and amount of passing trade. Costs such as rent, deposits, utilities and service costs such as cleaning and marketing fees in shopping centres must be factored in.
- accessibility to transport – consideration must be given to how suppliers and customers will be travelling to the business
- proximity to other large businesses with 'pulling power' – certain businesses will attract customers into an area. For example, people will travel to a certain shopping centre in order to visit a supermarket or a variety store such as Target or Big W. Having one or more 'customer magnets' nearby is a huge asset to a business.
- accessibility to labour and attracting enough of the best type of employees is another major consideration. Can potential employees afford to live in the area? Will they want to move to the area if necessary?

Figure 6.8 The level of foot traffic is important for businesses that rely on unplanned or impulsive purchases.

Different businesses have different location needs

The best location for a business is dependent on the type of business. A business needing a physical presence to draw customers may choose retail shopping strips, both suburban and CBD (sometimes referred to as 'high street' locations); shopping centres/malls (large and small); or industrial parks of various types. If a location for storing stock is required, the business may need a warehouse, manufacturing or storage facility. If a physical shopfront is not needed, businesses can be conducted from home and an online presence may be sufficient.

Generally, retailers need a position that maximises visibility and therefore sales. They usually look for areas with high traffic, but different types of retailers have different needs. Some businesses rely on impulse buying; others rely on customers planning their visits. Usually, the higher the pedestrian and vehicular traffic flow, the higher the costs associated with a location. **Wholesalers** require less visibility but more space, with easy access to transport routes for deliveries and dispatch of large quantities.

wholesalers businesses that purchase in bulk from producers and sell smaller quantities to retailers

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Other businesses and their needs are listed below:

- *service businesses* require mainly office space. Many can be run from home. If clients call in, easy access and client parking are required.
- *manufacturers* require large amounts of floor space. Customers usually do not come directly to them. They do not rely on impulse buying, therefore visibility and traffic flow are not usually considerations. Easy access to transport routes is important.
- *online businesses*, while not restricted in their location, must ensure they have access to fast and reliable electronic communication; that is, internet access. If it is selling goods, an online business will usually require warehouse space, as well as an area for packing and dispatch.

ACTIVITY 6.1

Match each of the following businesses with the location that best suits it. Justify your choices by considering the needs of each business.

Business	Location options
supermarket	among several office towers
bread shop	large space with major road frontage
florist	shopping strip in affluent area
fast-food outlet	next to hotel
bookstore	farm near airport
used car yard	country town in dairy area
pharmacy	industrial area
animal boarding kennel	airport
wholesale fish seller	home based
retail jewellery store	suburban shopping centre
ecommerce	large shopping centre with high foot traffic
factory	Victoria Market
bottle shop	mobile van
coffee shop	main road close to a secondary school
juice bar	Lygon Street, Carlton
high-end boutique	outside supermarket
dog groomers	next to doctor's surgery
Italian restaurant	beachside town
milk processing plant	foyer of maternity hospital
surf shop	food court in large shopping centre

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Table 6.1 Checklist for choosing a business location

Choosing a business location	Yes	No
1 Have you outlined your specific requirements (size, street frontage, services) before looking?		
2 Have you researched whether to lease or purchase premises?		
3 Have you researched previous tenants or owners regarding the history of the site? Why did they leave the site?		
4 Is the site suitably zoned? Research local government planning requirements.		
5 Have you assessed the sales potential of the area? Have you taken into account economic and demographic factors as well as competition?		
Customers		
1 Who is your target market? Is the site suitably located for them?		
2 Is your location adequately visible and accessible to foot and vehicle traffic as well as car parks?		
3 How many people and vehicles pass the location daily? How important is foot traffic to your business?		
4 Are the proposed premises on the best side of the street?		
5 Does the site project the right image for your business? Do neighbouring businesses project the desired image?		
Transport		
1 Have you ascertained how customers will travel to the business? Is public transport available?		
2 Is the cost of shipping goods to and from the site a major factor?		
Neighbourhood		
1 Are neighbouring businesses appropriate and do they appear healthy?		
2 Are complementary businesses close by?		
3 Are there any vacant premises nearby? Why? For how long? Have similar businesses failed/succeeded in this location?		
4 Are there any major changes contemplated in the area? Investigate planning proposals.		
5 Are there any restrictions on signage in the area?		
Financial		
1 Are the premises affordable? What are the alternatives?		
2 Are the terms of the lease suitable?		
3 Have you identified and costed all outgoings?		
4 Is a security deposit or bank guarantee required? How much is it?		
5 Have you determined what insurance you require?		
Long term		
1 Does the site have scope/room to expand?		
2 Will zoning restrictions conflict with future needs or plans?		

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ACTIVITY 6.2

Using the checklist for choosing a business location in Table 6.1, interview a business owner and find out if each of the criteria was considered when they chose their business location. Present and analyse your findings in a report.

Factors to consider when selecting a building

Selecting a building can be a difficult choice, with many considerations. Is the space sufficient? Is there potential for growth or expansion if required? Are the entrances inviting? Does it meet legal requirements (e.g. disabled access)?

Internally, there are also factors to consider before getting as far as layout; for example, whether the interior is appropriate for the business's needs now and in the future – and if not, what will redecoration costs be? Good lighting is also important, both natural and artificial.

Layout of premises

The **business layout** of the business, or its physical set-up, is another important planning decision. The best layout is dependent on business type. The first step is to prepare a floor plan.

business layout the physical set-up or arrangement of a business. Includes placement and type of plant and equipment, fixtures and fittings.

Factors to consider in layout design

Fixtures and fittings are important when considering layout – business owners should take into account the image of the business and the environment required to make the right impression. The placement of fixtures and fittings should attempt to maximise traffic flow and optimise their use, and the placement of stock/merchandise should ensure that clients/customers see what the business wants them to see. There should also be efficient traffic flow.

Knowledge of your customers' buying habits should assist in planning layout accordingly, and this gives the opportunity to display merchandise attractively and display complementary items together (e.g. supermarkets always place pet care items near the pet food).

Figure 6.9 Think about your local supermarket and how it lays out its products on the shelves.

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Retail layout

A well-planned layout will optimise sales and customer satisfaction. The goal is to influence customer buying behaviour, to minimise costs and to provide flexibility so changes can be made when required. An effective layout provides maximum customer exposure to the merchandise and creates an attractive image for customers.

Hints for layout of retail operations

- Allowing plenty of space for circulation is the key to an effective retail operation. It is important customers feel they can move through a store both freely and fluidly.
- Customers will either come into the store with a definite purchase in mind (destination traffic), or they will intend to browse (shopping traffic).
- Shopping traffic tends to move to the right after entering a store and circulate anticlockwise. Therefore, specials, items with low profit margins and impulse items should be placed to the right.
- Destination traffic tends to move to the left of a store, and circulate clockwise, so goods with a high profit margin should be placed to the left.

merchandise
the stock of goods in a store or business

Figure 6.10 A grid layout is commonly used in supermarkets.

- Customer exposure to stock (**merchandise**) should be the aim.
- Sale items should be placed at the storefront on what is known as an 'obstacle rack'.
- A good place for potential impulse purchase items is next to the cash register.
- Impulse and convenience items should be placed in the highest traffic areas.
- Basics are best placed at the back of the store so people have to walk past other merchandise to get to them. Supermarkets generally put milk in the back right-hand corner for this reason.
- Items likely to appeal to children should be placed at lower shelf levels.
- Music appropriate to customer demographics will make them feel at ease, more inclined to linger and therefore to spend.

Types of retail layout

Grid layout

A grid floor plan is an efficient use of both wall and floor space, placing all fixtures and fittings at right angles, creating parallel aisles. Grid layouts are easy for customers to navigate and shop owners to categorise stock. Grid layouts are used in most grocery and convenience stores and create a familiar experience for customers. The familiar feel, however, means that many customers enter the store with purpose, select what they were looking for and leave. The grid layout is a good choice for retailers that stock large inventory in sizeable quantities such as books, kitchenware and toys.

A variation on the grid is a diagonal layout where aisles are set at an angle to the front entrance. This maximises store space, and is good for self-service outlets as it offers good visibility and traffic flow.

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Table 6.2 Advantages and disadvantages of the grid layout

Grid layout advantages	Grid layout disadvantages
• Makes efficient use of floor and wall space (less wasted space) • Cost-effective (can use cheaper standard fittings) • Good for stores carrying large volumes of stock • Easy for customers to locate items	• Customers may easily miss items • Not visually exciting for customers (boring) • Limited browsing occurs • Cramped aisles can lead to customers bumping each other

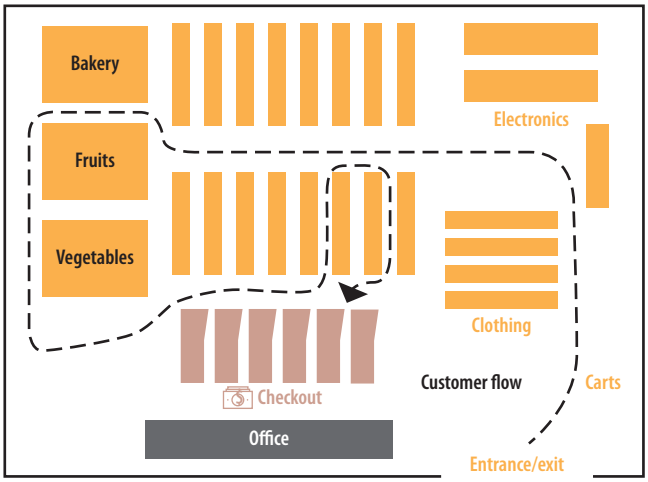

Figure 6.11 Example of a grid layout

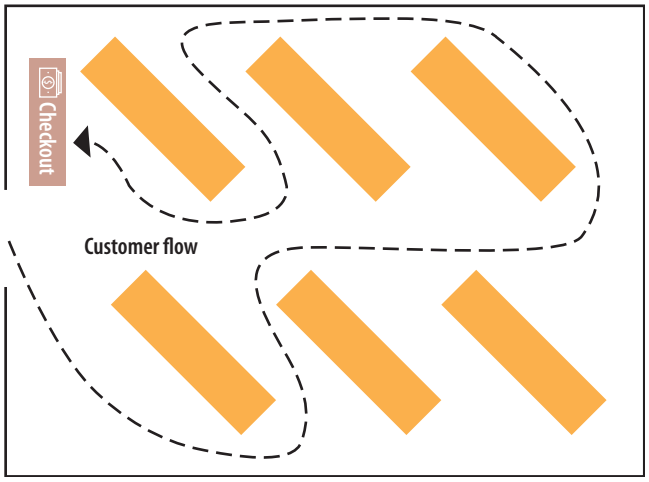

Figure 6.12 Diagonal grid layout

Loop/racetrack layout

The loop layout is also known as the racetrack layout, creating the most guided shopping experience.

In this layout, one main aisle loops around the store like a racetrack. Customers are exposed to the most amount of merchandise as they move through the store in one direction, walking around the perimeter of the store until returning to the entry point. The loop layout is regularly used by stores such as Adairs, Bed Bath N'Table and IKEA as well as other furniture stores.

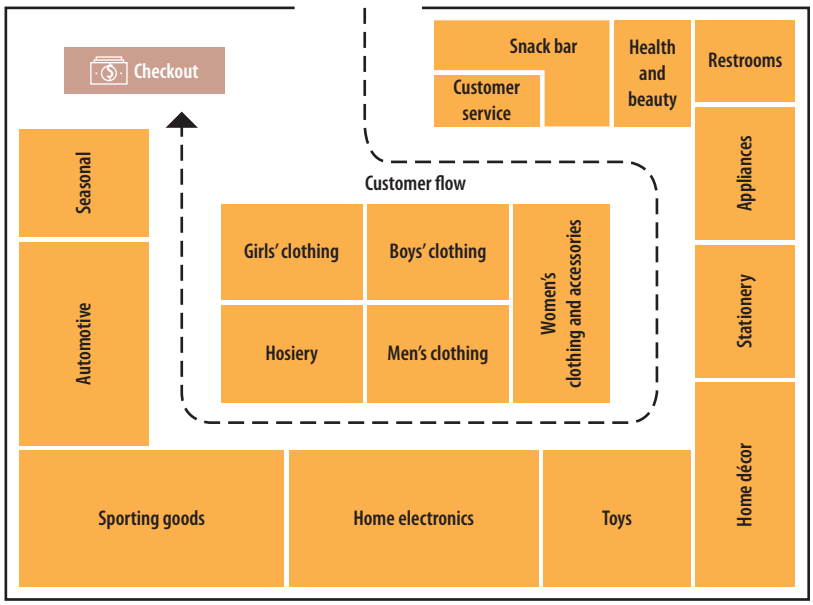

Figure 6.13 A racetrack/loop layout loops through a store and returns customers to the entrance.

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Table 6.3 Advantages and disadvantages of the loop layout

Loop layout advantages	Loop layout disadvantages
• Exposes customers to multiple departments and encourages cross-shopping • Encourages browsing and impulse buying	• Difficult to locate specific items • Wastes customers' time

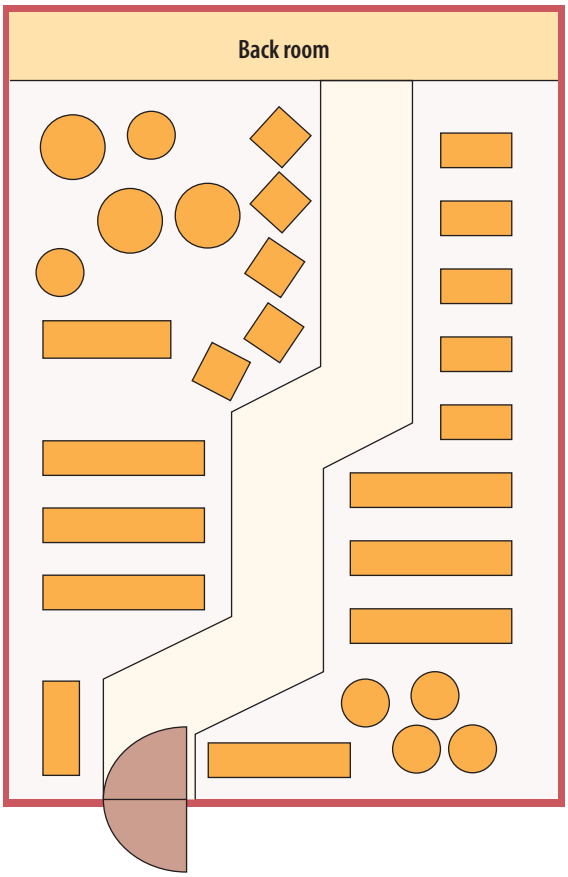

Figure 6.14 A spine layout is often used in fashion stores.

Spine layout

In a spine layout, a central customer aisle runs from the front to the back of a store with merchandise departments branching off to the back walls. Browsing is encouraged on the sides while the central aisle directs customers throughout the store. Medium-sized stores such as Lincraft and Harris Scarfe often use a spine layout.

Figure 6.15 A spine layout encourages browsing.

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Free-form layout

Effectively the free-form philosophy rejects the other options and makes no deliberate attempt to force customers through predictable traffic patterns. It allows maximum creativity and can be easily changed. Free form encourages customers to wander using curves and creates visual diversity through asymmetric patterns. Fixtures and merchandise are grouped in free-flowing patterns, resulting in no defined traffic pattern. It is often used in high-end stores and works well for stores with smaller inventories.

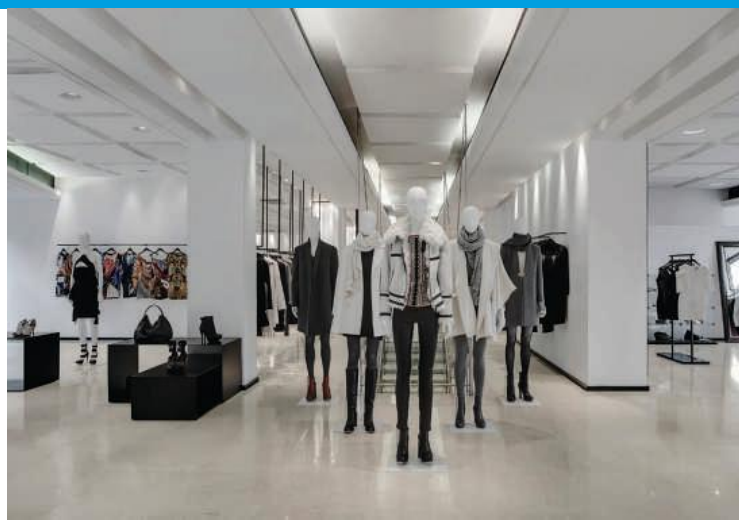

Figure 6.16 Example of a free-form layout

Table 6.4 Advantages and disadvantages of free-form layout

Free-form layout advantages	Free-form layout disadvantages
• Soft angles encourage traffic flow • Visual diversity (interesting to look at) • Good for use in speciality stores or for departments of large department stores • Creates relaxing environment that encourages shopping • Products displayed get extra emphasis • Encourages impulse buying	• Less actual room for products to be displayed • Sacrifices storage space • Lack of defined traffic pattern • Possible confusion for customers • Easy to overlook in planning that best practices should still be followed or risk customers not perusing the store as planned

Mixed layout

Large retail stores often use a combination of layouts. Setting up departments within the same store with different layouts is more interesting and creates a different vibe in each section. A department store may use a grid layout in its homewares section, a racetrack layout in the clothing sections, and a free-form layout in giftware, for example.

ACTIVITY 6.3

1 Categorise the layout used by each of the following retail stores:
   - Bunnings Warehouse
   - local supermarket
   - local fruit and vegetable store
   - Target
   - Rebel Sport
   - Bevilles
   - 7-Eleven
   - Country Road
   - Harvey Norman
   - Just Jeans.

2 Identify a problem of the layout for each of the above stores and propose a strategy that may assist in overcoming the identified issue.

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Figure 6.17 Cellular office spaces promote independent work practices.

Office layouts

The layout of an office has considerable impact on levels of productivity and quality. The modern office requires staff to work together in departments or teams. There are also legal requirements regarding minimum space allocations, ventilation, temperature control and lighting that must be adhered to. The aim is to create efficient workflow, allow for effective communication patterns and encourage collaboration where required.

Cellular office design

Traditional cellular office design allocates employees separate offices which are entered through a door. Today the cellular office continues to be one of the most popular layouts, where the entire floor is divided into individual spaces or cubicles, each for the use of just one employee.

Figure 6.18 Cellular office layout

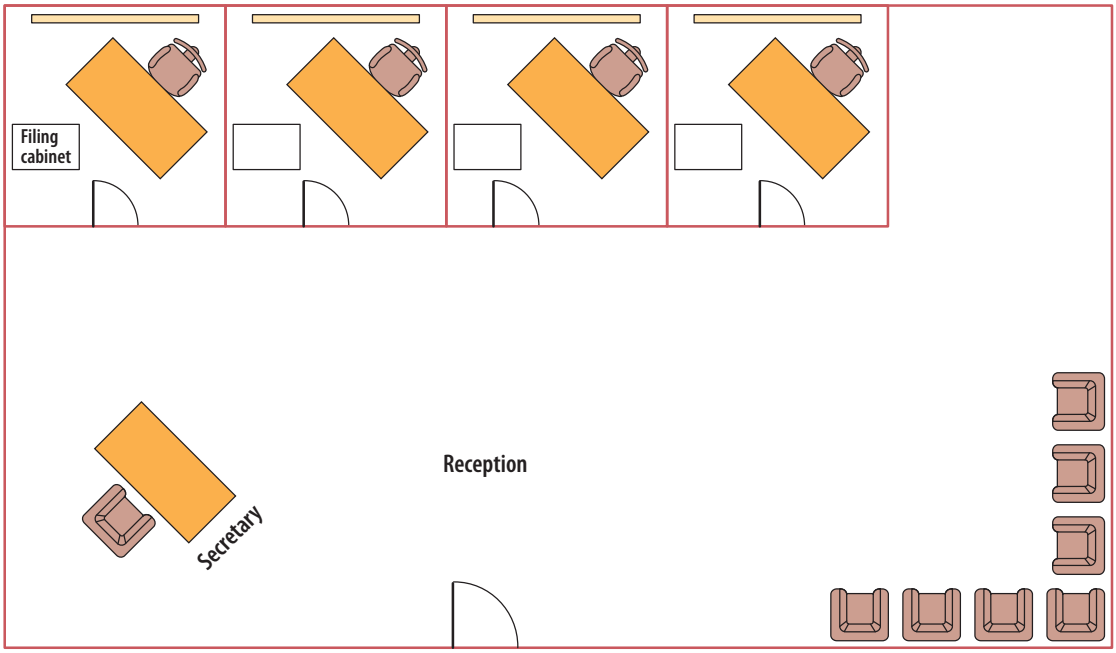

Table 6.5 Advantages and disadvantages of cellular office layout

Cellular office layout advantages	Cellular office disadvantages
• Promotes autonomous work • Employees feel secure in their own space • Employees can personalise the space • Maintains confidentiality when required • Less distractions • Rooms can be locked for greater security • Less spread of infectious diseases	• Difficult for teamwork • Necessitates more formal meetings • Staff may feel isolated and less involved • May have negative effect on morale and workplace culture as socialising is not encouraged • Expensive to implement

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Open-plan office layout

An open-plan layout places employees in a large room with multiple work stations. The workspace is shared and non-territorial.

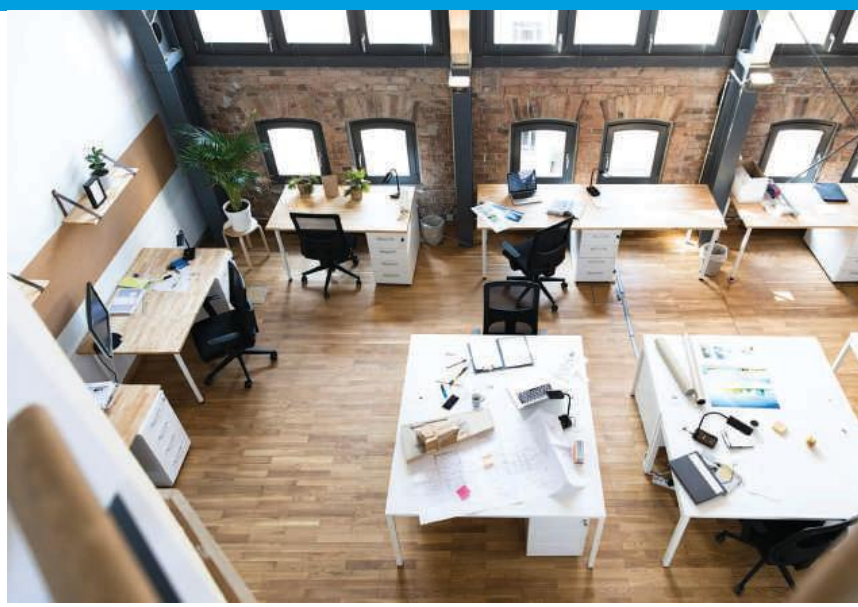

Figure 6.19 Open-plan office

Hot-desking

Personal technology such as portable laptops and tablet devices have allowed some workplaces to move to hot-desking. Hot-desking involves multiple workers using a single workspace during different time periods. Upon arrival at the office, employees store personal items in a locker and, not being bound to any one workspace, take work areas on a first-come, first-served basis. They set up wherever there is free space.

Usually, hot-desking occurs in workplaces in which employees have flexible schedules and are not always working in the office at the same time. Employees in such workplaces use existing offices only occasionally or for short periods of time, which leaves offices vacant. By sharing such offices, employees make more efficient use of company space and resources.

Figure 6.20 Office layout where employees hot-desk

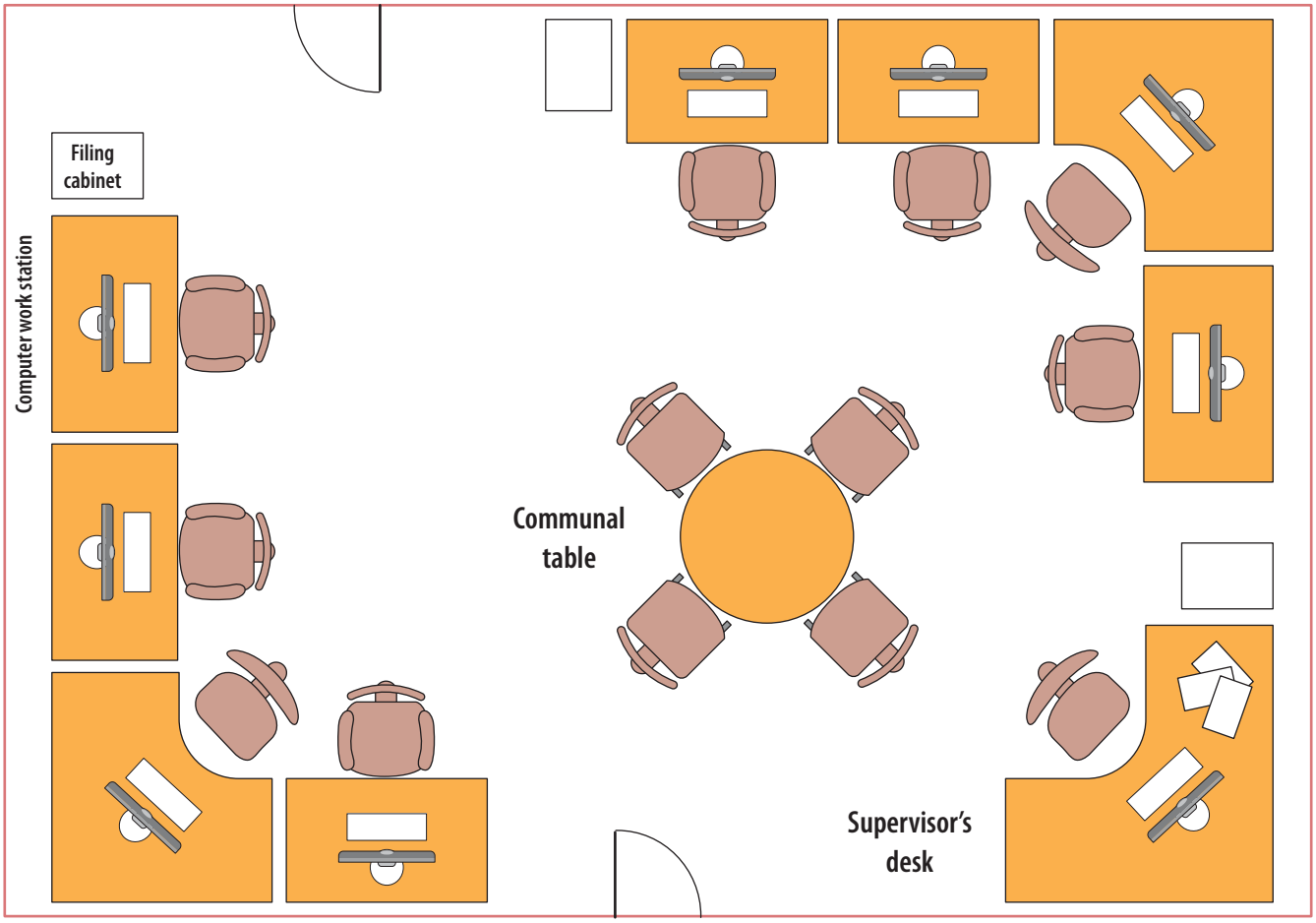

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Table 6.6 Advantages and disadvantages of an open-plan layout

Open-plan layout advantages	Open-plan layout disadvantages
• Promotes teamwork and interaction (project teams) • Good for exchange and flow of ideas • Less requirement for formal meetings as informal communication is encouraged • Efficient use of workspace. Can accommodate more workspaces in a smaller area. • Cost-effective	• May have negative effect on staff morale because employees no longer have personal space • Studies show employees susceptible to high blood pressure and stress. Spread of air-borne diseases such as influenza. • Noise may impact on productivity and concentration levels • Lack of confidentiality

Figure 6.21 Hot-desking is a practical solution in managing office layouts where up to 40% of office space can be vacant at any time.

Combination office layout

work environment the overall conditions in which an employee works, including the physical conditions, office temperature, equipment, and work processes and procedures

ergonomics the study of the relationship between people and their working environment

Many workplaces combine elements of both cellular and open plan layouts. Often several individual enclosed offices exist surrounding common workspaces. A combination office layout allows for privacy through access to areas conducive to solo work when required, but also enables easy access to group/team collaboration. This layout is good for employees who move between individual work and teamwork.

Other layout considerations

Layout must take into account employees' **work environment**. Workplace **ergonomics** directly affect employee productivity levels. Factors such as appropriate furniture and equipment, height of workbenches, provision of appropriate protective clothing and even sufficient lighting and temperature should all be considered. An ergonomics professional specialises in creating workplace designs that optimise the work environment.

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ACTIVITY 6.4

Explain the critical factors that must be considered when deciding on layout for the following businesses:

1 childcare centre
2 private hospital
3 computer store
4 fast-food outlet
5 designer jewellery store
6 motor mechanic workshop
7 cafe
8 swim school
9 tattoo parlour
10 ice-cream parlour.

ACTIVITY 6.5

Read the scenario, view the shop layout and answer the questions that follow.

Perfect Fit Shoes is a family-owned business that is located at the end of a group of strip shops. Management has recently noted the following trends and events:

- the specials are not selling
- sales of men's shoes are down
- several handbags and accessories on display have been damaged
- customers complain about an odour when trying on shoes
- registers are regularly crowded and there have been numerous complaints about poor customer service
- several accidents have occurred with people colliding into each other
- incidents of shoplifting have increased.

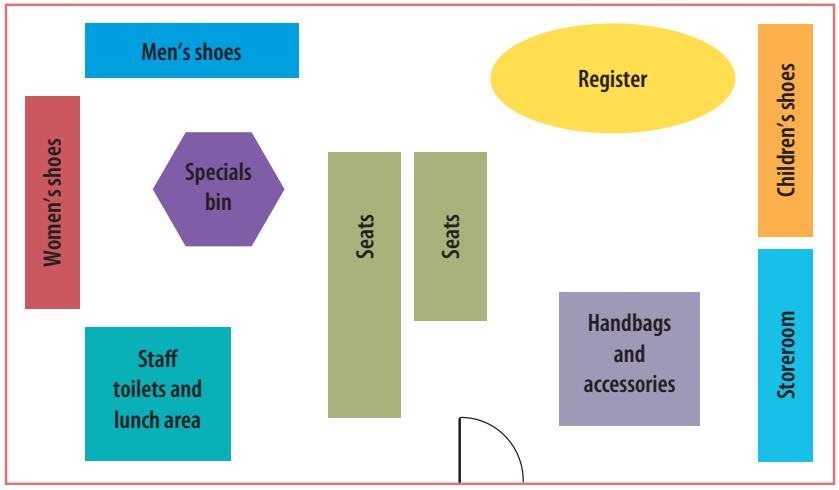

Figure 6.22 Layout of Perfect Fit Shoes

1 Identify two potential occupational health and safety risks that are created by using this layout.
2 Identify and explain three problems with the positioning of the register.
3 Propose two possible reasons for each of the above trends and events.
4 Suggest and justify more appropriate positions for:
   a the register
   b the specials bin
   c the storeroom
   d children's shoes.
5 Design a more appropriate layout for Perfect Fit Shoes.

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6.3 Sources of business finance

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

There are a range of finance options available to businesses. The business owner/manager should seek financial advice about the best option. Some options are outlined below.

Bootstrapping

bootstrapping a method of financing a small business that does not require borrowing large amounts of cash

venture capital money that is given to start-ups and small businesses with perceived growth potential by investors, which is particularly important for start-ups with no access to capital markets

For a small business, raising the cash needed to start up, operate and then grow is always a problem. Lenders require security (assets as loan guarantees) and interest, and investors take their share of profits out.

Bootstrapping, from the metaphor 'pulling yourself up by your own bootstraps', covers a range of ways of financing operations without having to borrow a lot of cash or take on investors.

Bootstrapping helps businesses to start up quickly (to take advantage of new markets and opportunities, for instance) and to avoid the need to find **venture capital** (start-up loans and investments from banks and financial institutions).

Bootstrapping methods fall into the main categories listed below.

- Keeping costs down:
  - keeping overheads low; for example, operating from a garage or spare room where permissible, rather than renting more space
  - taking on multiple roles (multiskilling) – the owner is also the cleaner, answers the phones and does their own paperwork.
- Having a good cash flow – avoiding the need to make large payments before revenue comes in.
- Growing by using revenue (cash already paid by customers):
  - taking advantage of the interest-free period on a credit card used to buy supplies
  - restricting credit given to customers and selling direct to cash-on-delivery customers rather than to distributors that require credit
  - requiring cash advances/deposits from customers
  - leasing equipment, or obtaining it through hire purchase, rather than buying it with cash.

Figure 6.23 Bootstrapping methods reduce dependence on loans and investors.

- Networking with other businesses (these measures may overlap categories of reducing overheads and promoting good cash flow):
  - negotiating credit from suppliers
  - bartering goods and services with other businesses to avoid using cash
  - setting up beneficial deals with other business owners who often support the business
  - becoming acquainted with new business owners who aren't in direct competition.

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Owners' equity

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

Family or friends

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

Suppliers

For many businesses, trade credit is essential for financing growth. It is the credit extended by the supplier that allows businesses to delay payment for goods. Suppliers will offer trade credit to businesses with which they have established a reliable relationship and are unlikely to offer trade credit to a new business. The terms often vary between 30, 60 or even 90 days of interest-free credit.

Figure 6.24 'Financial institutions' is an umbrella term that includes banks.

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Financial institutions

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

overdraft facility an extension of credit from a lending institution that permits an account holder to use or withdraw more money than they have in their account, up to an agreed maximum limit

An **overdraft facility** is a bank's authorisation that a customer may withdraw cash over the amount that is in their account, so that they have a negative balance, up to a certain overdraft limit. The customer has to provide security (such as stock or buildings) and a favourable credit assessment showing that the business is viable. An overdraft facility, therefore, works like a loan but it should only be used to help cash flow; that is, to provide working capital before the business receives payment from its customers. Because the business has to pay a higher rate of interest on an overdraft compared to other forms of finance, it should not be used for major purchases or for long-term borrowings.

Finance companies

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

Commercial hire purchase

Under a hire-purchase contract a business pays an initial deposit for goods such as machinery or vehicles, which it can then use while it pays off the remainder of the purchase price in instalments plus interest. If an instalment is not paid, the goods may be repossessed by the vendor or its agents. The regular instalments may be reduced if the last instalment is agreed to be much larger; this is called a 'balloon payment'. Using hire purchase, the business may receive revenue from using the goods before having to fully pay for them, which can help cash flow. After the last instalment, the purchaser owns the goods.

Private investors/business angels

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

Investors can contribute funds to a business in return for a share of profits and equity. A **business angel** invests in a new or expanding business. Business angels are usually involved in the business directly or as a mentor. They can provide development capital, and also contribute their business skills and contacts to benefit a new business.

Business angels can be individuals or businesses keen to operate in the area of risk capital (so called because when they invest, they take on part of the risk of growing a new business). The advantage of securing the help of a business angel is that they can make investment decisions fairly quickly.

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Venture capitalists

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

Stock market

Also known as an **initial public offering (IPO)**, floating on the stock market involves publicly offering shares to raise capital. Privately owned companies consider this option when further expansion requires substantially more capital. The move to being a publicly listed company on the Australian Securities Exchange is an expensive and complex option that carries the risk of not raising the funds needed due to poor market conditions.

initial public offering (IPO) floating on the stock market involves publicly offering shares to raise capital

Crowdfunding

Crowdfunding is a method of gathering finance for a business through donations from the public. Generally, crowdfunding involves setting a goal, providing details of the project and its budget and then encouraging people to contribute. Crowdfunding is usually conducted online and some social media websites provide entrepreneurs with a crowdfunding platform to promote their innovative projects or product prototypes.

Usually, the 'campaign idea' or business is idea is posted onto the website with further details about the project. On some websites, a business owner might need to set a monetary goal, and a timeframe. Then, individuals who are interested in supporting the campaign, often called 'backers', can donate money to the business to help it achieve its campaign goal.

crowdfunding a way of financing a business through donations of money from the public

Figure 6.25 Crowdfunding involves sourcing public donations for a business start-up through the internet.

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To encourage people to support a campaign, some businesses can offer incentives and rewards based on the amount donated. These incentives and rewards can be anything, such as merchandise, acknowledgement or discounts on a future purchase.

There are a number of advantages with crowdfunding as a source of finance. These include gaining a customer base committed to the product, an opportunity to interact directly with customers and gain feedback, plus free word-of-mouth marketing. There are also several disadvantages, including that there is no guarantee the funding goal will be reached, a need to campaign and present a product, the need to provide incentives and rewards, and having to compete with other businesses also seeking crowdfunding for their ideas.

ACTIVITY 6.6

Go to the website of two or more of the main banks or finance companies (e.g. National Australia Bank) and compare the interest rates and types of loans available to businesses.

CASE STUDY 6.1 *Thankyou: a social enterprise successfully using crowdfunding*

Thankyou is a Melbourne based social enterprise that started out selling bottled water in Australia with the sole purpose of funding safe water projects in developing nations by donating 100% of its profits.

As university students at Melbourne's RMIT in 2008, Daniel Flynn, Jarryd Burns and Justine Flynn founded the concept. Right from the outset, the trio have challenged standard practices with determination, creativity and innovation. It took over five years to convince supermarket chains to place Thankyou on their shelves. A petition with thousands of signatures eventually saw the placement of Thankyou water and handwash in all major supermarkets across the country.

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Figure 6.26 The Thankyou logo

In 2016 Thankyou launched its baby care range, expanding on the 14 products initially offered, to over 55 products sold in over 5500 outlets in Australia including all major supermarkets. Based on current projections Thankyou co-founder, Daniel Flynn, believes that Thankyou will accrue over $10 million in profit that will be rolled over to the social enterprise's impact partners in the provision of safe child births in developing countries.

He also says that, 'not everything we launch at Thankyou works but everything we launch at Thankyou helps us to refine ourselves and sets us up to succeed in the future'.

Continuing to work on the success of social media, Thankyou used crowdfunding in 2017 to launch a book titled *Chapter One*. According to the Thankyou website, Daniel Flynn noted that 'within two hours of this launch video, we'd raised $360 000, with now over $1.9 million raised and counting. The book is sold at a pay-what-you-want price with people paying from $0.05 (don't be that guy) to $50 000 for a copy. Almost 125 000 copies of *Chapter One* have been sold, raising over $2.5 million and successfully crowdfunded the launch of Thankyou in New Zealand.'

In Daniel Flynn's open letter in 2017, he reported that Thankyou had expanded by:

- launching an online store
- developing a new nappy range now stocked in Woolworths which doubled projected sales
- growing Personal Care sales by 45%
- launching a series of Thankyou school sessions, sharing the Thankyou story with over 15 000 Victorian students.

The year also saw safe water projects funded in Papua New Guinea and Ethiopia. Maternal and child health projects were funded in Nepal and Zimbabwe, providing safe birthing facilities for local communities. Thankyou also collaborated with World Vision Vanuatu to use hippo rollers to ease the strain of carrying water.

What will the next chapter of this hugely successful enterprise bring?

ANALYSIS

1 Explain why Thankyou is turning to crowdfunding to access more capital.
2 Explain how the launch of the new book and chapters might have assisted the business.
3 Propose one project that Thankyou may consider developing resulting from the profits of *My Next Chapter*.
4 As a social enterprise, Thankyou has made a number of significant changes in a short period of time. Go to the Thankyou website and search the current annual report. Then, draw up and complete the following table in your notebook.

Changes since 2017	Impact on natural, labour and human resources

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Chapter summary

- A business must plan to meet its resourcing requirements in terms of natural resources, labour and capital items.
- A procurement policy is required to provide guidelines regarding the selection of suppliers.
- Arrangements must be made for the servicing of capital equipment.
- In managing human resources, workforce planning is required to ensure skilled labour is developed and available to satisfy the business's requirements.
- Business location is a crucial decision as location provides a link between the business and its customers.
- Factors to consider when deciding on a business location include:
  - business type
  - area demographics, profile, reputation and economic and social trends
  - level of competition in an area
  - proximity to complementary businesses and suppliers
  - site history
  - amount of foot traffic
  - suitability of buildings and facilities.
- Once a location has been selected, the optimal layout must be identified and implemented. Retail and office spaces are designed to maximise the effectiveness of business activity, while strategically taking into account the needs of employees and customers.
- Finance is a crucial aspect of business planning and the success of the business.
- There are a range of different sources of finance available to business.

Chapter summary tasks

1 Identify three examples for each of the following categories of resources that might be required by a large hotel:
   a natural resources
   b labour
   c component parts
   d capital resources.
2 Explain the factors that a business needs to consider when selecting suppliers and resources.
3 Describe what workforce planning is and outline its purpose.
4 Propose and describe four factors that must be taken into consideration when selecting a business location.
5 Suggest and justify an appropriate location for each of the following businesses:
   a a newsagency
   b a childcare centre
   c an online store
   d an advertising agency.
6 Identify suitable complementary businesses for each of the following businesses. Justify your choices.
   a a medical centre
   b a jeweller
   c a gymnasium
   d an ice-cream shop.

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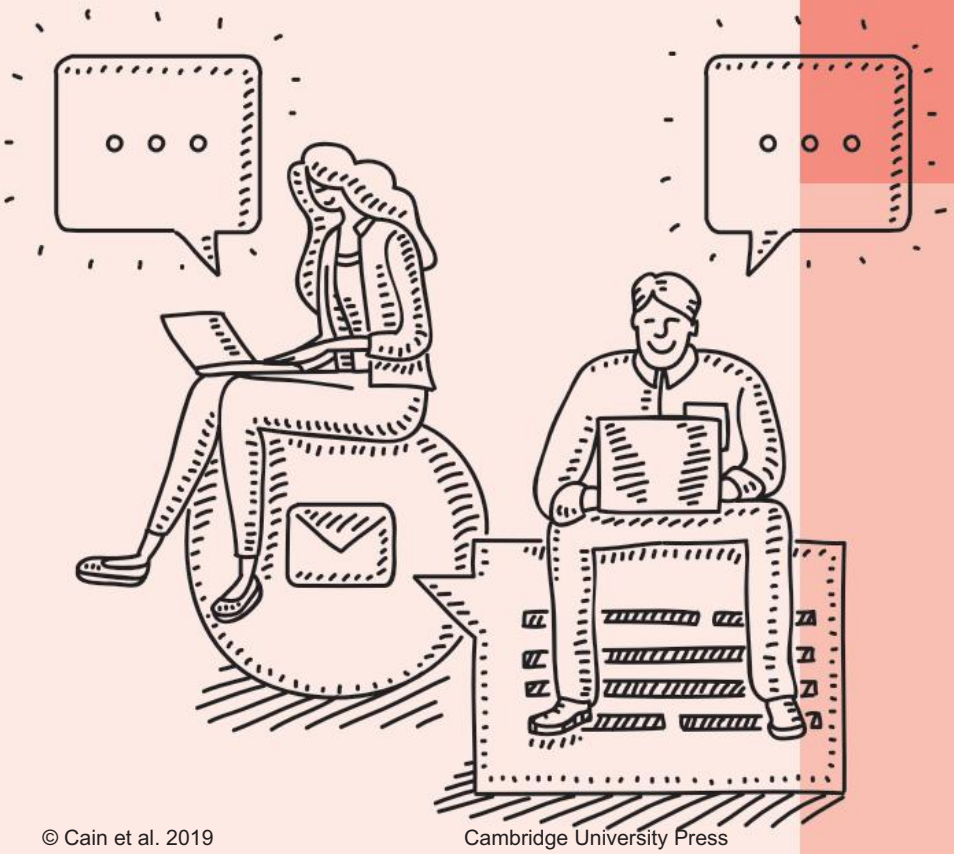
7 Define 'ergonomics'. Explain the importance of ergonomics to workplace productivity.
8 Visit your local shopping centre and identify stores using each of the following types of layout:
   a grid
   b loop
   c spine
   d free form.
9 Discuss why it is important for a business to investigate different sources of finance.

Extension questions

1 Investigate three different sources of finance a business might access. Present your findings to potential business owners, outlining the advantages and disadvantages of each source.
2 Investigate the evolution of crowdfunding. Discuss the potential benefits and limitations of this method.



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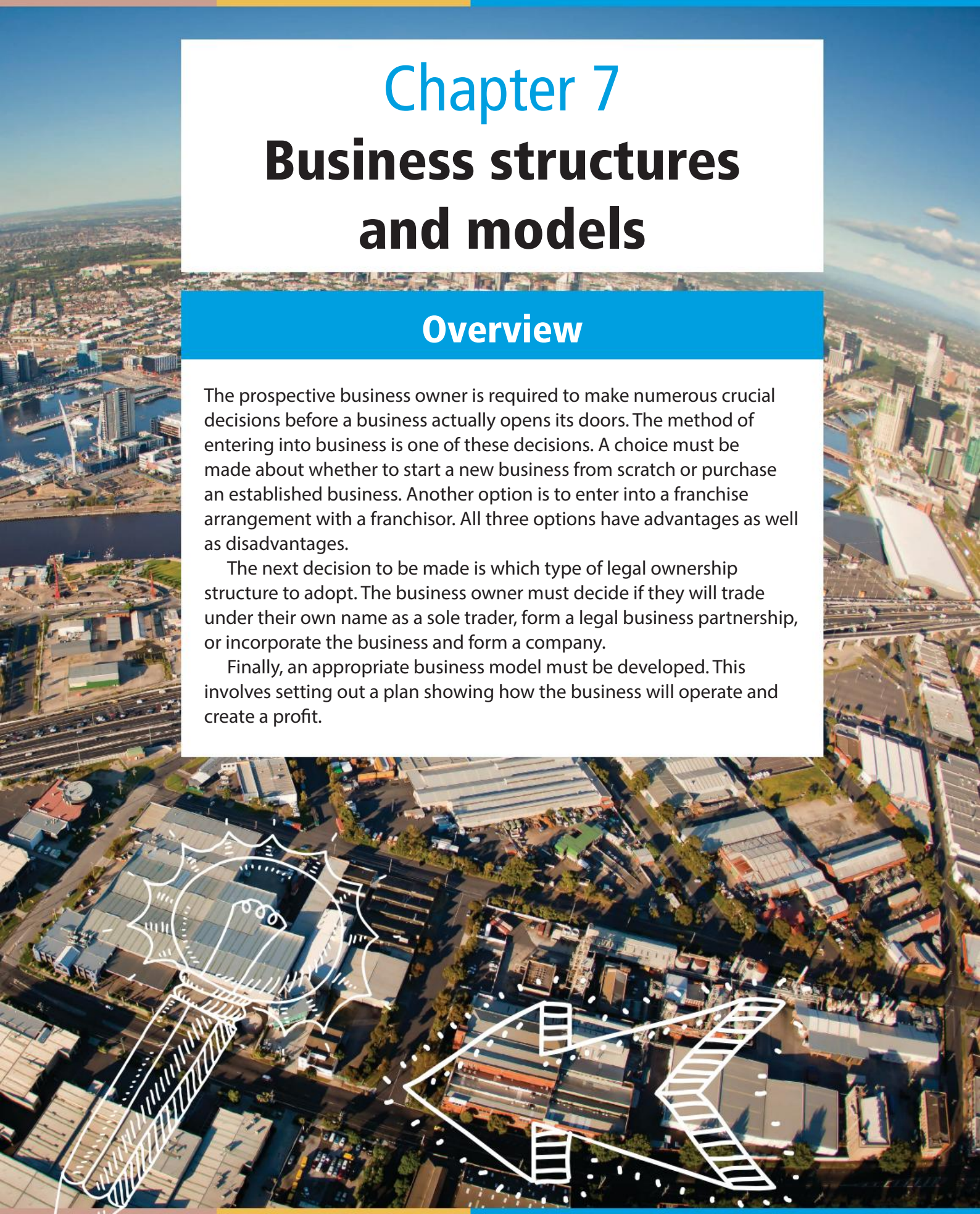
Chapter 7
Business structures and models

Overview

The prospective business owner is required to make numerous crucial decisions before a business actually opens its doors. The method of entering into business is one of these decisions. A choice must be made about whether to start a new business from scratch or purchase an established business. Another option is to enter into a franchise arrangement with a franchisor. All three options have advantages as well as disadvantages.

The next decision to be made is which type of legal ownership structure to adopt. The business owner must decide if they will trade under their own name as a sole trader, form a legal business partnership, or incorporate the business and form a company.

Finally, an appropriate business model must be developed. This involves setting out a plan showing how the business will operate and create a profit.



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Key terms

- accountability
- Australian Business Number (ABN)
- Australian Company Number (ACN)
- bricks-and-mortar business
- brokerage
- business model
- clicks-and-mortar
- company
- dotcom business
- exporter
- franchise
- franchise agreement
- franchisee
- franchisor
- general partnership
- goodwill
- importer
- incorporation
- intangible assets
- limited liability
- limited partnership
- online business
- partnership
- partnership agreement
- passive investor
- private company
- proprietorship
- public (listed) company
- Registered Business Name (RBN)
- shareholder
- social enterprise
- sole trader
- unlimited liability

Key knowledge

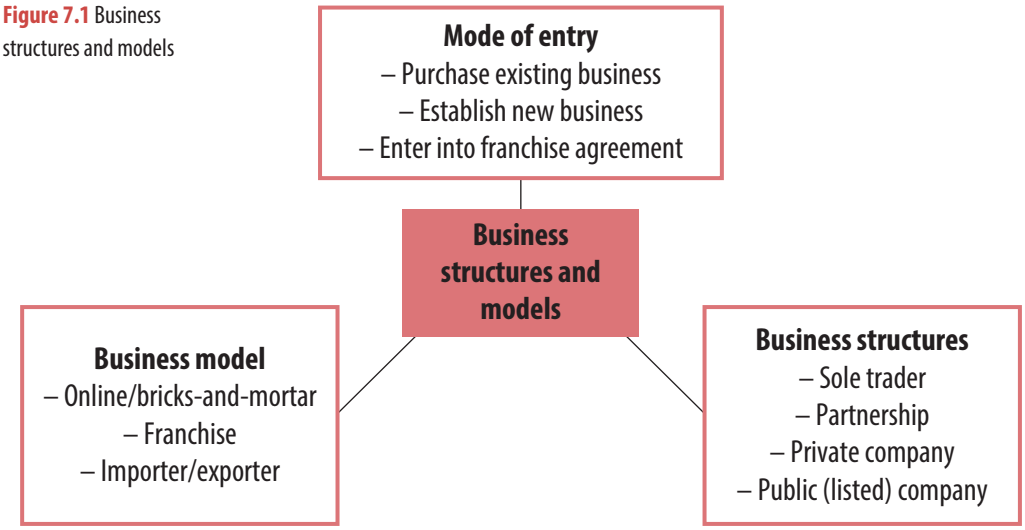
In this chapter you will learn about:

- costs and benefits of purchasing an existing business compared with establishing a new business
- types of legal business structures such as sole trader, partnership, franchise, private limited company, public listed company and the factors affecting choice of business structure
- types of business models such as online business, bricks and mortar business, social enterprise, franchise, importer and exporter.

(Source: VCAA Business Management Study Design, 2017–2021, p10)

What's ahead

Figure 7.1 Business structures and models



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7.1 A new business from scratch or an existing business?

Once a decision has been made to enter into business, the next consideration is whether to start a completely new business or purchase an existing business. Each option has distinct advantages and disadvantages. The potential small business operator must decide which best suits their circumstances, talents, skills, abilities, goals and personal requirements.

Establishing a new business

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

The advantages of starting from scratch include:

- complete autonomy/control over the concept and form of the business – the owner is able to put their personal stamp on the business
- the business price will not include the added cost of **goodwill**
- the freedom to implement personal ideas
- avoiding buying into the mistakes of others
- complete autonomy in operating the business and in establishment decisions
- original ideas and concepts belong to and will be associated with the business
- initial costs may be lower as **intangible assets** do not need to be purchased.

Potential disadvantages of starting from scratch include:

- a far greater degree of uncertainty and risk with no previous sales history or figures to refer to
- more work initially as establishment of business systems, procedures and hiring and training of staff will be required from the ground up
- it will take longer to establish a client/customer base and, therefore, cash flow
- greater time and energy required to establish a good name and reputation
- more difficulty in obtaining finance with an unproven venture
- needing to source a suitable location and resourcing the business from scratch – this involves time and potentially greater expense
- the potential for unexpected competition
- more scope for error with the new business owner being required to make more decisions.

Extra considerations when establishing a business from scratch include:

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

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

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

Figure 7.2 Starting a new business from scratch is riskier than buying a new business.

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Purchasing an existing business

Figure 7.3 Purchasing an established business such as a milk-bar is an option.

If the new business operator decides they would rather purchase an existing business as a going concern, the following costs will be incurred:

- premises, plant and equipment
- inventories of unsold stock purchased at valuation price (SAV)
- customer accounts
- contractual and legal rights such as patents
- employees
- goodwill
- intangible assets such as the value of the business brand, any intellectual property such as patents the business holds, and specialised knowledge and expertise held.

The potential advantages of buying an existing business include:

- it involves a much simpler process, because things like registration of business name and staffing have already been done
- ready access to business financial records makes it easier to obtain finance
- total cost is agreed upon initially and less likely to blow out
- the business will become operational and generate cash flow more quickly
- business operating procedures and practices are already in place and do not require development from scratch
- the business has existing suppliers, staff and client base
- established policies and systems.

The disadvantages of buying an existing business include:

- the intangible assets of a business, such as goodwill, are difficult to value precisely and may be overvalued; the value of the business is therefore often difficult to gauge
- danger that the purchaser may be 'buying a lemon' (someone else's failure)
- goodwill can, in fact, be 'bad will' if a business has a poor reputation.

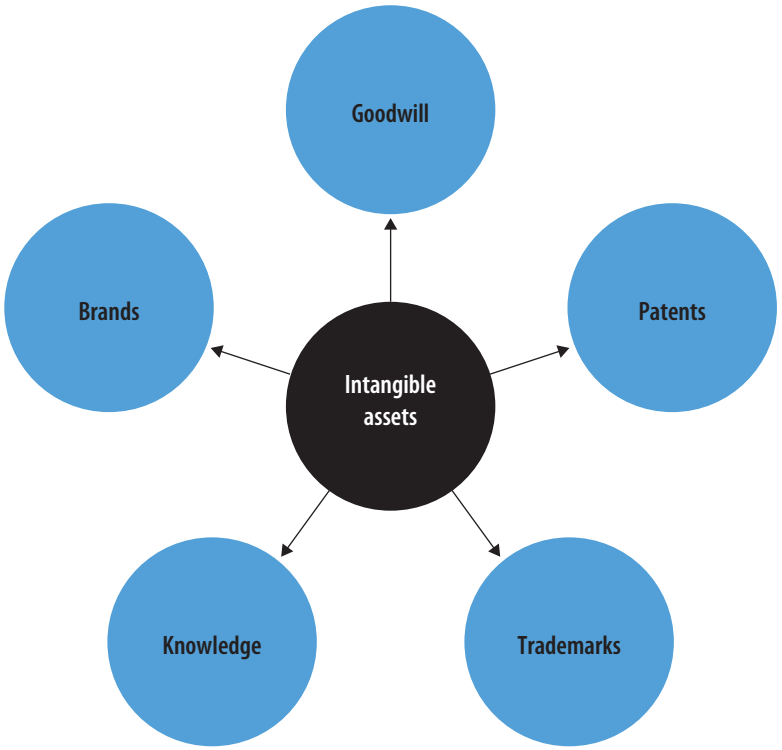

Figure 7.4 Calculating the true value of a business for sale is often imprecise.

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Checklist for buying an established business

- Ascertain exactly why the business is for sale. Is it in fact a failing business? Is the vendor selling for financial reasons or not?
- Have an expert do an assessment of the business to ascertain if business goodwill is fairly priced.
- Investigate future industry trends and existing market share of the business.
- Are suppliers reliable? Are inputs likely to be freely available at an affordable price in the future?
- Physically check that the business has all the required fixtures and fittings, equipment and stock in working order. Have these items valued.
- Have an accountant check all financial records, including taxation, receipts and wages.
- Check the premises.
- Check all the leases and legal contracts the business is subject to.
- Have an independent assessment of the business's financial viability done by a consultant and/or bank.
- Have a lawyer investigate the legal status of the business. Are there any pending court cases? Zoning changes? Does the business have outstanding debts?
- Check on the seller's right to open a competing business.
- Take care: many businesses that change hands in this way fail.

proprietorship the ownership of a business

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

unlimited liability full liability of owner (if their business fails) to the extent of their personal assets

7.2 Choosing the legal business structure

Once the decision to start a new business or to buy an existing one has been made, the next decision is which form of **proprietorship** to adopt. There are four main structures. Each one has distinct advantages and disadvantages.

Figure 7.5 A sole trader has more independence but carries more risk.

Sole trader

This is the simplest form of business ownership and involves a single owner operating the business either under their own name or a Registered Business Name. The owner makes all decisions and operates the business autonomously. It is the cheapest form of business structure to establish. A **sole trader** (also called a sole proprietor) has exclusive rights to all profit and capital. Sole trader operations are run by one person, often based from home. Sole traders are personally and totally legally responsible for all actions and debts of the business. They are liable to meet all business financial obligations from their personal assets, placing these at risk. This is known as **unlimited liability**. For tax purposes, a sole trader must declare all the business income as their own.

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Partnerships

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

There are two forms of partnerships:

- **general partnership**: all partners are deemed to hold equal responsibility regarding business management, and all hold unlimited liability for obligations and debts
- **limited partnership**: liability of one or more of the partners is limited. These limited partners are usually **passive investors** and not involved in the day-to-day running of the business. Their liability is limited in proportion to the amount contributed.

The *Partnership Act 1963* regulates partnership dealings. Most partnerships are based on a formal legal agreement known as a **partnership agreement**. If a partnership agreement is not signed, all partners are deemed equally liable for debts incurred.

Common details included in a partnership agreement are:

- partner details
- commencement date and duration of the partnership
- description of the business and the nature of the partnership, including individual roles and what each partner brings to the partnership
- division of profits and remuneration
- contribution of capital from each partner
- responsibilities of each partner within the business and who has authority to do things such as access bank accounts
- how disagreements will be resolved
- provision for admitting new partners
- termination clauses, including procedures for distributing assets when the business is wound up.

A partnership does not have an ongoing life: if one partner leaves, a new partnership must be formed. It is generally accepted that a person should only enter into a business partnership with people whom they completely trust, since a business partner may be liable for their partner's debts.

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

general partnership all partners are deemed to be equally responsible for the management of the business. Each has unlimited liability for debts and obligations.

limited partnership where liability of one or more of the partners is limited

passive investor often referred to as a 'silent partner', provides financial input into the business but does not actively participate in the business operations

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

Figure 7.6 A business partnership is usually set out in a partnership agreement.

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ACTIVITY 7.1

Alex, Jason and Hayden are intending to enter into a business partnership. They are going to establish a driving school. Alex intends to work in the business full time as a driving instructor. He will contribute 50% of the start-up capital and expects to earn a weekly wage.

Jason will contribute 20% of the capital. He will work part time in the business as the financial officer.

Hayden is not intending to work in the business, but will contribute 30% of the working capital.

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

a the amount of capital each person brings
b how profits will be distributed
c the roles and responsibilities of each partner
d how disputes will be handled
e salaries and remuneration.

company a separate legal entity (incorporated body) that is subject to the requirements of the *Corporations Act 2001*, owned by shareholders who have limited liability, run by directors and has perpetual succession

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

shareholder owner of a company

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

private company a company where the shareholding is limited (small), with shares being sold privately; often run as a family business; has Pty Ltd at the end of the company name

public (listed) company larger company with unlimited shareholders; shares freely traded on the stock exchange; has Ltd after its name

Company

Another legal business structure to consider forming is a **company**, otherwise known as **incorporation**. Features of companies are:

- companies have their own independent legal entity, separate from their owners. They are formed according to legislation and are registered with the Australian Securities and Investments Commission (ASIC).
- the owners of a company are referred to as **shareholders**
- a company pays tax on its earnings as a separate entity
- company directors are appointed by shareholders to manage and control the company
- a company structure offers the protection of **limited liability**, whereby liability of the shareholders is limited to the value of their shareholding

There are two forms of company: private and public. Each is discussed below.

Private company

The main features of a **private company** are that it is restricted to a maximum of 50 shareholders; shares can only be traded with the permission of the other shareholders, which must be given before the transaction takes place, and private companies have the letters 'Pty Ltd' after their name, which means 'Proprietary Limited'. Private companies are often, but not always, family companies.

Public (listed) company

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

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Figure 7.7 Public listed companies, such as those shown above, are identifiable by the letters 'Ltd'.

ACTIVITY 7.2

(Source: Australian Bureau of Statistics, 'Counts of Australian businesses, including entries and exits', February 2018)

Figure 7.8 Actively trading businesses by type of legal entity

1 Rank the categories of business legal structure shown in Figure 7.8 from most to least common.
2 List the categories of business which increased during the period 2013 to 2017. By how much did they increase? What do you think were the reasons?
3 Identify which category fell during this period. By how much? Propose possible reasons.

Which structure is the best?

Different structures are suited to different businesses. A business owner must decide which structure best suits them. Factors that need to be considered are:

- size of the business
- people involved
- type of business
- taxation and other financial issues
- finance
- start-up costs
- degree of risk
- personal preference.

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Table 7.1 Features, advantages and disadvantages of ownership structures

Business structure	Features	Advantages	Disadvantages
Sole trader	• one owner who operates the business under their own name or a **Registered Business Name (RBN)** and **Australian Business Number (ABN)**	• inexpensive and simple to set up • easy to maintain • sole trader has complete control over all aspects of the business • sole trader owns all assets and receives all profit • less paperwork • easy to disband • no legal requirement to disclose profits/losses (as with companies), privacy • minimal government regulation	• unlimited liability places personal assets at risk • owner is tied to the business; difficult to have holidays or sick days • profits are taxed at the marginal tax rate, which is higher than the company tax rate • fewer tax concessions • harder to get finance • reliant on own knowledge and skills
Partnership	• business owned by two to 20 partners • partnership agreement to establish conditions • partners jointly liable for business debts • has an ABN • operates under an RBN	• inexpensive and simple to set up • risk is shared • minimal government regulation • workload may be shared • offers broader access to capital, knowledge, skills and experience	• unlimited liability • liability for debts incurred by others • business could be threatened by one partner leaving • potential for disputes and personality clashes • taxation at personal tax rates, which are higher than company tax rates
Private company (Pty Ltd)	• shareholders (owners) are legally separate from the business • between one and 50 shareholders who appoint directors to run the company • has an ABN • operates under registered company name and **Australian Company Number (ACN)** • registered with ASIC, which issues Certificate of Incorporation	• limited liability • extra capital can be obtained by issuing more shares • separate legal existence • existence is not threatened with death or removal of one of the directors • can trade anywhere in Australia	• high degree of complexity in establishment • higher establishment costs • higher degree of government control and reporting requirements • additional compliance costs • potential for disputes and personality clashes
Public company (Limited or Ltd)	• unlimited number of shareholders • shares can be bought and sold on stock exchange • has an ABN • has an ACN • registered with ASIC, which issues Certificate of Incorporation	• limited liability • extra access to capital through selling extra shares • separate legal existence • existence is not threatened with death or removal of one of the directors • shares easily transferable	• high complexity and establishment costs • more government scrutiny, control and compliance requirements • need for more **accountability** and paperwork • legal obligation to report financial situation publicly (less privacy) • potential for disputes and personality clashes

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

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

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

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

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CASE STUDY
7.1

Cotton On: a private company success story

COTTON ON: THE INSIDE STORY OF THE RETAILER'S RISE TO $1.5B IN REVENUE

'Cotton On is a true Australian new generation success story,' retail expert and former David Jones chief executive Paul Zahra says. Here's how they did it.

Nigel Austin was studying business at university when, in need of cash, he started selling acid-wash denim jackets from the boot of his car at the markets in Geelong almost 24 years ago.

In the first week he sold just one jacket for $30, barely enough to pay for lunch and petrol. Undeterred, he went back to his supplier, who just happened to be his father, the late clothing wholesaler Grant Austin, and negotiated a better deal.

'The next week I sold all 20 and made $200 – I thought that was pretty addictive,' Austin says.

Now 44, Austin is still selling denim jackets – as well as t-shirts, jeans, checked shirts, dresses, sweaters, bras, undies and homewares – but his Cotton On Group retail empire has grown from just two stores in 1991 to more than 1300 stores across eight brands in 16 countries including the US and South Africa. Cotton On employs over 22,000 people and continues to have the company headquarters located in Geelong.

Sales have risen more than 20 per cent a year for at least five years, reaching $1.8 billion in the financial year 2015–2016, seemingly unaffected by the invasion of international fast-fashion chains such as Sweden's H&M, Inditex's Zara, Arcadia Group's TopShop and Japan's Uniqlo.

With almost 760 stores in Australia alone, the home-grown casual fashion factory arguably has more influence on what we and our kids wear on the weekend than any other fashion chain.

'SUCCESS STORY'

Cotton On Group is now bigger than Solomon Lew's Premier Investments, which owns Just Jeans, Dotti, Portmans, Peter Alexander and Smiggle. It's one of only a handful of domestic retailers that have successfully ventured overseas.

CONTINUED ITEM

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...

But Austin, his cousins Ashley and Michael Hardwick and their trusted lieutenant, chief executive Peter Johnson, have finally decided to lift the lid, disclosing for the first time the size of the company, its growth strategy and its ambition to become the world's dominant value fashion retailer.

...

Figure 7.9 Cotton On is a privately held company that has become an iconic part of Australia's retail environment.

NO PLANS TO SELL

In exclusive interviews with *AFR Weekend*, Austin and the Hardwicks ruled out an initial public offer and say they have no plans to raise external capital or sell out, despite keen interest in the past from private equity investors and domestic competitors.

'They wouldn't even get to me today because it's not even on the agenda,' Austin says.

'It's just not something we spend time thinking about,' says Michael Hardwick, 46, who joined Cotton On as chief financial officer in 2009 after a long career with PwC and working in venture capital in the US. 'We don't need to do it [raise external capital] to continue to deliver on our aspirations for the business.'

On a chilly Tuesday last week, the 1000-odd staff at Cotton On's headquarters in an industrial estate in Geelong's north gathered for the group's monthly BBQ for an update on February sales and to learn more about plans for the coming year.

'It was another cracking month, the fifth in a row where we've beaten the market,' says Johnson, who worked for Country Road and Sussan Group before joining the COG team in 2004.

Comparable store sales across the group rose 9.2 per cent in February, led by 22 per cent growth at Cotton On Kids, 14.8 per cent at Supre, which was acquired in 2013, 12.5 per cent at stationery and homewares chain Typo and 8.6 per cent at the original Cotton On brand. In a subdued consumer spending environment, where annual retail sales growth is tracking at a below-trend 3.6 per cent and clothing sales are growing around 2.8 per cent year-on-year, it was an impressive performance, fuelled largely by overseas demand. Australian comps rose an enviable 8.8 per cent, Malaysian comps jumped 42 per cent, Singapore 15 per cent, Hong Kong by 14 per cent and Thailand 11 per cent.

NEW JOBS

As staff bobbed for plastic fish in an inflatable pool or tucked into hamburgers with quinoa salad, Johnson unveiled plans to add 227 head office jobs this coming year – 171 in Geelong and 56 in Cotton On's four global hubs. Another 2000-odd retail jobs will be created as Cotton On opens more than 100 stores over the next 12 months.

Over the next three years the group plans to open 570 stores around the globe, taking the total to almost 1900, while lifting online sales to $250 million.

...

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Products are designed by a team of more than 60 designers and trend forecasters, with a turnaround time between design and manufacture of two to eight weeks, depending on the category. Range reviews are conducted for each brand every quarter. New products are dropped in stores daily and new ranges arrive each week.

Products are manufactured by 170 suppliers at 330 factories, mainly in China and Bangladesh, and are sent by sea freight to seven distribution centres in Melbourne, Brisbane, South Africa, China, Singapore, California and New Zealand.

...

Austin and the Hardwicks have no plans to retire soon, but like any family company COG will eventually have to grapple with the issue of succession planning.

Austin says his father taught him almost everything he knows about retail, but is reluctant to hand his share of the business to his own children, saying the burden would be too great.

In last year's *BRW* Rich List, Austin was estimated to be worth $295 million. But industry sources say COG would be worth more than $1 billion, based on sales of $1.5 billion and estimated earnings of $150 million, although it is impossible to verify these numbers.

'At this age they're still saying they'd like to take it over but the responsibility of such a big business [would be unfair], and it's going to be so much bigger by then, I don't think it's realistic,' he says. 'It's been a really great role to grow into as opposed to stepping into it.'

Ashley agrees. 'It's going to be a pretty big business, but with new people coming into the business all the time and the new brands and countries it keeps the enthusiasm levels high – we don't really need an exit plan.'

(Source: S Mitchell, 'Cotton On: the inside story of the retailer's rise to $1.5b in revenue', *The Sydney Morning Herald*, 2 April 2015)

ANALYSIS

1 Name the founder of Cotton On. Describe how, when and where this business was founded.
2 Describe how the Cotton On business expanded between 1991 and 2015.
3 List six facts from the article that demonstrate the extent of the success of this business.
4 Identify five other stores or brands owned by Cotton On Group.
5 Describe the plans Cotton On has for expansion.
6 Cotton On is still a private company. Explain what this means and how it differs from a publicly listed company.
7 Outline the reasons given in the article for Cotton On deciding to stay with the private company business structure for the moment.
8 Analyse the advantages and disadvantages for Cotton On of remaining a private company.
9 Research what has happened to Cotton On's plans for expansion since this article was written. Have its aims been fulfilled? Explain why/why not.

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7.3 Types of business models

business model the plan implemented by a business to generate revenue and make a profit. The model includes the components and functions of the business, as well as how revenue will be generated and expenses incurred.

Businesses must select the most appropriate **business model** that meets their needs and maximises their chances of business success. A business model is the plan implemented by a business to generate revenue and make a profit. The model includes how revenue will be generated and expenses incurred as well as the components and functions of the business. An original or unique business model, or a variation on an existing one, can become a competitive advantage.

Online vs bricks-and-mortar business models

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

Figure 7.10 Merchant online business model

Online (internet-based) business models

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

1. *Advertising model*: The advertising online model involves a website providing content, either free or for a fee. Advertisers then pay the website to advertise/promote their products on the website. Payment may be based on the number of advertisements placed (per impression), per click or simply via a fixed cost. Facebook is one of many utilising this business model. Services such as Google AdSense and BuySellAds act as agents helping businesses add advertising to their websites.
2. *Affiliates model*: This model rewards the owner of a website every time a user clicks on a promotion and purchases a product.
3. ***Brokerage** model*: Businesses that use this model act as agents bringing buyers and sellers together. They may act as a transaction broker or a marketplace; eBay, for example, uses this model. Money is earned by charging a fee/commission on each transaction.
4. *Merchant model*: This model involves a business making direct sales to consumers via the internet in lieu of a bricks and mortar store. Amazon and most retail operations use this model.
5. *Subscription model*: This model involves a business charging a payment or subscription to log onto its website. Media outlets such as News Limited (*Herald Sun*) and Nine Publishing (*The Age*) use this model.
6. *Information model*: This model involves a website charging for information. The sale of ebooks is a good example.
7. *Community model*: These websites build a community of users interacting with each other. Blogs and chat sites are examples. Money is made via charging a subscription fee or calling for donations. Wikipedia is an example of this model.

online business a business that conducts activities via the internet

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

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ACTIVITY 7.3

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

Kogan	Gumtree	YouTube
Twitter	Facebook	LinkedIn
Mycareer.com	eBay	theage.com.au
Wikipedia	CatchOfTheDay.com	Airbnb
Uber	Candy Crush	any blog

Advantages of adopting an online business model

There are several advantages of running an online business model.

- It offers an easy and instantaneous connection with customers, suppliers and other stakeholders. In effect, the business can operate 24 hours a day worldwide.
- Promotion and marketing are usually cheaper and accessible to a wider world market.
- Costs/overheads are significantly less. There is no need to pay for premises, and overhead costs, such as bills and insurance, are less. Staffing requirements and costs are also less.
- Customers are easily able to access and purchase online from anywhere they can connect via an electronic device. Similarly, the business can be operated from remote sites.
- It is easy to keep track of competitors and change prices to match them.
- The potential for rapid growth is greater as costs of doing so, such as staffing and bigger premises, are reduced.
- The potential for customer impulse buying is significantly higher.
- The potential for shoplifting is removed.

Disadvantages of an online business model

While there are many advantages of an online business model, there are also some disadvantages.

- Online commerce is often impersonal and a personal relationship is usually not developed between buyers and sellers. As a result, repeat customers are more difficult to maintain.
- The costs of planning, designing, hosting, securing and maintaining a professional ecommerce website are considerable.
- Customers may be reluctant to purchase online as they are unable to physically handle or try the products before purchase.
- The sense of trust and authority associated with a physical bricks-and-mortar location is lost. It is difficult to establish a trusted brand name without a physical business with a track record and a history of face-to-face customer interaction.
- Online fraud has the potential to negatively impact on the business's reputation.
- Delivery charges may erode competitive price advantage.
- Long delivery times may reduce demand.

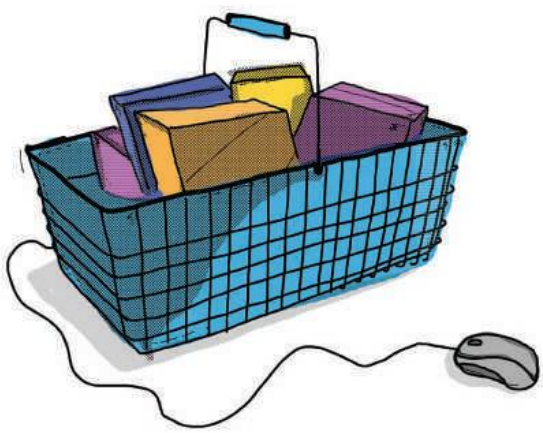

Figure 7.11 An online business model allows for greater flexibility.

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Bricks-and-mortar business model

A business that has a traditional physical presence involving stores, offices or production facilities that customers/clients actually attend, rather than relying on an online presence, is referred to as having a **bricks-and-mortar business** model. A bricks-and-mortar business model usually offers face-to-face customer interaction.

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

clicks-and-mortar business a business that utilises a hybrid online/bricks-and-mortar business model

dotcom business a business that has always exclusively used an online business model

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

Advantages of a bricks-and-mortar business model

- Face-to-face customer interaction is possible. This builds up a relationship with customers/clients and may contribute to increased sales through building a base of loyal, return customers.
- Customers can see, touch and try products before purchase.
- A physical presence with identifiable buildings and location makes it easier to build a trusted brand.
- Customers get instant gratification, which also encourages impulse buying.

Disadvantages of a bricks-and-mortar business model

- Overheads and costs are higher.
- Shopping is less convenient for customers with busy lifestyles or who live in remote locations.
- A wider range of stock can be provided online due to lower storage costs.
- The potential market is smaller.
- Customers may face queues and crowding in a physical store.

Combining models

Many businesses that have been trading using a traditional bricks-and-mortar business model before the development of the internet have since developed and adopted online services and sales in addition to their traditional model. Most major retailers such as Woolworths, Coles, Myer and David Jones have done this in order to maintain competitiveness. These businesses are referred to as being **clicks-and-mortar businesses**. Businesses that have never owned a physical shop front and have always solely operated using an online model are often referred to as **dotcom businesses**.

Social enterprise models

A **social enterprise** often uses a traditional business model of buying and selling goods and services with a view to creating a profit. Unlike a traditional business, however, the social enterprise business's prime motivation is not to create profit for owners/shareholders. Instead, it aims to use profits to fund or support social causes. Such causes might include reduction of poverty or social disadvantage, provision of employment to disadvantaged groups or addressing environmental

Figure 7.12 Mildura Chocolate Company is an employment model social enterprise aiming to increase community awareness and understanding of employees' abilities in place of focusing on their disabilities.

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issues. Many social enterprises do make a profit, but this is not usually their main reason for existing. Profits go back into the business or to a charity. Social enterprises differ from charities in that they derive income from business activities and not donations.

There are four main social enterprise models:

1 *Employment model*: These social enterprises provide employment for marginalised people in society such as those with a disability, those with cultural or language barriers or any disadvantaged group.
2 *Goods and services model*: These social enterprises aim to offer alternative products to those seen to be socially or environmentally harmful. Fair trade is an example. Other enterprises provide organic food or products.
3 *Social investment model*: These businesses usually operate a traditional business model. All profits are given to a charitable cause.
4 *Hybrid model*: A hybrid combines more than one of the above models; for example, a restaurant selling organic foods sourced on a fair trade basis, employing long-term unemployed people, that directs its profits to charity.

ACTIVITY 7.4

According to the Centre for Social Impact, social enterprise activity in Australia is estimated to make up 3% of national GDP with over 20 000 social enterprises. A quarter of these are in Victoria and half of these have been established over the past five years. In 2017 the Victorian Government's Social Enterprise Strategy was established to further improve and expand on existing support for the social enterprise sector. The strategy confirms the importance of social enterprise as a growing sector creating more jobs, driving productivity and assisting to create a more cohesive society. It sets out how the state government will partner with the sector by providing strategic leadership and proactive support, by improving market access, developing business capacity and increasing innovation.

The location of Victoria's social enterprises has been mapped to create a baseline of evidence that will enable analyses of the characteristics of social enterprises across the state. Known as the 'Map for Impact', it will assist in identifying opportunities for collaboration across the social economy by identifying local collaborators, partners and suppliers. The map of Victorian social enterprises provides evidence of the diversity of businesses and can work to provide a business directory for like-minded people to volunteer.

Go online and find the website for 'Map for Impact' and, referring to the information above, answer the following questions.

1 Outline the industries in which social enterprises operate in Victoria.
2 Identify the contribution of social enterprises to the Victorian economy.
3 Describe the purpose of Map for Impact.
4 List the percentage of social enterprises in Victoria according to region, beginning with Melbourne.
5 Identify the region with the lowest percentage of social enterprise and propose two reasons why this might be the case.
6 Do you think that there is a place for social enterprises in all regions across Victoria? Justify your answer.
7 Propose two approaches that will encourage further social enterprises to become established in this region.
8 Analyse the social disadvantages and social enterprise operations map. Locate the areas that have a high concentration of social enterprises and those which don't.
9 Classify each of the following social enterprises as one of the categories of social enterprise (employment, goods and services, investment, hybrid):
   a CERES
   b Level Crossing Removal Project
   c STREAT
   d Impact Investment Group
   e Australian Disability Enterprises
   f PonyUp for Good
   g Outlook
   h Cargo Crew.

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Franchise models

franchise where a business owner (franchisor) grants another (franchisee) the right to use their trademark or trade name, business systems and processes, to produce and market a good or service according to certain specifications

franchisee an individual who opens what might be viewed as a branch of a company, purchasing the right to use trademarks, associated brands and access to proprietary information and strategy. The franchisee pays an initial franchising fee to the franchisor as well as a percentage of their branch's annual sales revenue.

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

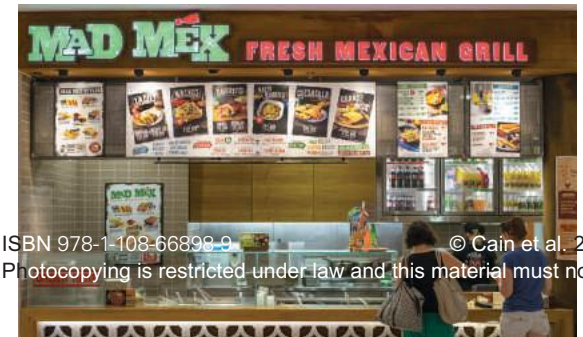
franchise agreement a legal document that outlines the rights and responsibilities of the franchisor and franchisee

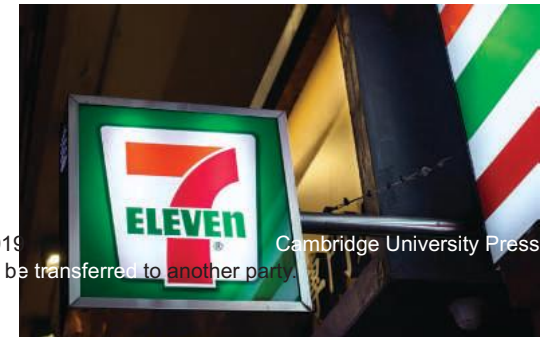
Franchising involves a **franchisee** paying another business (**franchisor**) for the right to use that business's trade name, products and operating systems. The franchisor will then exercise a degree of control over the running of the business, but in return will provide assistance, advice, suppliers and reputation. The franchisee is basically paying for the right to replicate another business in its entirety. Usually, a one-time franchise fee is paid by the franchisee as well as a royalty – a percentage of sales revenue. The franchisee then receives immediate name recognition, familiarity through décor and design, reliable and tested products, marketing, employee training, and ongoing help promoting and upgrading products.

A franchisor retains a significant level of control over franchisees' operations in order to safeguard their trademark, and to ensure the quality of their product remains consistent from location to location. For example, any time you order a Big Mac from a McDonald's store you know exactly the form and quality of what you are buying, even though it is likely that each McDonald's will have a different franchisee owner. A franchisee signs a legal document known as a **franchise agreement** that specifies the rights and responsibilities of both franchisor and franchisee. A franchisee will be given an exclusive right to operate the franchise in a specified trading area and agrees to pay set fees that may include:

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

Figure 7.13 Some well-known franchises





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Advantages and disadvantages of a franchise

Advantages of a franchise business model include:

- significantly reduced risk of business failure
- avoidance of the franchisor's initial mistakes
- franchisor-provided training
- a business system that has been tested and has usually succeeded
- expert assistance and advice from the franchisor
- less responsibility for decision-making, as many key decisions are made by the franchisor
- established suppliers and the advantages of bulk buying (i.e. economies of scale)
- established procedures, policies and processes
- established buyer awareness of the brand name
- easier access to finance
- guarantee of an exclusive territory, which limits competition
- the franchise business should become immediately competitive as it is a recognisable and known brand.

Disadvantages of a franchise business model include:

- far less independence – in effect, a franchisee performs the role of manager rather than owner
- a franchise owner is not able to utilise their own ideas
- risk of excessive costs and fees: as well as an initial purchase fee, the franchise owner will also be expected to pay a monthly service fee and a percentage of takings
- the franchise is judged by the performance of other franchisees. Poor service provided by someone else affects all.

Franchising: some history

The development of franchising as a business model has an interesting history. Isaac Singer (1811–75) is credited as being the modern father of franchising. During the 1850s, Singer was selling his sewing machines. He wanted increased sales and a wider distribution, but could not afford to manufacture more. Customers also wanted training to use the machines, which retailers were not able to provide. Singer therefore decided to charge licensing fees to people to sell his machines in a specific area. Each licensee was also expected to provide training to customers. This provided the money for manufacture of new machines.

The modern franchising model blossomed in the USA during the 1950s and 1960s. McDonald's, Kentucky Fried Chicken, as well as several laundry and dry-cleaning franchises, hotels and rental cars were all significant players. Within a 10-year period, McDonald's opened 1000 stores, Midas Mufflers had 400 locations, Holiday Inn 1000 motels and Budget Car Rental 500 outlets.

Ray Kroc (1902–84) is credited as the founder of the McDonald's franchise. A milkshake mixer salesman, Kroc came across the McDonald's hamburger store in California in 1954 and was impressed by the business model. He became its licensing agent and recruited franchisees. In 1961 Kroc bought the McDonald brothers out. By 1988 there were more than 10 000 McDonald's franchisees across the USA. Now there are more than 37 000 worldwide.

In Australia there was a similar pattern. After World War II, car manufacturers such as Ford and Holden established a franchise model for retail sales. Petrol companies such as Shell, Mobil and Caltex established franchise models for petrol stations. In 1968 Kentucky Fried Chicken (now KFC) opened its first Australian store. Over 1970 to 1971, Pizza Hut, McDonald's and Hungry Jack's opened their first franchise outlets in Australia.

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Table 7.2 Franchising facts

Year	Number of franchise outlets (Australia)
1990	9570
1998	43 800
2002	51 100
2008	71 400
2012	73 000
2016	79 000

Source: Australian Bureau of Statistics

ACTIVITY 7.5

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

- Boost Juice
- Bakers Delight
- OPSM
- Jim's Mowing (or another Jim's Group franchise).

Construct a brief report and outline:

a. Who founded the franchise and when.
b. Where it was founded.
c. A brief description of the products sold.
d. What competitive advantage a franchisee owner would enjoy.
e. Approximate costs of being a franchisee (visit the Franchise Business website for more information).

importer purchases overseas products for resale in their home country

exporter sells home-country products overseas

Importer and exporter business models

Businesses that buy and sell products across international borders have an **importer** or **exporter** business model. According to the Department of Foreign Affairs and Trade (DFAT), Australia's two-way trade in goods and services was worth $672 billion in 2016 – you can find more on this topic by searching for DFAT's 'Trade statistics' page using your favourite search engine.

Reasons for adopting an importer or exporter business model

There are a number of strong reasons for adopting an importer or exporter business model.

- Price differentials between countries – some products are cheaper to manufacture and assemble in one country than another. Raw materials and labour are cheaper in some parts of the world, making it attractive to source some products from those countries. Importers and exporters take advantage of economies of scale to source goods from countries with lower cost structures and then sell the goods in countries where a higher price can be obtained. For example, clothing and footwear produced in South-East Asia is often cheaper than similar items produced in Australia.

Figure 7.14 The Port of Melbourne is one of the largest in Australia.

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- Differences in quality, reputation and image – French perfume has a high reputation and Egyptian cotton is highly regarded in Australia. Australian wine is highly regarded in many parts of the world. Australia is a source of high-quality agricultural produce and dairy products.
- Ready availability of goods in quantities – some things are not grown in Australia, and some goods cannot be manufactured here for a competitive price. Electronic goods are currently being sourced from Asian countries where they are produced in large quantities and are available at competitive prices.
- Seasonality – agricultural products are mostly seasonal. At different times of the year some produce will grow in one part of the world, with many countries obtaining their supplies from that country. As the seasons change, the parts of the world where the products are sourced will change.
- Business opportunities become available for niche markets in Australia and overseas. Entrepreneurs will take advantage of these. Some established businesses see Australia as an expanding market and establish operations to take advantage of this; for example, fashion retailers H&M, Zara and Uniqlo have all created a presence in Australia. Similarly, some Australian businesses have expanded overseas; for example, Australian surf-wear producers.

Import or export businesses need to be aware of legal requirements and restrictions in moving products between countries. Labelling requirements and quarantine requirements, as well as import licences, need to be investigated.

ACTIVITY 7.6

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

1 Outline the history of each company.
2 Describe the types of products imported and sold by each company.
3 List the brands imported by the company.

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

Figure 7.15 A container ship is berthed at the Port of Melbourne. This port handles over a third of Australia's container trade.

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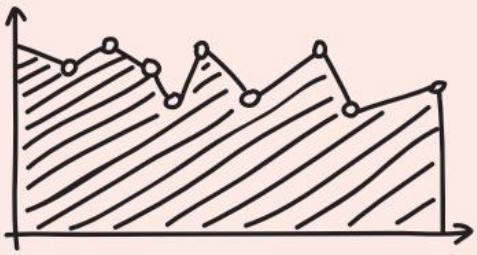
Chapter summary

- The potential business operator may opt to enter into business in one of the following ways:
  - Establish a new business from scratch. This offers the advantages of greater autonomy and control over the business and its development, as well as freedom to implement original ideas. The owner also avoids buying the mistakes of others. Disadvantages include extra costs and time in purchase of all capital stock, staffing and establishment of business systems, procedures and relationships with suppliers. It also takes longer to generate a profit.
  - Purchase existing business. Advantages include processes in place, access to financial records, established staff, clients and suppliers. Cash flow commences sooner and profits should come more quickly. Disadvantages involve intangible assets such as goodwill are included in a sale price. These are difficult to value. A purchaser may be buying the mistakes of others.
- A legal business structure must then be selected.
  - Sole trader: a single owner operates a business under their own name or a Registered Business Name. This is simple and easy to establish but has the drawback of unlimited liability.
  - Partnership: between two and 20 partners operate a business based on a partnership agreement. This also carries the risk of unlimited liability.
  - Company: establishment of a separate legal entity through a process of incorporation. Offers the advantage of limited liability.
- There are two types of company:
  - Private company: two to 50 shareholders; not listed on the stock exchange; identified by 'Propriety Limited' ('Pty Ltd') in its business name.
  - Public listed company: unlimited shareholders; shares are listed for sale on the stock exchange; business name ends with 'Limited' or 'Ltd'.
- Each business structure has its own advantages and disadvantages.
- A business model must be selected and developed showing how the business will operate and generate profit. Types of business model include:
  - online
  - bricks-and-mortar
  - social enterprise
  - franchise
  - importer or exporter.



Chapter summary tasks

1 Define each of the following terms. Then, using each term accurately, construct a cohesive paragraph that includes each term.

a franchise
b goodwill
c sole trader
d established business
e partnership
f Pty Ltd

2 Summarise the advantages and disadvantages of each of the following options for entering into business:

a starting a business from scratch
b purchasing an existing business.

3 Suggest and justify the most appropriate method of entering into business for each of the following:

a Emma has a limited budget but plans to run a small cafe in her local area despite several other cafes that are already established in the area.
b Jordan has developed an innovative new product that he intends to market.

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4 Construct the following table in your notebook and complete:

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

5 Identify the ownership structure of each of the following businesses or say with reasons what you think they are likely to be
   - **a** Lim's Kitchen Pty Ltd
   - **b** Smith and Thomas Kitchens
   - **c** Rosie's Cupcakes
   - **d** Norfkut Ltd.

6 Explain why it is vital for business partners to have complete trust in each other.

7 Compare the key features of:
   - **a** an online business model
   - **b** a bricks-and-mortar business model.

8 Define each of the following terms and give two examples of each:
   - **a** a clicks-and-mortar business
   - **b** an online business.

9 Discuss the advantages and disadvantages of a business adopting an online business model.

10 Identify and briefly describe the seven types of online business model. Name at least one online business that uses each model.

11 Identify the online business model used by each of the following:
   - **a** www.melbournegirl.com
   - **b** www.quicksales.com.au
   - **c** www.horoscope.com
   - **d** www.domain.com.au.

Extension questions

The media has reported significant issues with franchises. Investigate and source two newspaper articles:
- one that reports a positive, profitable franchise
- a second article that presents a negative franchise experience.

1 Compare the two articles, clearly establishing similarities and differences.

2 For the first article, evaluate whether the franchisee or the franchisor has been the most influential in creating the success of the franchise.

3 For the second article, evaluate whether the franchisee or the franchisor was responsible for the negative issue. Propose two actions that may prevent this occurring in the future.

4 Discuss whether the Australian Government should create further laws to protect franchisees.

5 Go to the Franchise Business website and answer the following questions:
   - **a** Outline the services that are available via this website.
   - **b** Identify and research two categories of franchise. For each category, select two franchises currently for sale.
   - **c** For each franchise opportunity, name and describe:
     - — the franchise and types of goods/services sold
     - — the areas available for purchase
     - — the market demographic this franchise is appealing to (i.e. customer type)
     - — the costs, fees and charges involved in the purchase of each.
   - **d** Evaluate which of the four franchise opportunities you have researched offers the best chance of business success. Justify your answers with reasons.

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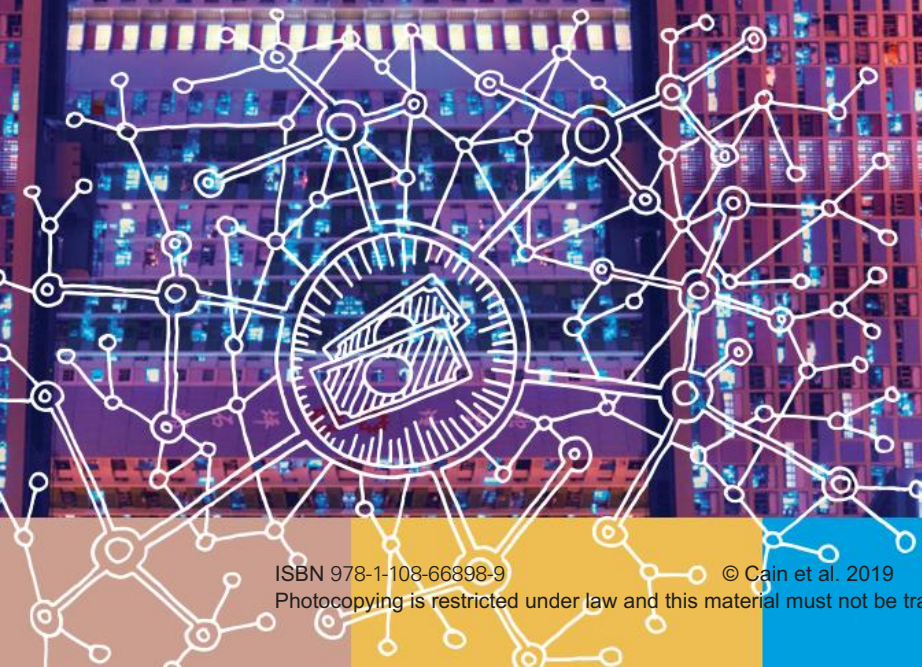
Chapter 8
Business support services

Overview

Potential and existing business operators in Australia have at their disposal a wide range of support services providing expert advice and assistance. With more than 2.2 million small businesses employing more than 5.5 million people, it is in the interest of government to optimise the chances of small business success, as this will translate into a healthy economy. The three levels of Australian Government offer a wide range of services and assistance at little or no cost.

Studies have shown that successful businesses tend to utilise the available support services more than those that fail. It is therefore vital that business operators, if they wish to optimise their chances of long-term success, are aware of, and know how and where to access the numerous support services available to them.



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Key terms

- Business Enterprise Centres
- business incubator
- contract
- coworking space
- mentor
- network
- professional association
- Small Business Centres Victoria (SBCV)
- start-up
- support services
- transition period
- self-regulation

Key knowledge

In this chapter you will learn about business support services such as:

- formal and informal networks
- legal services
- financial services
- technological services
- community-based services
- business mentors.

(Source: VCAA Business Management Study Design, 2017–2021, p10)

What's ahead

Informal support and assistance to business

– Previous owners
– Networks
– Complementary businesses
– Competitors

Formal sources of support and assistance to business

– **Legal:** lawyer
– **Financial:** accountant/banker
– **Consultants:** marketing, insurance, information technology, business services
– **Federal government:** Entrepreneurs' Programme
– **Victorian state government:** Small Business Centres Victoria (SBCV)
Small Business Mentoring Service (SBMS)
– **Local government**
– **Community organisations:** business incubators, networks and mentoring services

Figure 8.1 Informal and formal business support sources

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8.1 Informal support and assistance

transition period a period of time when the previous business owner works with the new owner to introduce them to the business operations, clients/customers, suppliers and other business contacts

network an interconnected system of people or businesses

The previous owners of a business are potentially valuable sources of information and assistance as they may be able to demonstrate established systems, as well as provide important information about clients, such as tastes and buying habits. Previous owners often help identify appropriate suppliers and advise on potential sources of support. It is wise for a new business owner to negotiate a period during which they operate the business alongside the previous owners before takeover occurs (known as a **transition period**), to introduce themselves to regular clientele and suppliers, and learn about the business's operations.

A **network** can be an informal friendship group or a more formalised grouping such as a service club like Rotary. Networks may form among business operators with something in common, such as operating in the same geographic area or within the same industry.

Figure 8.2 A transition period where outgoing owners train the new owners is common practice.

Networks facilitate the exchange of ideas and advice and support between like-minded individuals and between groups of people. 'Past student' networks from particular schools, for instance, can be influential in the business world. More formal networks such as business breakfast meetings exist in many localities. Members find personal satisfaction in meeting with like-minded people who are looking for ways to improve their business while establishing connections with local businesses and the local community.

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

ACTIVITY 8.1

Categorise each of the following businesses with an appropriate complementary business that would be desirable to have within the immediate vicinity.

Business	Appropriate complementary business
a Chemist	i Limousine hire
b Architect	ii General practitioner
c Florist	iii Beautician
d Bridal shop	iv Gymnasium
e Nightclub	v Car dealership
f Health food shop	vi Hospital
g Insurance agent	vii Coffee shop
h Hairdresser	viii Builder

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

ACTIVITY 8.2

Find the past students' association link on your school website and answer the following questions:

1 List some of the activities organised by this group for past students of the school.
2 Identify some advantages that membership of this group would offer both socially and professionally.
3 Explain how the contacts offered by membership of this group could help you in business.
4 List all of the networks of which you are currently a member. What advantages does membership of these groups offer you? Include sporting, friendship, school, religious and interest groups, as well as any others.

8.2 Business support services

All business operators can expect to pay for professional advice from specialist **support services**. A good accountant and solicitor are essential, as are the services of an insurance broker, banker, and others such as marketing and computer experts.

support services paid or unpaid services used by businesses to assist them in their decision-making; for example, legal or financial advice or daily operational activities

Legal support services

Many businesses will require the services of a lawyer to negotiate on their behalf, give advice and provide representation on legal issues. A lawyer will be required to prepare legal documents such as **contracts** and give specialist legal advice. A lawyer may also be required for:

- advice on purchase or establishment of the business, and will act on behalf of the business owners during the process
- selection and establishment of the best legal ownership structure
- establishment of a debt recovery system and debt collection
- negotiation and advice regarding a franchising agreement
- negotiation and drawing up of leases for premises and/or equipment
- negotiation, establishment and implementation of contracts like employment agreements, conveyancing when purchasing property, and business transactions
- securing intellectual property such as trademarks and patents
- interpretation of legislation and how it will affect the business; for example, local government by-laws, WorkCover, employment, consumer protection and company law
- establishment and compliance with industry licensing requirements, permits, registrations and approvals
- preparation of partnership agreements
- dealing with creditors
- dealing with takeovers and acquisitions
- selling the business.

Because ignorance is not accepted as an excuse for breaking any law, appropriate legal advice is essential.

contract legally binding agreement that incorporates the following elements: offer, acceptance, the intention to enter into legal relations, consideration, the capacity to contract, legality of purpose, consent and certainty of terms

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Where to find a lawyer

The cost of hiring a lawyer is significant, so a business operator should select a legal professional carefully. Possible sources include word of mouth, an online search, professional and business association lists of recommended lawyers for their members, or the Law Institute of Victoria – the peak professional body for the legal profession in Victoria. To find a lawyer or get a referral, or for more information on law and the services offered, go to the Law Institute of Victoria website.

Upon initial contact, it is wise to ask a lawyer about:

- their qualifications and experience
- the type of clients they specialise in. Look for someone who specialises in and has other clients in the same industry. If you are entering into a franchise, look for a lawyer who specialises in franchise agreements.
- the likely costs involved in using their services.

Figure 8.3 A business will require qualified legal advice and assistance.

Financial support services

A successful business needs an accountant to provide initial financial assistance during the establishment phase, as well as regular and ongoing services throughout the life of the business. An accountant should be contacted:

- before commencing, purchasing or selling a business
- before acquiring or replacing property, plant or other assets
- at some point each year between January and 30 June to make end-of-financial-year plans and avoid tax surprises
- when making plans for expansion in the future
- when faced with issues with debtors, finance expenses or stock, or creditors.

An accountant's expertise will be required:

- to give an accurate valuation of a business intended for purchase, including goodwill
- to evaluate the financial feasibility of a business idea
- when undertaking negotiations regarding leases and contracts
- to establish a financial recording system
- to prepare quarterly financial statements, monthly cash flow summaries and budgets for auditing
- for taxation
- to recommend appropriate computer software
- for advice on superannuation (if the accountant has the appropriate licence)
- to identify and understand the cause of changes in business performance
- during liaison with government departments, especially the Australian Taxation Office (ATO).

Before using an accountant, a business operator should check that they have:

- appropriate qualifications
- good communication skills
- experience with clients in the relevant industry sector
- experience with business issues, especially taxation
- professional registration (e.g. whether they are a Certified Practising Accountant)
- reasonable fees and charges, and what these cover.

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Where to find financial advice

Sources for locating a good accountant include an online search, word of mouth, professional and business associations, business referral centres and accounting professional bodies such as CPA (Certified Practising Accountants) Australia or Chartered Accountants Australia and New Zealand (see their websites for more information).

It is important to check that an accountant has appropriate qualifications to perform the work you will be requiring of them. For example, they will need to be a qualified tax agent to deal with taxation matters; similarly, to give financial advice, an Australian Financial Services Licence will be required.

Figure 8.4 CPA Australia (Certified Practising Accountants) is a large professional organisation for accountants in Australia.

Bank managers are another valuable source of financial advice and assistance. They are responsible for processing loans and supervising business bank accounts. They also:

- give advice on the feasibility of a business expansion
- give investment advice
- act as a source of finance
- provide EFTPOS facilities.

All businesses require banking services and facilities. The ATO is an excellent source of information regarding taxation matters (visit the ATO website for more information).

Figure 8.5 Businesses can gain useful advice and resources from the ATO.

ACTIVITY 8.3

Select one of the following banks and visit their websites:

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

1 Go to the business banking section of the bank you have selected. Identify the nature of services offered by that bank for:
   a business insurance
   b business accounts
   c international services
   d asset finance
   e managing risk.
2 Although Bendigo Bank is not one of the 'big four,' it nevertheless is a substantial public company with over 90 000 shareholders. Visit the Bendigo Bank website and compare the business services offered with those of the bank you researched in question 1.
3 In your opinion, which bank offers the best service to a business operator? Justify your point of view.
4 Go to the Commonwealth Bank glossary on its website and identify the definitions of each of the following business and banking terms:
   - ABN
   - EFTPOS
   - appraised value
   - creditor
   - debtor
   - credit limit
   - foreign exchange
   - GST
   - guarantor
   - investor
   - managed funds.

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Other professional advisers and consultants

Additional support required will depend on the business type.

- *Insurance agents and brokers* are experts who will give advice on risk management and appropriate insurance. They also sell insurance. An agent works for one insurance company and will try to sell only that company's products. Brokers, on the other hand, work for themselves and act as agents to the person or business seeking insurance. They will negotiate insurance policies with different insurers on behalf of a client.
- *Marketing and advertising consultants* give specialised marketing and advertising advice for a fee.
- *Graphic designers and printers* may be employed to design and produce logos, letterheads, pamphlets, business cards and advertisements.
- *Information management and technology consultants* are experts who will help select technology, software and hardware, set up systems, train staff, and provide ongoing backup and assistance with all technology-related areas of the business.

Figure 8.6 A small business owner needs to consult advisers and professionals in areas that require specific expertise.

ACTIVITY 8.4

Go to the Kexino website and complete the following questions.

1 Identify the company that owns this website.
2 In your own words, describe the services offered by this company to small business start-ups under each of the following headings:
   a search engine optimisation
   b content marketing
   c branding
   d design
   e translation
   f public relations.
3 Outline how each service could benefit a business start-up.
4 Explain how a marketing plan for a start-up would differ to an established business.
5 List 10 facts that you have learnt from looking through this website.

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8.3 Government and community-based support and assistance

The Australian federal, state and local governments provide resources and assistance to business operators. Given that governments are usually judged by the voter on their economic performance, it is in their interests to try to promote a healthy business sector in order to optimise economic performance.

Federal and state government assistance

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

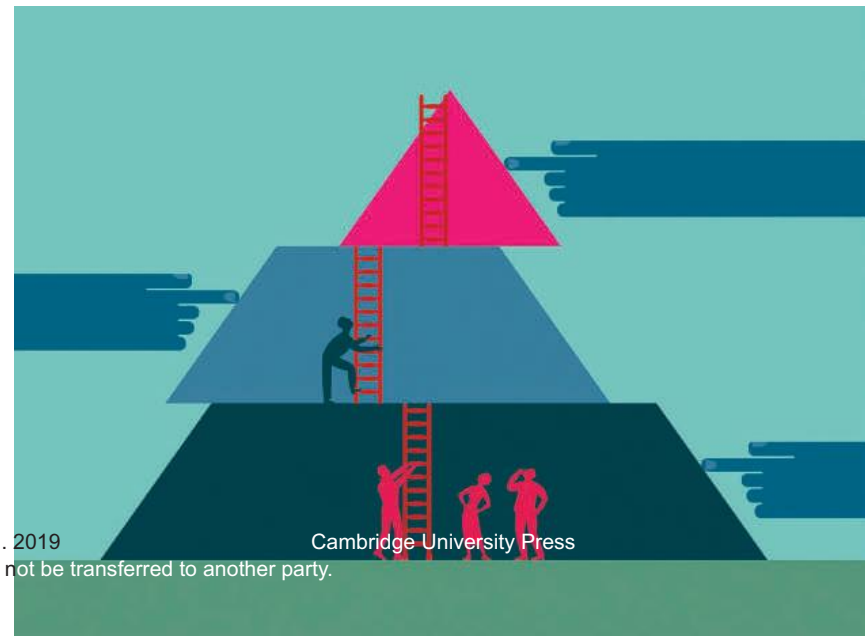
1 Accelerating Commercialisation – assists with commercialisation of products, services and processes
2 Business Management – businesses can access the expertise of private sector advisers for reviewing business operations, strategy, direction, growth and supply chain
3 Incubator Support – incubators,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

start-up
commencement of business operations

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

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

Figure 8.7 There are multiple organisations dedicated to providing support to small businesses throughout Victoria.



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Online resources

Both federal and state governments provide online information for businesses. Table 8.1 summarises some of these sites.

Table 8.1 Information available through government-provided websites

Government organisation or area of interest	Website content
Business Victoria	Provides information on topics relating to small business, including setting up, marketing, hiring and managing staff. Any new government initiatives appear on this site.
business.gov.au (Commonwealth Government)	Provides tools, tips and information to plan and establish a small business. Access to all government information, services and transactions, such as acquiring an Australian Business Number (ABN) and government forms required by small business. Provides information on business assistance, business questions, business start-up, employing people, taxation, importing and exporting, superannuation, occupational health and safety, customs, and so on.
Victorian Small Business Commission	Victorian Government website dedicated to creating a competitive and fair operating environment for small business. The Commission has four main functions: advocacy, dispute resolution, monitoring and engagement. First port of call for independent guidance on business disputes, it provides access to quick, effective, neutral and low-cost mediation services.
Austrade	Provides export and investment services to Australian companies and supporting Australian capability in a changing global environment.
small business grants	Provides links via business.gov.au to locate a wide range of government grants and assistance programs for businesses.
IP Australia – Patents	Patents are essential in protecting intellectual property for any device, substance, method or process that is new. Provides information and applications.
Australian Bureau of Statistics	Good source of business data, statistics and advice on use of this type of information.
Australian Business Licence and Information Service (ABLIS)	A one-stop tool that assists in finding the specific local, state and federal permits, licences and registrations required by businesses.
Australian Domain Name Administrator	Policy and industry **self-regulated** authority for the internet.au domain space.
Australian Taxation Office	Government website giving taxation information for individuals and businesses of all sizes.
Websites (at business.gov.au)	Specific resources for ebusiness including advice about creating an online presence.
Scamwatch	Advice on and awareness of frauds targeting small businesses.

self-regulation a group or industry regulates its own conduct and behaviour

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Local government assistance

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

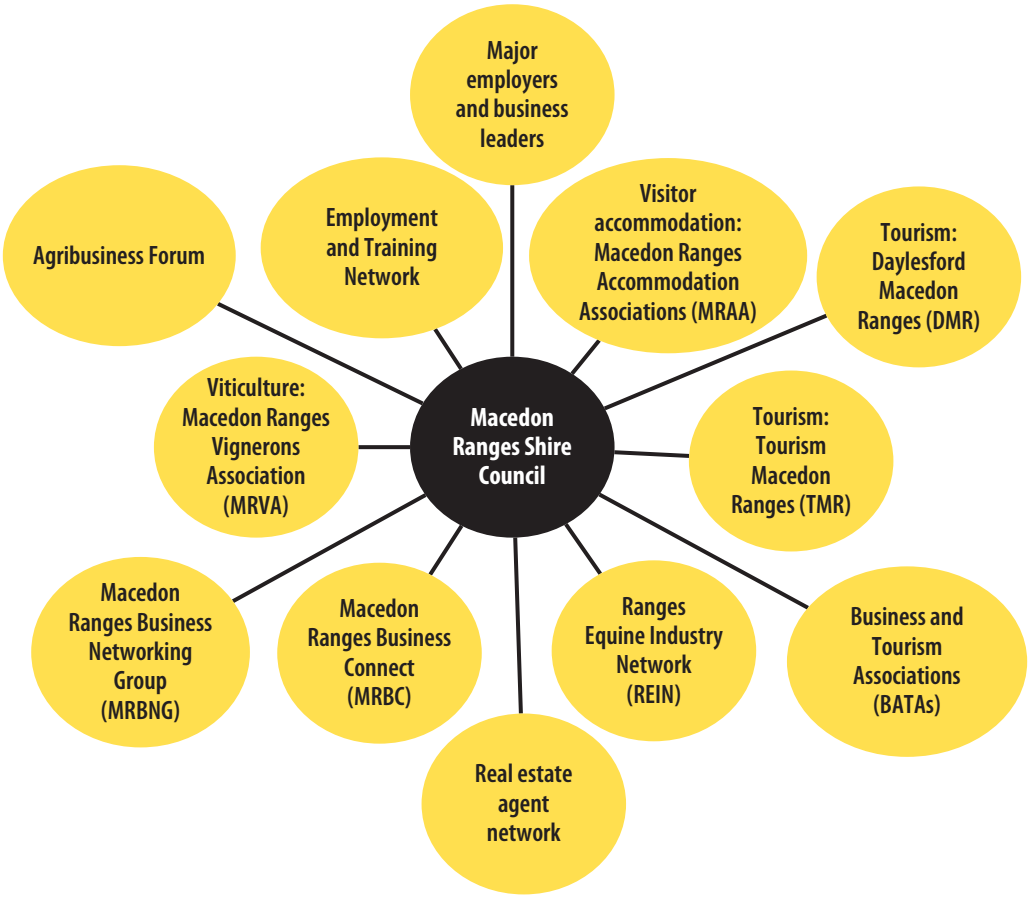

Figure 8.8 Macedon Ranges Business & Industry Liaison. Local governments offer a range of support services for industry groups and networks.

Prior to starting operations, a business operator should ascertain the types and extent of government assistance available. Local government should be contacted for information regarding:

- planning and zoning regulations – these limit where certain businesses can be located. A business must be located in the appropriate zone. For example, an area zoned as 'residential' can only have residential buildings within it; any exceptions will be rare. Planning laws will also affect any building, extensions or renovations.
- health, hygiene and food handling regulations – food-related businesses can expect health inspectors employed by local government to regularly check that they are meeting the required standards in this regard
- by-laws covering matters such as parking restrictions, outdoor dining and footpath trading – these must be clarified before entering into business.

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Economic development units

Local governments run Economic Development Units that aim to improve basic business opportunities in a local government area. They also run projects and initiatives aimed at local businesses, such as seminars and workshops. Most publish a newsletter, which can be accessed via the local government website. Local business awards and access to information about government grants are another common feature.

ACTIVITY 8.5

1 Go to the website of your local government. Locate the services and support offered to local business. Copy and complete the following table in your notebook:

LOCAL GOVERNMENT AREA: _____			
Business service and advice	*Yes*	*No*	*Details*
Business mentoring services			
Business incubator			
Economic Development Unit			
Seminars and workshops			
Trader groups			
Business grants			
Publishes newsletter			
Hosts annual business awards			

2 Identify and outline five permits that a business may need to apply for to operate in your local government area (e.g. footpath trading).

3 Available on the council website is a copy of the current Economic Development Strategy. Investigate three strategies the council plans to implement to support business growth in the area.

Community-based support services

Business Enterprise Centres

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

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

Figure 8.9 Business Enterprise Centres can be found Australia-wide.

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

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

Business incubators

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

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

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

business incubator an organisation that supports new businesses by making available business premises, office/secretarial services, advice, consultancy and training at minimal cost, until that business is established

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

CASE STUDY **8.1**

Melbourne Innovation Centre and mentorship

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

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

CONTINUED ITEM

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MIC has demonstrated the ability to deliver high impact programs such as the New Enterprise Incentive Scheme, Small Business Online and the Digital Enterprise Program, delivering training and mentoring to over 3500 businesses (including home-based businesses). In addition, MIC has supported the establishment and growth of over 100 Indigenous owned and controlled enterprises through its Indigenous Business Incubator program.

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

> An impressive range of businesses have been incubated by MIC including Farmwall Urban Farming, a community oriented social enterprise that is adding a new dimension to the concept of 'home grown' to cafes and restaurants. The ground-breaking concept provides custom design, installation and maintenance of vertical gardens. Environmentally, Farmwall reduces food miles, food waste, pesticide and herbicide usage, water and energy costs, and deforestation.
>
> Farmwall cofounder, Geert Hendrix, explains the motivation behind the start-up: 'It is possible to combine food production, design and nature through innovative science and technologies. If we grow our food in coherence with natural ecosystems and implement this mindset in designing our living spaces we create a beautiful, healthier environment for ourselves, as well as solving major issues that cause climate change and pollution.'
>
> Not long after joining the coworking community at MIC, Farmwall began the Two Feet Program, an acceleration program that has enabled the business to design a solid business model, deepen their value proposition, intent and customer desirability. Two Feet Program Lead, Meagan Williams believes that 'a sustainable, values driven business that is financially and commercially sustainable is the greatest tool for change. Our Two Feet Program aims to help entrepreneurs understand the critical elements needed to build a sustainable business, identify the gaps in their current business model and what to do next on their journey to sustainability.'
>
> With Farmwall utilizing coworking space, receiving support and participating in Two Feet Program, the business will then launch into the validation and enterprise phase at Melbourne Innovation Centre. The multilayered startup network is firmly in place to support Melbourne based businesses such as Farmwall. And the more sustainable, globally-conscious entrepreneurs that grow out of it, the closer Melbourne will be to leading the world into a better future.
>
> (Source: Melbourne Innovation Centre website, 'Farmwall')

ANALYSIS

1. Identify where the Melbourne Innovation Centre is located.
2. Outline the success of MIC since it opened in 1998.
3. Identify how many jobs are estimated to have been created by businesses from the MIC.
4. Analyse the evidence that commencing operations in a business incubator is advantageous to a business.
5. Explain the advantages offered by a business incubator in terms of:
   - **a** cost
   - **b** mentoring
   - **c** support
   - **d** networking
   - **e** coworking.

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6 Examine the progress of Farmwall as a business since its involvement with MIC. Research Farmwall and describe its current progress. Has the business continued to develop as expected? Propose one challenge that Farmwall may encounter and determine whether MIC would continue to play a role.

7 Melbourne's first Chinese incubator was formed in 2018, co-signed by Melbourne City Council, JiangSu Suzhou Science and Technology Town, the Victorian Government, the University of Melbourne and RMIT. Research and develop a timeline of the evolution of this incubator. Compare how this incubator differs from MIC and suggest how this incubator can manage a sustainable future.

Figure 8.10 Farmwall cofounders are moving through the programs offered at Melbourne Innovation Centre that will assist a sustainable business future. Photographer: Breeana Dunbar Photography

Community-based networks

Small Business Centres Victoria (SBCV) is a network of community-based, not-for-profit business centres providing a range of business services in both metropolitan and regional locations throughout Victoria. Each SBCV is incorporated and run locally under a public/private partnership. Staffed by business development managers who are specialists in business and industry, these centres offer advice, mentoring and business incubations to business owners. Through their successful partnerships with governments, private enterprise and local communities, SBCVs are able to facilitate practical and confidential business advice. As SBCVs are locally based, staff have an understanding of the issues facing particular areas and hence are positioned to tailor their advice to the specific needs of a new business.

Small Business Centres Victoria (SBCV) a network of community-based, not-for-profit business centres providing a range of business services in both metropolitan and regional locations throughout Victoria

Business mentors

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

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

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

CASE STUDY 8.2 *Small Business Mentoring Service and the Snowy River Vet Clinic*

Dr Sara Bailey's unique method of treating animals is gaining traction thanks in part to help from the Small Business Mentoring Service.

A vet at the Snowy River Vet Clinic in Orbost, Sara is qualified in and practices veterinary acupuncture. She is passionate about its benefits and keen to educate the community about them.

As a busy regional practice, the clinic serves small and large animals in town and surrounding farms, including sheep, cattle and horses.

Snowy River Vet Clinic clinicians see clients within the hospital facility and on farms. Its vets are also often called to treat sick and injured wildlife.

The well-run business has a great reputation and in 2014 won East Gippsland District Business of the Year. It has three full-time veterinarians, one full-time veterinary nurse, and four part-time veterinary nurses.

Sara offers veterinary acupuncture in addition to traditional treatments for animals. It is suitable for a wide range of conditions in animals of all shapes and sizes, such as arthritis, spinal problems, behavioural problems, eye problems, skin problems and much more.

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Treatment can be stand-alone or provided with more conventional veterinary treatments.

Keen to promote and create awareness of the benefits of acupuncture to other clinics and the community, Sara attended a 'How do they do it?' workshop series arranged by Business and Tourism East Gippsland with East Gippsland Shire Council.

The workshop was delivered by the Small Business Institute, the training arm of the Small Business Mentoring Service.

The program ran across four workshops that covered:

- Where are you going? (Business planning, setting a vision, goal setting etc).
- Decide your income (Finance, creating a budget, pricing).
- Customer focused marketing (Offline and online marketing).
- Managing for success. (Business management, systems, personal productivity).

Each workshop was followed by a 90–120-minute session with a mentor. Sara was matched with SBMS mentor Bruce Hall, whom she saw six times.

Bruce is a workshop facilitator who has been a mentor for 9 years, specialising in personal development, marketing and e-marketing.

SBMS is a non-government, non-profit organisation of volunteer expert mentors who give their time and experience to help small business. It is supported by Small Business Victoria, which refers clients to it.

While the Snowy River Vet Clinic was doing well, introducing something new and different was still a risk. Owner Dave Mitchell, who Bruce had also previously mentored, gave the project his blessing as long as Sara did her homework.

As a result, Bruce guided her through all aspects of introducing what was a new product. As well as teaching the group sessions and the one-on-one mentoring, he was available by email and phone.

'For any business, introducing a new, non-conventional product/service/treatment can be both a risk and a challenge,' Bruce says. 'Whilst acupuncture has become almost 'mainstream' in people, awareness around the benefits it can also offer animals is less well known.'

Bruce says Sara had to step out of her comfort zone and commit to a long process requiring persistence and patience while she educated her market. Initially Sara met with other local vets to educate and create awareness of her acupuncture service. She explained how it could help animals and where it was appropriate. Sara also began offering it as a treatment option to existing clients.

Bruce explained that given the size of the catchment area, the business website would be vital in spreading the word. The existing site was outdated and had to be upgraded. Bruce guided Sara through various tasks including learning about e-marketing and search engine optimisation, rewriting and optimising writing and sourcing appropriate images.

Sara also applied marketing, social media and customer service knowledge she gained in the course. This involved rebranding, creating flyers and brochures, using Facebook to engage with and educate clients, planning and organisation.

Sara says it is still early days, but the uptake of acupuncture increased over the course of working with Bruce. 'A large part of this is due to working out how to explain and introduce veterinary acupuncture to clients, both from myself and also from the other vets in the

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Figure 8.11 Rebranding the Snowy River Vet Clinic was another step in updating and promoting services.

clinic,' she says. 'Bruce shared a wealth of knowledge with me, especially around customer focused marketing. He improved my ability to write for pet owners and to relate to their experience at a vet clinic. Bruce put in an incredible amount of time to the program.'

(Source: Snowy River Vet Clinic website, 'Education is good for business')

ANALYSIS

1 Outline why Dr Sara Bailey decided to participate in the program.
2 Name the mentor and describe their experience.
3 Explain what was involved in mentoring Dr Bailey.
4 Describe the benefits of mentoring for Dr Bailey and the flow-on benefits for Snowy River Vet Clinic.
5 Based on your knowledge of business support services, propose two additional business support services that Dr Bailey could pursue to further extend her knowledge and skills.

ACTIVITY 8.6

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

a Getting started
b Coming up with a business idea
c Legal advice
d Financial advice
e Government assistance and advice
f Business structure and registration
g Case study of a business benefiting from the organisation's services

You may wish to conduct your research online or arrange to visit the organisation.

Professional, trade and industry associations

professional association usually a not-for-profit organisation that aims to support individuals within a particular profession and further the profession in general

A business operator should seriously consider joining an industry association or **professional association**. These associations cover specific types of industry, trades or professions. For example, the Master Builders Association represents and assists builders. Similarly, the Law Institute of Victoria is made up of lawyers.

Membership of a relevant industry association allows business operators to keep up to date with training, support and advisory services, as well as general industry news and information. Membership also allows businesses to be part of a network.

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General industry bodies

These groups are broad-based bodies of members from different industries providing general information and assistance. Examples of these groups include the Australian Industry Group (Ai Group), which represents more than 60 000 Australian businesses, and the state chambers of commerce, such as VACC (Victorian Automobile Chamber of Commerce). For a complete list of general industry bodies, go to the Australian Government Directory website.

Figure 8.12 The Victorian Automobile Chamber of Commerce provides business support to and advocates on behalf of its more than 5000 members and promotes skills, training and careers in the automotive industry.

Publications including websites

Individual industries will most likely publish a journal that will provide business operators with useful advice. These will be available through trade associations. Other useful publications could include magazines such as *The Australian Financial Review* and *My Business* and newspapers (business section). A plethora of information is available online, including:

- Flying Solo: an online community for the solo business operator
- Ninemsn Finance Small Business website
- *Dynamic Business* magazine
- Kochie's Business Builders
- Australian Small Business and Family Enterprise Ombudsman
- Australian Businesswomen's Network (HerBusiness)
- Export Council of Australia
- Victorian Employers' Chamber of Commerce and Industry.

ACTIVITY 8.7

Locate where a small business operator would go to find information on the following issues. Copy and complete the table in your notebook. In your responses, consider both formal and informal sources of assistance. (The first one has been done for you.)

Issue	Potential source of information
Legal advice	Lawyer, Law Institute of Victoria, government websites
Feasibility of a business venture	
Taking out a business loan	
Preparation of a tax return and goods and services tax (GST)	
Up-to-date industry news	
Advice on footpath trading	
Help with a marketing campaign	
Information regarding the demographics of the local area	
Licensing information	
How to register a business name	
Advice on industry standards	
An industry code of ethics	

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Chapter summary

- There is a wide range of support services available to the Australian business operator.
- Businesses that utilise available support services stand a greater chance of survival and prosperity.
- Informal sources of support include:
  - networking with groups of business owners who exchange ideas and support for mutual benefit
  - previous owners of a business – to demonstrate established systems and provide information about clients
  - competitors – to recognise standards expected in the industry, identify gaps in the market, pricing, standards being set, and so on.
- Formal sources of support include professional advisers – lawyers, accountants, financial advisers, bank managers, insurance brokers, marketing and advertising professionals, graphic designers and printers, information technology professionals.
- Government assistance:
  - the federal government offers the Entrepreneurs' Programme for new businesses, established online services, and provides funding to business centres, business incubators, network and mentoring services
  - state government established online services, funds Small Business Centres Victoria (SBCV), Small Business Mentoring Service (SBMS) and Business Victoria
  - local government provides networking opportunities and assistance with by-laws, zoning, health regulations, parking, planning issues
  - business centres, business incubators, network and mentoring services are funded by the federal and state governments but run independently and are not-for-profit organisations
  - professional, trade and industry associations offer training, advice, support, industry news, networking.
- General industry bodies such as Australian Industry Group offer practical information, advice and assistance to help members run their businesses more effectively.
- Industry publications and business magazines are useful for individual research.

Chapter summary tasks

1 List the sources of informal advice and assistance available to the business operator.
2 Describe the advantages that are available through business networking.
3 List the sources of formal assistance available to businesses. Categorise these as government or non-government providers.
4 Describe two instances where a business operator would be wise to take out a patent.
5 Explain the steps a business operator might take in order to register intellectual property.
6 Explain why it is vital for a business operator to be aware of the range of support services and assistance available.
7 What is a professional or trade association? Explain the benefits of being a member of one of these organisations.
8 Explain the purpose of a local traders' association.
9 Imagine that you are a business operator looking to employ the services of an accountant and a solicitor. Develop a list of four questions you would ask each of these professionals before you engage them for your business. Explain why you believe each of these four questions is important.
10 Explain why a business operator looking to buy insurance might save time by approaching an insurance broker rather than an insurance agent.

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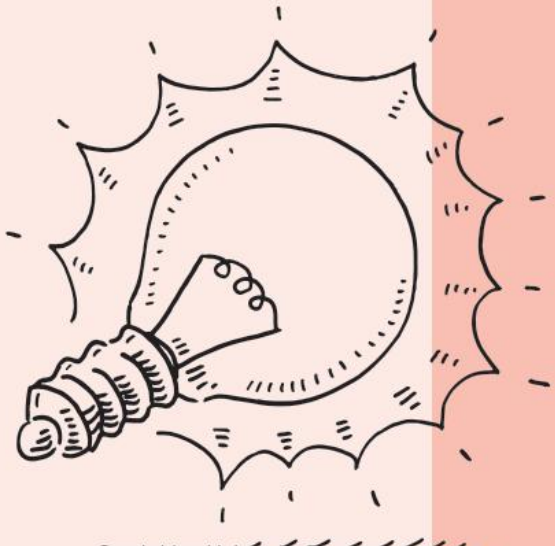
Extension questions

1 You are the owner/operator of one of the following businesses in your local area (choose one):
   — a hairdressing salon
   — a plumbing business
   — a cafe.
   Using the Business Victoria website and related links on the website, construct a checklist of 20 items that a business start-up should consider in their initial planning and suggest where relevant advice can be reliably found.
2 Use the internet to locate the website of one of the following organisations:
   — Victorian Chamber of Commerce and Industry
   — Australian Industry Group (AIG).
   Construct a summary, including:
   — the goals/mission of this organisation
   — a brief history of the organisation
   — membership numbers
   — services this organisation offers to its members.
3 Using the website of your local government, complete the following:
   a List the support services available to business in your local area.
   b Identify the name of a contact person for advice.
   c Describe what is offered to business under each of the headings: Networking; Financial grants; Support and advice.
4 Rank in order of importance the organisations that operate to support innovative business from local to federal government support. Justify your ranking by explaining why you have selected the organisation to be ranked as you have determined.
5 'The assistance offered by the Victorian Government to the aspiring business operator is insufficient.' Evaluate this statement. Your response should include the following:
   a Explain the types of assistance and support a potential business operator might require while setting up and establishing a small business.
   b Discuss the costs and benefits of three types of support provided.
   c Evaluate whether, in your opinion, this level of assistance is sufficient. Justify your response.
6 'There is a wealth of assistance offered to an aspiring business operator, however to navigate the range of possibilities is confusing.' Consider this statement, then:
   a Construct an information pamphlet titled 'The Start Up Guide to Business Support Services'.
   b Describe the types of assistance and support a potential business operator might require while setting up and establishing a small business.
   c Discuss the advantages and potential disadvantages of the services that are offered.



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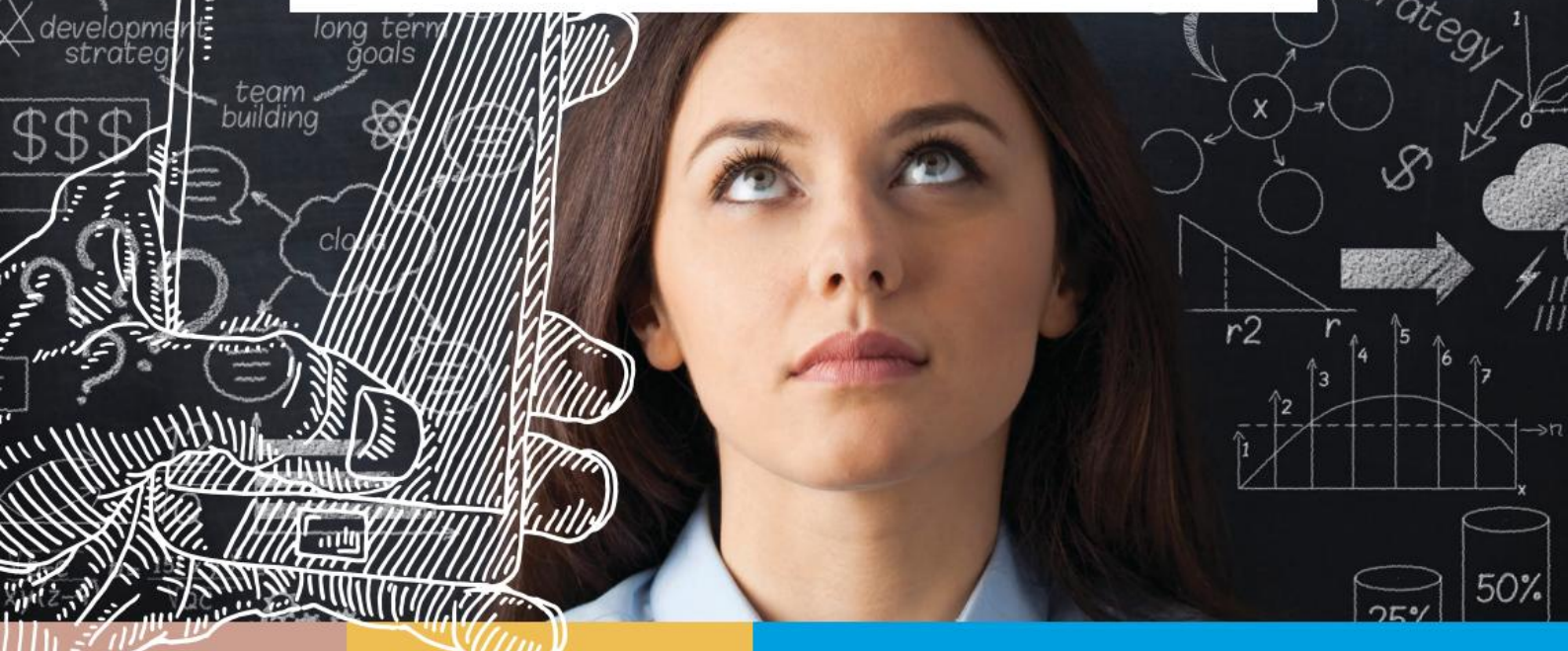
Chapter 9
Business planning

Overview

Planning involves working out how to do something, get somewhere or achieve a desired objective. As individuals, we all need to plan our lives in order to achieve objectives. Businesses are no different! A business must plan to achieve business objectives right from inception. Failure to plan will see the chances of success in business lessen considerably. There is an old saying: 'businesses do not plan to fail; they simply fail to plan'. In other words, it is most commonly those business operators who rush headlong into a business venture without taking the time to plan who do not succeed.

A business should be built up with a specific strategy and direction in mind. Think of a plan as being like a street directory or global positioning system (GPS). Attempting to navigate through an unfamiliar area without consulting a street directory or GPS is hardly effective. By consulting a street directory or GPS, however, it is possible to assess all of the route options and select the best one. Like these direction-finding devices, a business plan should maximise the chances of arriving at a desired destination without wasting time and other valuable resources. Planning should occur both before establishment and on an ongoing basis for the life of the business.



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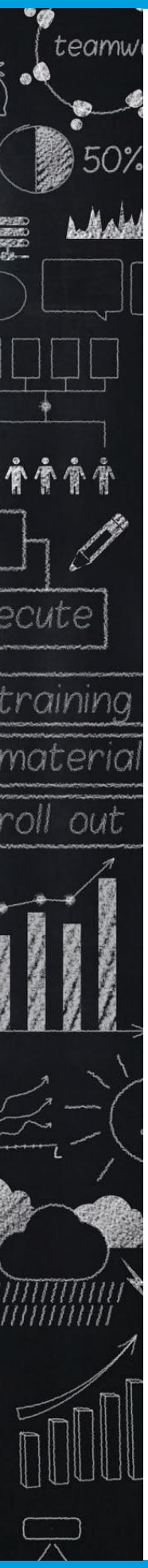
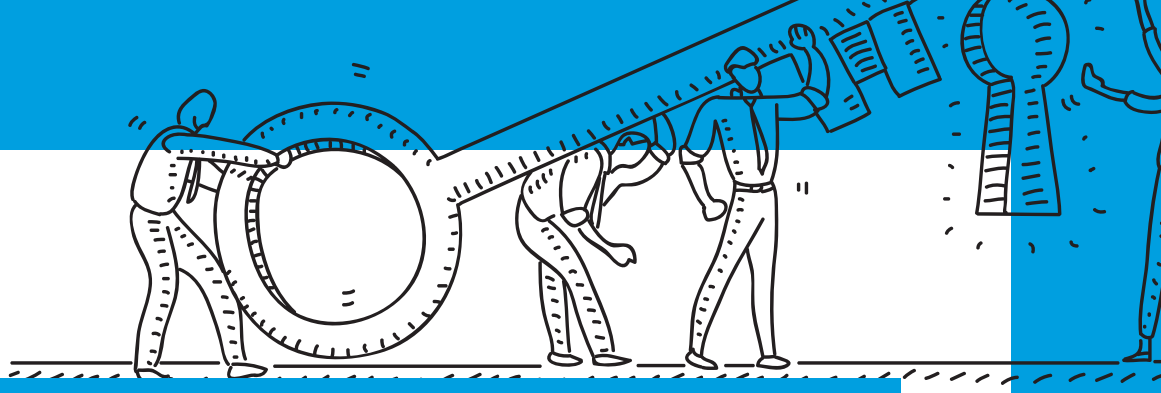




Key terms

- best practice
- business plan
- business strategy
- customer satisfaction
- environmental audit
- executive summary
- marketing plan
- operational planning
- planning
- quality assurance
- quality control
- strategic planning
- tactical planning
- tactics
- total quality management (TQM)

Key knowledge

In this chapter you will learn about:

- planning tools such as a SWOT analysis
- features and construction of business plans and benefits of using them
- corporate social responsibility management issues regarding business planning.

(Source: VCAA Business Management Study Design, 2017–2021, p10)

What's ahead

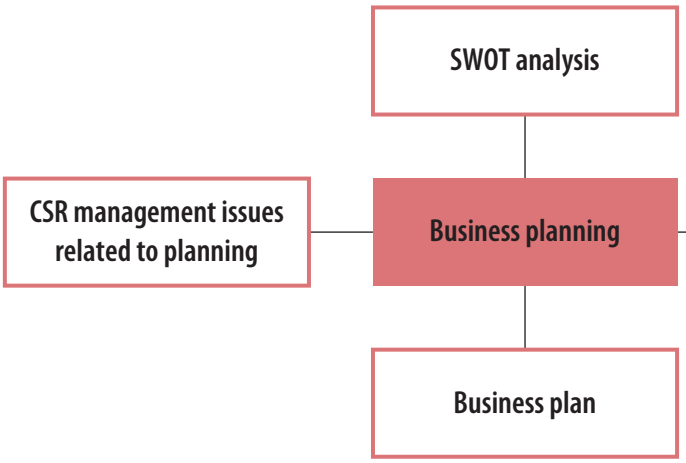
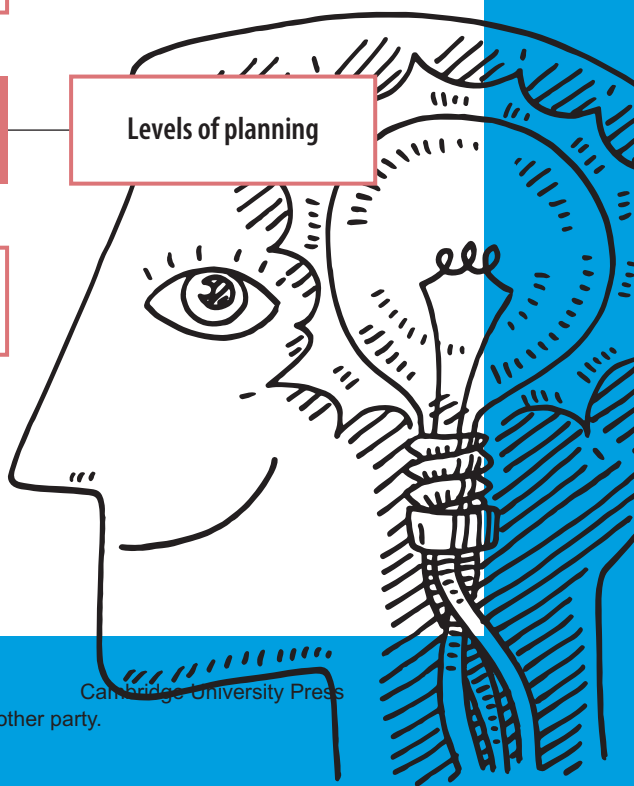


Figure 9.1 Business planning



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9.1 Planning

planning a formalised decision-making process that is future oriented

Planning is a formalised process involving a series of decisions that are aimed at assisting a business to achieve its objectives. A systematic approach to planning, which is based on five stages, can be undertaken by different levels of management, with the decisions made varying in time from short-term to long-term. Planning involves working out what the business wants to achieve (i.e. targets and objectives), how it will achieve these (strategies/tactics) and who will manage the process.

Levels of business planning

Businesses must make plans for the long, medium and short term if they are to be successful.

Strategic planning

strategic planning long-term (two to five years) planning undertaken by senior management to achieve business objectives

business strategy the plan or process that a business implements to achieve its long-term goals and objectives

Strategic planning is long-term planning over a period of two to five years and is concerned with the whole business and its long-term direction. A strategic plan looks at how that business intends to compete and survive in the marketplace for the long term. It involves setting long-term whole-of-business goals. For example, if a business sets an objective of increasing its market share, the **business strategy** could be to provide a superior product and quality customer service.

Tactical planning

tactical planning the planning undertaken by middle-level management to assist in implementing strategic decisions; its time frame is medium term (one to two years)

tactics activities or courses of action taken by a business to achieve business objectives

Tactical planning covers the short to medium term (one to two years) and usually involves planning tactics or steps within the overall business strategy. For example, if a business strategy is to provide quality customer service, the tactical planning would involve identifying what the business believes quality customer service to be and then planning the training program required to implement this strategy. Put simply, tactical planning sets out the **tactics** that make a strategy happen.

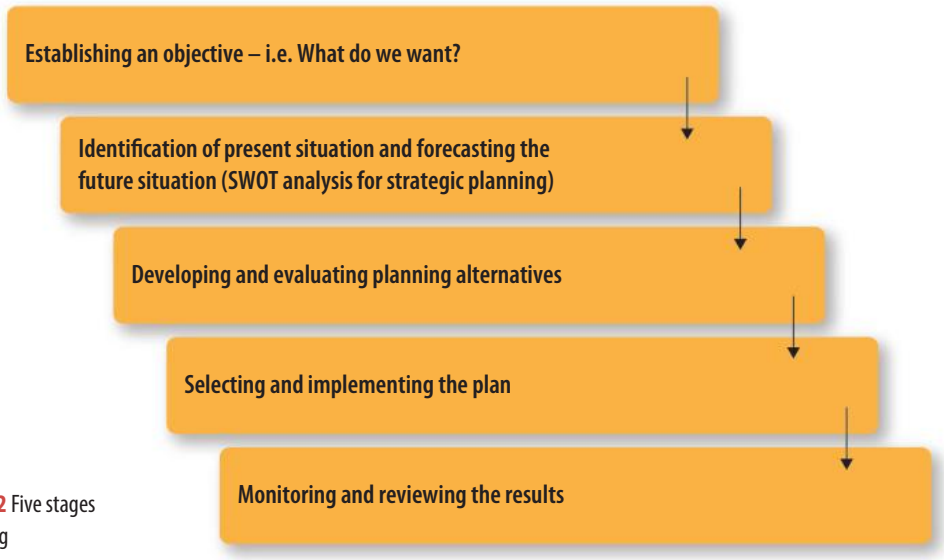

Figure 9.2 Five stages of planning

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Operational planning

Operational planning covers the short-term (day-to-day, weekly, monthly, up to one year) planning undertaken by a business. This level of planning is detailed and is designed to implement strategies that will ultimately achieve specific objectives that have been determined by a higher level of management.

Figure 9.3 Three levels of business planning

SWOT analysis – a planning tool

An important analytical tool for a business to use when undertaking strategic (long-term) planning is a SWOT analysis. This analytical exercise helps a business to focus on its internal environment by recognising its strengths (what it is good at) and minimising its weaknesses (what it has performed poorly at). The business also needs to focus on its external environment so that it may take advantage of opportunities (what it can use to its advantage) and reduce any threats (things that could adversely affect it).

operational planning the detailed, short-term planning undertaken by a business

A SWOT analysis can be broken down into the following areas:

- A strength can be defined as an internal characteristic that contributes to the realisation of the mission of the business. This could include a positive reputation, strong branding, type of product, how the product is made or the quality of the service provided.
- A weakness is an internal characteristic that negatively influences the functioning of the business. For example, poor reputation, weak market or the current structure of the business may not be suitable.
- An opportunity is an external fact or development that, if taken advantage of, could contribute to the realisation of the mission or purpose of the business. This could include globalisation and decreased interest rates.
- A threat can be defined as an external fact or development that can have a substantial negative effect on the performance of the business. Examples of threats could include globalisation, increasing costs, environmental issues or a decline in the industry.

Figure 9.4 SWOT analysis – strengths and weaknesses are internal factors, opportunities and threats are external factors.

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Table 9.1 Examples of strengths, weaknesses, opportunities and threats as part of a SWOT analysis

Internal environment	
Strengths	**Weaknesses**
Well-trained and skilled workforce	Unskilled and poorly trained workforce
Strong reputation/brand recognition	Poor reputation and brand recognition
Quality customer service	Poor customer relations
Excellent product/service	Outdated product/service
Highly skilled/experienced management team	Unskilled/inexperienced management team
Strong financial position	Under-capitalisation/constantly needing funds
Up-to-date and efficient facilities	Outdated and inefficient facilities
Dynamic and responsive organisational structure	Bureaucratic management structure
Positive corporate culture	Poor/toxic corporate culture
Stable workforce	High level of staff turnover
External environment	
Opportunities	**Threats**
New and changing customer needs	Changes in customer preferences and buying behaviour
Development of new products/services	Actions taken by competitors, including pricing, special offers, promotions
Expansion to different locations	Changes in lease conditions, e.g. increased rent or eviction
Government policies – favourable	Government policies – restrictive
Improving economic conditions	Economic factors
New technologies	Developments in technology
Strategic alliances	Competitors entering into strategic alliances
Excess of resources	Shortages of resources, e.g. materials, skilled staff
Legal issues – protection/removal of restrictions	Legal issues – restrictive legislation or legal action

Figure 9.5 Conducting a SWOT analysis should be a part of any business plan.

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CASE STUDY
9.1

IKEA's strategies determined through a SWOT analysis

IKEA is an internationally known home furnishing retailer that is recognised for its Scandinavian style. Founded in 1943, it is now the world's largest furniture retailer. The majority of IKEA's furniture is sold as a flat-pack, which is then assembled by the consumer. This allows for reduced costs of assembling the furniture, storage and packing. In late August 2015 it was estimated that IKEA stocks approximately 12 000 products and sells these via its 373 stores in 47 countries and its online stores. IKEA stores also have a restaurant and cafe which serve typical Swedish food. At the exit to the stores there is a small food shop which sells Swedish grocery items.

Low prices are the cornerstones of the IKEA concept and help to make customers want to buy from IKEA. In addition, its products are well-designed, functional and appeal to a wide range of age groups and types of households. IKEA has a social conscience, in particular for people and the environment. Its vision 'to create a better everyday life for the many people' demonstrates that this concern underpins its business. Its commitment to sustainability is shown in its choice of product range, suppliers, stores and communication. Its concern for people and the environment is seen in the better use it is making of raw materials and energy. These actions, while helping to keep costs down, also help the company to reach its green targets and have an overall positive impact on the environment.

IKEA uses SWOT analysis to help it reach its objectives. Set out below is a summary of a SWOT analysis on the operations of IKEA.

STRENGTHS

- Specialist marketing expertise
- Store location
- A strong global brand
- Its vision 'to create a better everyday life for the many people'
- A strong business concept which is based on offering a wide range of well-designed, functional products at low prices
- Reaches all demographic groups in its design. It balances the product function, quality, design and price
- Increased use of renewable materials

CONTINUED ITEM

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- Smarter use of raw materials
- Creation of long-term partnerships with suppliers
- Using economies of scale, i.e. bulk buy at cheaper unit costs
- Sourcing materials close to supply chain to reduce transport costs
- Delivering products directly from the supplier to IKEA store, so cutting handling costs, reducing road miles and lowering the carbon footprint

WEAKNESSES

- The size and scale of its global business. This makes it difficult to control standards and quality.
- Difficult to control working conditions in some of the countries where IKEA products are made
- The need for low-cost products has to be balanced against producing good-quality items
- Need to keep good communication with all global stakeholders about its environmental activities

OPPORTUNITIES

- Ensure in the price sensitive marketplace IKEA gets its story out to consumers and that it conducts itself in an 'environmentally sensitive manner'
- A growing demand for greener products
- A growing demand for low-priced products
- Demand for reduced water usage and lower carbon footprints
- Giving customers tips and ideas on how to create a sustainable life at home
- Sustainable use of resources. IKEA aims for zero waste to landfill, wastewater treatment and programs to reduce use of water.
- Reducing carbon footprint. IKEA aims to reduce its energy use, use more renewable energy and reduce packaging.
- Develop its social responsibility by providing greater support for charities such as World Wildlife Fund, UNICEF and Save the Children
- Being open with all stakeholders – by building trust through good communication with consumers, coworkers, suppliers and the media

THREATS

- Slowdown in first-time buyers entering the housing market
- More competitors entering the low-price household and furnishings markets
- A recession which will act to slow down consumer spending as disposable income reduces

(Source: Based on Business Case Studies website: an IKEA case study, 'SWOT analysis and sustainable business planning')

ANALYSIS

1 Describe what is meant by a SWOT analysis.
2 Explain the difference between the two internal and two external factors affecting a business which need to be considered when undertaking a SWOT analysis.
3 Suggest ways you believe IKEA has responded to opportunities to grow the business and how it has managed to minimise threats to its business.
4 Evaluate the contribution undertaking a SWOT analysis has made to IKEA's success and business growth.

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9.2 The business plan

To optimise the chances of business success, it is important to spend time preparing and developing a good **business plan**. This document sets out the details of a business, the direction it intends to take, defines its goals and maps out strategies to achieve these. Initially, a business plan should establish the objectives of a business and assess the feasibility of a business proposal. It should then demonstrate how stated business objectives are to be achieved, as well as provide formal direction for business ideas.

business plan the formalised planning a business undertakes on a periodic basis

A business plan should be a living document that is constantly evolving. A regular review and update of a business plan is required. As the business's environment changes, its plans, actions and strategies should also evolve and adapt in response. This should be reflected in the business plan. The plan should be reviewed and refined annually to keep the business on track, reinforce its key goals and objectives and assess whether the chosen strategies are working. This annual review will then allow the business to adapt to any changes occurring in its business environment and take advantage of any new opportunities that may have arisen, such as new technologies or changes in consumer tastes, since the previous plan was written.

A business plan performs numerous roles. It:

- defines the objectives and direction of the business, setting out where the business is headed and how it intends to get there
- assists in obtaining financial backing – financial institutions and investors will seldom grant finance or invest in a business venture before viewing a detailed business plan
- keeps the business on track and focused on achieving its objectives – a detailed business plan helps to keep a business, regardless of its size, focused on the primary business objectives and avoids making decisions on the run
- enables realistic estimations regarding business costs, thereby reducing chances of cost blow-outs.

Figure 9.6 A good business plan will increase the chances of business success.

Components of a business plan

Businesses are able to access many templates or suggested formats when writing their business plans. Regardless of which format is used, the following 11 sections should be included in the plan:

1. Title or cover page
2. Executive summary
3. Business profile and details
4. Legal details and considerations
5. Insurance and risk management
6. Sustainability plan
7. Products/services
8. Operations plan
9. Marketing plan
10. Financial section
11. Appendices.

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Figure 9.7 A business plan sets out how business objectives will be achieved.

Section 1: Title (cover) page

The first page of a business plan should contain the following details:

- business name (both registered and trading names)
- owner/s names and titles
- main business address
- Australian Business Number (ABN) (registered with Australian Taxation Office (ATO))
- Australian Company Number (ACN) (registered with the Australian Securities and Investments Commission (ASIC))
- date the plan was prepared and by whom
- table of contents.

Section 2: Executive summary

executive summary an overview or summary of the key points contained in the business plan

The **executive summary** immediately follows the cover page and is generally the first thing read by interested parties. It is often referred to as the 'front end', and it is usually the section that is written last. It contains a summary, or overview, of what is included in each section to follow. An executive summary should highlight strategies proposed by the business to achieve objectives.

The purpose of the executive summary is to enable a quick appraisal of the proposal by someone reading the document. For instance, by reading the executive summary a bank manager or a person wishing to provide venture capital can quickly gauge if it is worth reading further. This section is vital in 'selling' the business to others and should indicate that what follows in the body of the plan is worthwhile. If an executive summary fails to impress, it is unlikely people will bother reading further. It should be no more than one page in length. Clear presentation and structure are vital.

Key aspects of the executive summary are:

- Registered Business Name
- business legal structure (e.g. company, sole trader or partnership)
- ABN and ACN (if applicable)
- location
- date established
- owner names and their relevant experience and qualifications
- products and/or services
- business goals and objectives
- target market and an outline of marketing strategy
- outline of financial plan including sales and profits forecast; start-up capital required
- mission statement/vision statement.

Mission statement

The mission statement and/or vision statement demonstrates what the business has to offer the market and its overall aspirations. It usually contains some of the following:

- a statement about the intended target market (types of customers the business intends to cater for)
- reference to the types of products to be sold or services to be provided
- reference to location of the business market and area it intends to serve
- clarification of things the business views as important, including values and aspirations.

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Table 9.2 Examples of mission/vision statements

Business	Mission/Vision statements
Unilever	Vision statement: To grow our business, while decoupling our environmental footprint from our growth and increasing our positive social impact. (Source: Unilever website, 'Our vision')
Bakers Delight	Mission statement: Our mission is to produce quality bread, provide superior service and create delight for all stakeholders. Vision statement: Our vision is to be the world's best fresh bread retailer. (Source: Bakers Delight website, 'Why us')
Bendigo and Adelaide Bank	Mission and vision statements: At Bendigo and Adelaide Bank we focus on building and improving the prospects of our customers, communities and partners in order to develop sustainable earnings and growth for our business. . . . To achieve this we commit to exceed our customers' expectations, delivering quality customer service on each and every occasion. (Source: Bendigo and Adelaide Bank website, 'Our vision')

ACTIVITY 9.1

1 Using the websites of the three businesses from Table 9.2, investigate and then describe the products and/or service they offer to their customers.
2 Evaluate whether you believe the mission and/or vision statement of these businesses reflects accurately the purpose of those businesses.

Section 3: Business profile

This section contains:

- a statement of the business objectives and purpose of the business
- a brief rationale explaining why the business is being established and how it will succeed
- a list of the management and other key personnel together with an organisational chart showing responsibilities of each
- staff required and an outline of the experience, qualifications of key personnel and staff
- size of the business based on the number of employees or estimated annual turnover of the business
- an outline of the business structure
- business location plus details about premises; for example, size and whether the premises are owned or leased
- a brief description of main activities to be undertaken and products and services offered
- anticipated competitive advantage
- date of business establishment plus any operating history
- any domain names registered
- relevant licences/permits held or applied for (e.g. a tradesperson requiring a certificate, permits required for footpath trading, etc.).

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Section 4: Legal considerations (regulatory strategy)

The regulatory strategy section specifies exactly how the business intends to comply with laws and regulations affecting it and its activities, including:

- business registration – ABN, goods and services tax (GST), employees' tax file numbers (TFNs) and Pay As You Go (PAYG) withholding tax
- location and local government zoning restrictions
- workplace health and safety and anti-bullying laws
- employee relations and unfair dismissal laws
- environmental laws
- storage and handling of dangerous goods
- consumer protection laws
- labelling requirements
- licensing and registration permits
- privacy – the handling, processing and use of personal information.

Section 5: Insurance and risk management

This section outlines details of insurance policies to be taken out by the business. Examples include:

- WorkCover
- public liability
- professional indemnity
- product liability
- protection of business assets in the event of fire, burglary or damage
- business revenue protection.

The risk management section lists all potential risks to the business, their potential impact on the business, and evaluates the likelihood of occurrence of each of them. Strategies to lessen potential risks, known as mitigation, are then detailed.

Figure 9.8 Analysis of levels of risk and plans to manage potential risks feature in a business plan.

Section 6: Sustainability plan

This section first outlines potential environmental impacts of the business, followed by strategies to minimise any negative environmental and community impacts. Plans for environmental audits, an environmental management system and/or environmental goals are included.

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Section 7: Products and services

This section contains a description of products/services to be offered by the business, including:

- diagrams and plans explaining new products in detail
- a description of the market position of the products/services – are they high end, competitive, low cost?
- the pricing strategy to be adopted
- a description of the competitive advantage of the business. This might be lower costs, a better location, reputation or superior customer service. Every business must have a competitive advantage if it is to succeed in the marketplace.
- details of any intellectual property held, such as patents
- anticipated level of customer demand
- a brief description of possible future opportunities and developments, and an analysis of barriers to entry into the market, potential threats to the business and how these will be countered.

Section 8: Operations section

This section provides detailed information about the people and processes the business will use to achieve its objectives. It includes a number of subsections.

Production process

The production process that is undertaken by the business to produce its products and dispose of waste is described. The steps of the production process may be outlined using a flow chart such as that shown in Figure 9.9 for a dentist.

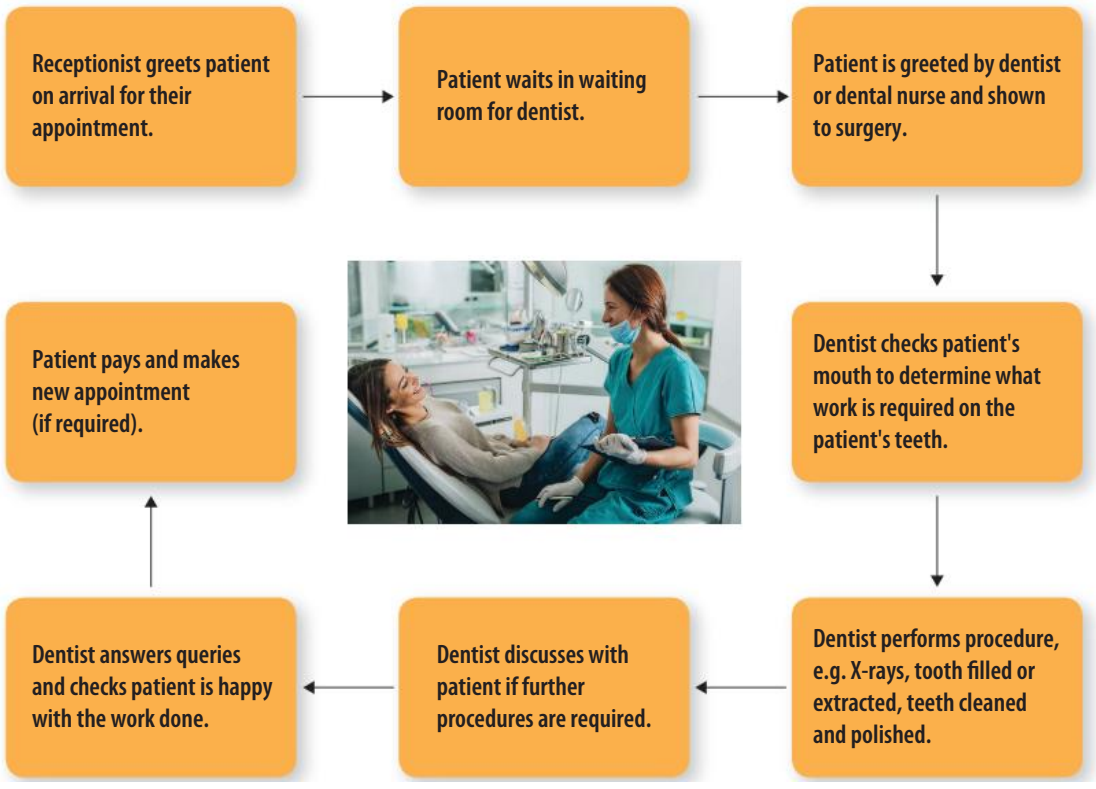

Figure 9.9 Production process for a dentist

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The following details should also be included:

- suppliers providing inputs into the business
- plant and equipment required including costs; for example, vehicles, computer equipment, phones
- current items of inventory (stock)
- technology and software required plus cost
- trading hours including details of peak trading periods
- payment methods accepted; for example, cash, credit, PayPal
- credit policy
- warranties and refunds
- membership and affiliations; for example, industry associations.

ACTIVITY 9.2

Design a flow chart demonstrating the production process for one of the following tasks:

- serving a customer in a cafe
- borrowing a book from the library.

Quality management system

These are the processes and procedures in place to ensure standards of product and service quality remain consistently high. Quality management ensures the product or service a client will receive tomorrow is of the same quality that someone else received yesterday. There are three basic quality management systems used:

quality control process of checking the quality standards of work done or quality of raw materials or component parts

quality assurance a system established to ensure that predetermined quality standards are achieved

1 **Quality control**: Goods and services are physically checked against a set of predetermined standards. This can occur after they have been produced or prior to the product being sold. It is a reactive process aimed at managing quality. Examples of this are inspections or random checks, such as those used by many clothing manufacturers.
2 **Quality assurance**: A system used by a business to ensure that predetermined quality standards are achieved during production of the products or providing the service. It is a proactive approach to managing quality. A business that adopts the quality assurance approach can bring in an outside agency or organisation (known as a 'certification body') to check the way they conduct their business, with a view to gaining quality assurance certification. In short, the business must show that it meets set standards in how it does things; it must also show that it follows certain procedures and processes. When the business can show that it meets all of these requirements, it becomes 'certified'. The business is then entitled to advertise this and it is also entitled to use the logo of the certification body in its marketing and advertising materials.

The International Organization for Standardization (ISO) is responsible for developing the ISO 9000 family of quality management standards, the most widely known of the internationally recognised quality management standards. SAI Global, which is associated with Standards Australia, is a locally based organisation that carries out certification and assists businesses in meeting **best practice**.

best practice certain methods, techniques or procedures that are considered to be superior or most effective and which are used a benchmark

Figure 9.10 This is a certification mark owned by SAI Global Limited. Only parties certified by SAI Global to ISO 9001 on SAI Global's terms and conditions have the right to display this mark in the context of the good or services subject of certification.

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The process of obtaining quality assurance certification requires investment in time, money and resources, but will generally pay off with increased **customer satisfaction**, sales and opportunities. Furthermore, gaining a recognised quality certification such as the ISO 9000 is extremely helpful when trying to do business with government, multinationals, large corporations and overseas customers. A business with accreditation has a distinct advantage, as it is immediately recognisable as having achieved certain standards of quality.

3 **Total quality management (TQM)**: A system requiring every person in a business to take responsibility for quality in both product and service. Employees are put into teams, often called 'quality circles'. Each of these groups is expected to look on a continual basis for possible improvements that can be made in their own area. With everyone making small incremental improvements, the total quality standards of the business and what it does will result in an overall improvement in the business. It is worth noting that the strong reputation Japanese-produced goods have for high quality has resulted from the use of TQM practices by Japanese businesses.

customer satisfaction the degree to which customer expectations have been met

total quality management (TQM) a concept whereby all staff in a business have responsibility for its process and output

Analysis of key personnel and staff of the business

A detailed audit of the skill base of the key people and staff within the business provides a record of what skills people already possess. The business needs to determine what future skills its staff will need to grow the business. If these skills are not currently held by staff, the business may train the existing staff or recruit people with a specific skill or qualification.

Section 9: Marketing plan

The **marketing plan** is usually one of the larger sections in a business plan, containing an analysis of the market, the particular industry in which the business will be operating, and how the business will operate within that market. It may include:

- a description of the market in which the business will be operating, including customer demographics, size of the market, changing tastes and trends
- an industry analysis or evaluation of the characteristics of the particular industry category the business is entering into. This is done to gauge the minimum standards of entry and to ascertain what the business's competitive edge might be. A typical industry analysis would include the:
  - size of the industry and its parts/segments
  - number of businesses in the market
  - number of people employed in the industry
  - average size of businesses in the industry
  - average operating hours
  - average profits and earnings
  - relevant legal structures
  - industry trends.
- a statement and analysis of current market trends, including what changes are occurring in the market. Do people want something different or new? How do we know this?
- a profile of the business's customers, including age, income level, lifestyle, tastes and values
- an analysis of the internal strengths and weaknesses of the business and how these can be exploited and overcome. External to the business, the future opportunities and threats and how these might be overcome should also be included (i.e. a SWOT analysis).
- the pricing structure and strategies

marketing plan the plan that sets out the marketing objectives and strategy to be undertaken by a business

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- a description of how the business intends to promote itself and its products, including marketing and public relations strategies
- methods of sales and distribution to be employed. This details how the business intends to sell and deliver its product to customers/clients; for example, home delivery, internet sales, mail order, after-sales backup.
- an analysis of how the business expects to gain and maintain a competitive edge.

Section 10: Financial plan

This section provides an assessment of the financial viability of the business. A financial plan will include:

Figure 9.11 Businesses need money to grow and flourish.

- a balance sheet that details the net assets and liabilities of the business. Included will be other financial statements, which detail the working capital requirements and level of business liquidity. These statements indicate the current financial position of the business, including funds available, value of assets and sources of finance.
- expected volume of sales, income and expense projections for the first five years of the business; these are estimates based on market research
- estimated profits and losses based on income and expenditure projections
- a forecast of expected cash flow for five years – this tracks money flowing in and out of the business
- a break-even analysis – this calculates at which point the business should start making a profit.

Section 11: Appendices

Any extra material that might strengthen the case for a potential business should be included as an appendix to the business plan. For example:

- brochures prepared for the business
- any patents or trademarks taken out or acquired on behalf of the business
- the resumés of the key personnel
- any market research relevant to the business
- any articles, press releases or publicity material featuring the business or key personnel.

ACTIVITY 9.3

1 List all of the capital items (equipment and buildings) that would be required to establish each of the following businesses:
   a small clothing retail outlet
   b retail plant nursery
   c plumbing business
   d courier business
   e home maintenance business.
2 Explain why business owners should not expect to make a profit in the first year of operation.

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9.3 Corporate social responsibility management issues and business planning

It is important to consider corporate social responsibility when developing and planning a business. There is an expectation in the community that businesses, regardless of their size, will have a plan of action around social responsibility (see Chapter 4 for further information on corporate social responsibility).

It is advised by Business Victoria that, when preparing a business plan, information on how the business will approach sustainability and corporate social responsibility (CSR) should be included. Suggested areas related to this would be covered in the following sections in the business plan:

- *Environment and resource impacts* – an outline of the impact the business will have on the environment.
- *Community impact and engagement* – identifying the possible positive impact the business will have on the community and the ways it will engage with the community.
- *Risks/constraints* – identification of potential risks or constraints the business may experience related to environmental matters.
- *Strategies* – identification of any strategies or a course of action that will be taken by the business to minimise the impact on the environment of its activities.
- *Action plan* – lists the key sustainability and environmental targets and includes sustainability milestones such as reduced water consumption and the dates the business expects to reach the targets.

environmental audit an assessment of how a business minimises its effect on the environment and how it can improve its practices

Sustainability Victoria recommends that businesses should complete an environmental audit as this allows businesses to also set benchmarks for improvement. An **environmental audit** will highlight any areas of the business that might impact on the environment and can also act as a check to make sure the business acts in accordance with environmental laws.

Conducting an environmental audit is important for a business, as it reveals the specific areas where the environment is most impacted by the business's operations. It also functions as a risk management tool to measure how well a business operates in accordance with environmental regulations.

An audit can also assist in:

- assessing how to manage or improve the condition of the environment
- prioritising what actions can be taken to reduce the impact on the environment
- demonstrating accountability to third parties such as government, customers and shareholders or owners.

As part of a plan, a business also needs to ensure that it adheres to sustainable practices. Adopting these sustainability practices will then often act as a way of attracting customers to the business.

Figure 9.12 The recycling symbol often appears on goods being marketed as 'environmentally friendly'.

The *Competition and Consumer Act 2010* sets out requirements when marketing a product or good as environmentally friendly. A business must be able to back up its environmental or 'green' claims with scientific evidence. A consumer should be able to trust and rely on environmental claims. When businesses ensure that their claims are substantiated, they not only demonstrate good business practice, they

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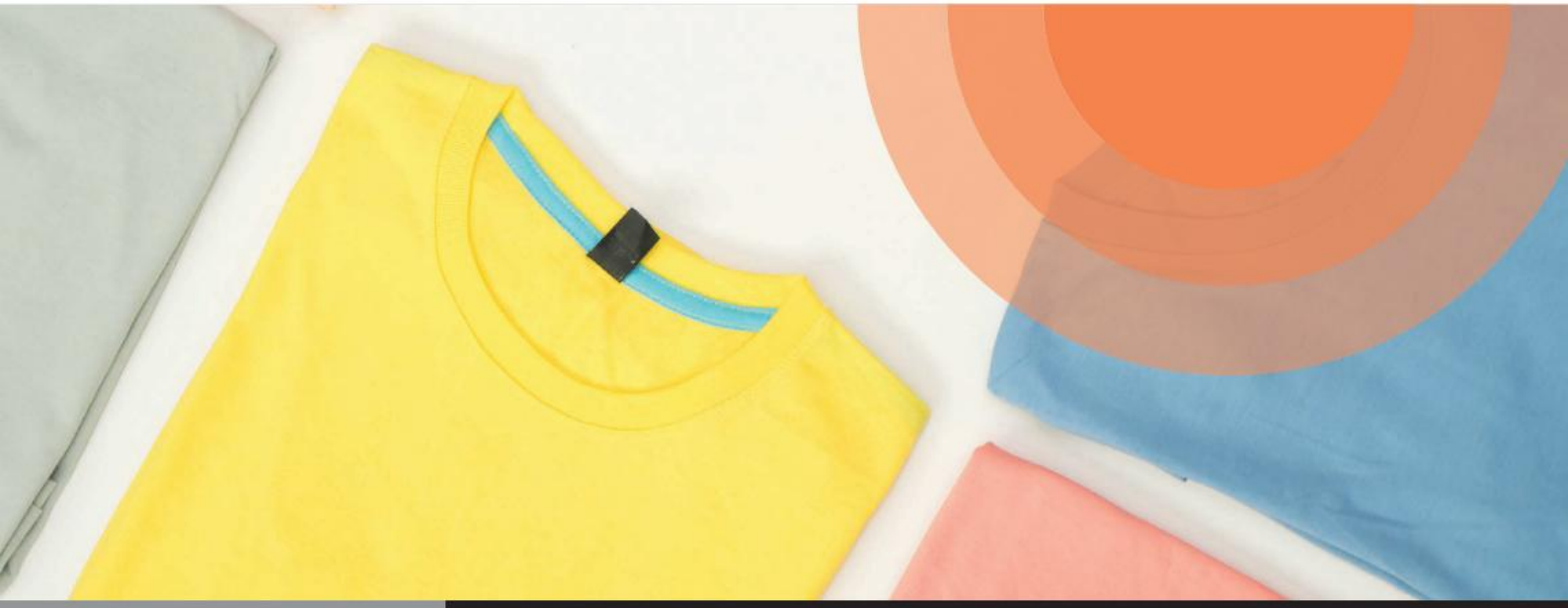
are following the law. The Australian Competition and Consumer Commission (ACCC) advises businesses to avoid using terms such as 'safe' and 'friendly', as these terms are unhelpful and may be misleading. It is also important for a business to check and investigate the processes used in areas such as manufacturing, transportation and packaging. It is essential to test and confirm any claims such as 'environmentally friendly' and 'no testing on animals'.

A business plan should also take into account sourcing of materials and products from sustainable and ethical suppliers. This is important because the reputation of the business may be negatively affected if there are found to be unethical or illegal practices related to its suppliers. Supply chain management is important and needs to be considered (see Chapter 10 for further detail).

ACTIVITY 9.4

1 Identify why it is important for a business to consider social responsibility issues when developing a business plan.
2 Explain why ethical marketing is important as part of a business plan.



CASE STUDY 9.2 *Etiko and its socially responsible approach*

OUR STORY

Etiko is a family owned and operated apparel, footwear and sports ball business that has had the respect and promotion of human rights at its core for a decade.

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

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Figure 9.13 Etiko logo

> Over the last 10 years, our pioneering company has set the bar for upholding and campaigning for human rights of those working in traditionally exploitative industry supply chains while achieving business success. For example, Etiko achieved the top rating – an A+ for ethical production – in the 2013, 2015, 2016 and 2017 [and 2018] Australian Fashion Reports (there was no report in 2014) which investigated the supply chains of fashion brands retailing in Australia.

In 2016 Etiko became the first Australian brand to receive an award from the Australian Human Rights Commission for its efforts in addressing exploitation in supply chains.

OUR MISSION

> Etiko's business is fundamentally different to most clothing, footwear and sports brands. Our ambition is to do as much good as possible, not to 'do no harm' or simply 'be a responsible purchaser'. Etiko's engagement with fair trade certified suppliers means we are working with raw material and factory suppliers who are investing in the economic and social development of farmers and workers. Producing Etiko garments, footwear and sports balls is a vehicle for these people to lift themselves out of poverty and create a better life for themselves and their community. That is why we are in business.
>
> (Source: Etiko website, 'Our mission')

ANALYSIS

1. Etiko has adopted a socially responsible approach to its products and business operations. Provide two reasons why this is a sound approach.
2. Explain whether you believe the approach adopted by Etiko may make it more difficult to create a financially successful business.
3. Visit the Etiko website and look at its 'Summary of our impact' chart, in particular its future ambitions. Identify the countries where Etiko would like to increase its positive impact for the workers.
4. List the variety of awards and recognitions received by Etiko as a socially responsible business.
5. Identify the rating that Etiko received in the 2018 *Ethical Fashion Report* published by Baptist World Aid Australia.

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CASE STUDY **9.3**

*The **Ethical Fashion Report** helping consumers make ethical fashion choices*

HOW COTTON ON WENT FROM A B- TO AN A BY AIRING DIRTY LAUNDRY

Low-cost clothing chain Cotton On has turned around an ethical-fashion black mark to become one of the country's top performers, according to an annual report.

But several companies, including Decjuba, Bras N Things, Trelise Cooper, Bloch and Wish, have received the lowest grade for failing to report on their manufacturing and sourcing processes.

The fifth annual Baptist World Aid Australia *Ethical Fashion Report* ranks 114 fashion companies, comprising 407 brands, on issues from workers' rights to the environment.

Overall, the top performers included Outland Denim and Icebreaker, which both received an A+. Cotton On was one of the most improved performers, lifting its grade, from a B- in 2013 to an A.

Fast fashion, high grades

Among the names to perform well were several cheap, high-volume, high street 'fast-fashion' brands, including Zara (A-) and H&M (B+).

Baptist World Aid Australia's head of advocacy, Gershon Nimbalker, said fast-fashion brands, while 'responsible for creating a system to allow exploitation, are doing more to mitigate the impact'.

BAPTIST WORLD AID AUSTRALIA
Be love. End poverty.

Figure 9.14 Baptist World Aid Australia began its *Ethical Fashion Report* after the 2013 Rana Plaza tragedy.

'There are still question marks for me whether the fast-fashion model can be consistent with strong labour rights, especially on the question of living wages,' he said.

'This report asks the question, "How do these companies ensure workers are not being exploited?" When it comes to H&M and Zara they are doing a better job than most and we want to [acknowledge] that. That doesn't take away the questions on how consumerism is impacting the world.'

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Turning the ship around

Cotton On's James Hubbard admits the B- the company received in 2013 was a 'massive wake-up call'. 'The business took the result very seriously … We had an ethical sourcing program but it wasn't performing,' said Mr Hubbard, the chain's general manager of sustainability.

Mr Hubbard said serious work has been done to improve transparency 'from farm to shelf', including listing 2500 of Cotton On's factories online. The company also sponsors a cotton-farming operation in Kenya that employs more than 1500 farmers.

Mr Hubbard said Cotton On is working to reduce landfill by increasing the 'take back' of used clothing from its customers.

'One of the challenges with clothing is that it's a fibre. We are looking at who we can partner with to utilise fibre for other methods,' he said.

Mr Hubbard admits Cotton On could better publicise its ethical programs to consumers.

'It's something we haven't promoted a lot,' he said. 'Often we talk about it within Cotton On as the "right thing to do". We don't do it for sales. It's something we have to get better at – the storytelling.'

Fairfax Media contacted several brands that received an F in the report.

A statement from New Zealand-based Trelise Cooper said the poor grade was 'not a measure of Trelise Cooper Group or its ethical standards or behaviour' and that it had its own systems to meet ethical standards.

'[The report organisers] demanded an arbitrary, limited timeframe for a very intense and detailed report that we simply could not meet,' the statement said.

A spokeswoman for Bras N Things said under new owner Hanes, the brand intends to participate in future surveys. 'While we didn't participate in this year's report as we only recently found out about it, being an ethical fashion retailer is important to us so we'd love to be involved,' she said.

Decjuba said it had stringent in-house auditing processes on working conditions, wages, animal rights, sustainability and corruption.

'The ratings system is based on information submitted by participating companies and the Baptist World Aid research team do not conduct site inspections to verify these details. The Baptist World Organisation awards an F for non-participation, which can be misleading to consumers,' a company statement said.

Two steps forward

While many companies made positive gains, the issue of workers' rights was still a major hurdle, with all companies surveyed receiving an overall mark of D-.

Mr Nimbalker said price-driven competition was not commensurate with paying living wages, especially in developing countries, where most clothing sold in Australia is made.

One of those markets is Bangladesh, where in 2013 more than 1100 people died in the Rana Plaza garment factory collapse, the event that triggered the launch of the Baptist World Aid Australia report.

Mr Nimbalker said he and other stakeholders, as well as Australian journalists, tried to visit Bangladesh recently to view firsthand the progress on workers' safety and rights since Rana Plaza but they were refused visas.

CONTINUED ITEM

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'We know that the Bangladeshi government is really sensitive about this issue. Many MPs have direct or vested interests in the garment industry. They want to take increasing control of how their industry is run,' Mr Nimbalker said.

Still, there is cause for optimism, he said.

'There are pockets of hope across the Asia-Pacific region. Wages have gone up in Bangladesh, wages are going up in Vietnam, but all of that is against the backdrop of workers having to fight for it and exploitation being quite rife.'

Mr Nimbalker said he was confident the Australian government would soon pass the Modern Slavery Act, which could impose penalties for companies found to use suppliers that exploit workers.

(Source: *The Age*, 'How Cotton On went from a B- to an A by airing dirty laundry', 17 April 2018)

ANALYSIS

1 Visit the *Ethical Fashion Report* website and use the Ethical Fashion Fast Finder to identify which of your favourite brands are doing the most to protect their workers.
2 Discuss whether the rating your favourite brands received will now affect your purchasing decisions.
3 Cotton On has responded in a positive way to its original rating (2013) under the report. Describe what actions it has taken as part of its business planning to improve its rating.

Chapter summary

- Businesses need to plan to assist them to achieve their business objectives.
- There are three levels of business planning: strategic, tactical and operational.
- Conducting a SWOT analysis, where a business looks at its internal strengths and weaknesses and its external opportunities and threats, assists in the strategic planning process for a business.
- Planning is essential for all businesses in order to establish:
  - what it wants to achieve (business objectives)
  - how objectives will be achieved (strategy)
  - who will be responsible for which aspects of the plan
  - the timeframe for achievement of objectives.
- The business plan outlines the strategic details of the business, shows direction and long-term objectives, and shows strategies to be used to achieve objectives.
- The purpose of the business plan is to help establish the business and keep it on track, to help obtain finance and backing for the business venture, and to set a direction for business ideas.
- Sections commonly found in a business plan include:
  - Title or cover page
  - Executive summary
  - Business profile and details
  - Legal details
  - Insurance and risk management
  - Sustainability plan
  - Products/services

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  - Operations plan
  - Marketing plan
  - Financial section
  - Appendices.
- Corporate social responsibility should be considered when developing a business plan.
- A business plan should include sections on the approach the business will take in relation to being sustainable and its impact on the environment. It should also examine possible resource issues and impact on the community.
- An environmental audit will assist a business and should be included in the business plan.
- Laws relating to marketing and product requirements should be taken into account.

Chapter summary tasks

1 Define the following terms and then use each in a sentence to demonstrate your understanding:
   a objective
   b business plan
   c mission and vision statements
   d total quality management
   e executive summary.

2 Describe the benefits for a business of conducting a SWOT analysis as part of its strategic planning process.
3 Identify and outline the components/sections of a good business plan.
4 Explain why it is vital for a potential business operator to prepare a detailed business plan before commencing operations.
5 Explain why quality control could be described as a reactive system of quality management, whereas quality assurance and total quality management are both proactive approaches.
6 Classify each of the following quality management examples as one of 'quality control', 'quality assurance' or 'total quality management' measures.
   a A quality system where items are checked for faults before leaving the factory.
   b A system involving a quality circle to devise methods to reduce defects in items produced.
   c A system where people posing as customers at a fast-food restaurant perform spot-checks on customer service levels.
   d When a business has earned the right to display the logo of a standards association.
7 Describe why a business should include reference in its business plan to its approach to corporate social responsibility and the environment.
8 Explain why a business should try to ethically source materials and inputs.
9 Describe the consequences for a business if it fails to act in an ethical and socially responsible manner.

Extension questions

A friend who has recently retired is thinking of starting up a business to cater for the domestic needs of busy professionals. The business would offer the following services: grocery shopping, arranging occasional child care or a nanny, dog walking, employing a cleaner, ordering gourmet meals, sending out laundry and ironing and simple gardening duties.

1 Suggest an appropriate name for the business. Undertake an online search to ensure that your proposed name has not already been registered. Identify five reasons why you would advise your friend to write a business plan.
2 List and explain the contents of the essential sections of a business plan.
3 Identify some other important areas or considerations that you believe they should look into before embarking on this business venture.

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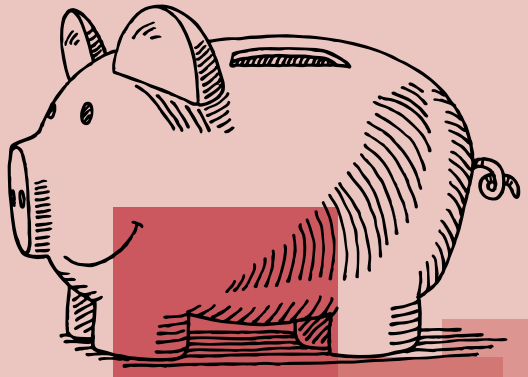

Unit 2
ESTABLISHING A BUSINESS

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Part 1

Area of Study 1

LEGAL REQUIREMENTS AND FINANCIAL CONSIDERATIONS

VIDEO SUPPORT
Assessment advice for this Area of Study is available in the Interactive Textbook

Outcome 1

On completion of this unit the student should be able to explain the importance when establishing a business of complying with legal requirements and financial record keeping, and establishing effective policies and procedures.

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

Key skills

- define, describe and apply relevant business management concepts and terms
- acquire, record, interpret and share business information and ideas
- research and analyse case studies and contemporary examples of business management applicable to establishing a business
- apply business management knowledge to practical and/or simulated business situations
- evaluate the costs and benefits of decisions when establishing a business, and justify the strategy chosen.

(Source: VCAA Business Management Study Design, 2017–2021, p12)

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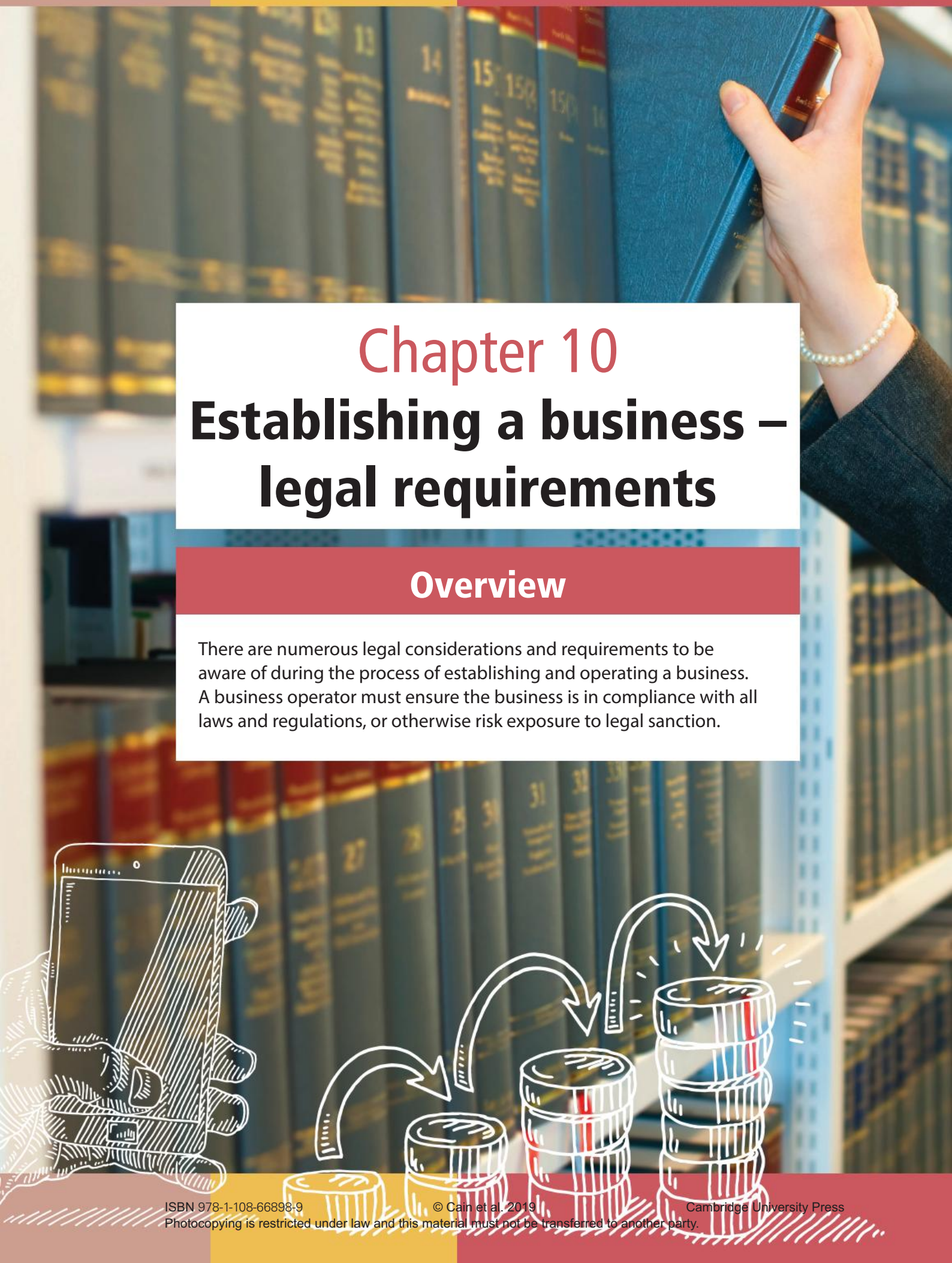

Chapter 10
Establishing a business – legal requirements

Overview

There are numerous legal considerations and requirements to be aware of during the process of establishing and operating a business. A business operator must ensure the business is in compliance with all laws and regulations, or otherwise risk exposure to legal sanction.

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Key terms

- by-laws
- corporate citizenship
- domain name
- Fair Work Commission (FWC)
- Fair Work Ombudsman (FWO)
- false and misleading representation
- insurance
- legal compliance
- licence
- occupational health and safety (OH&S)
- premium
- public liability insurance
- regulation
- risk assessment
- superannuation
- warranty
- WorkCover
- workplace relations

Key knowledge

In this chapter you will learn the following about the legal aspects of a business:

- an overview of key legal and government regulations to be considered when establishing a business, including:
  - registration of a business name
  - registration of a website domain
  - business tax compliance
  - trade practices legislation
  - WorkSafe insurance.

(Source: VCAA Business Management Study Design, 2017–2021, p12)

What's ahead

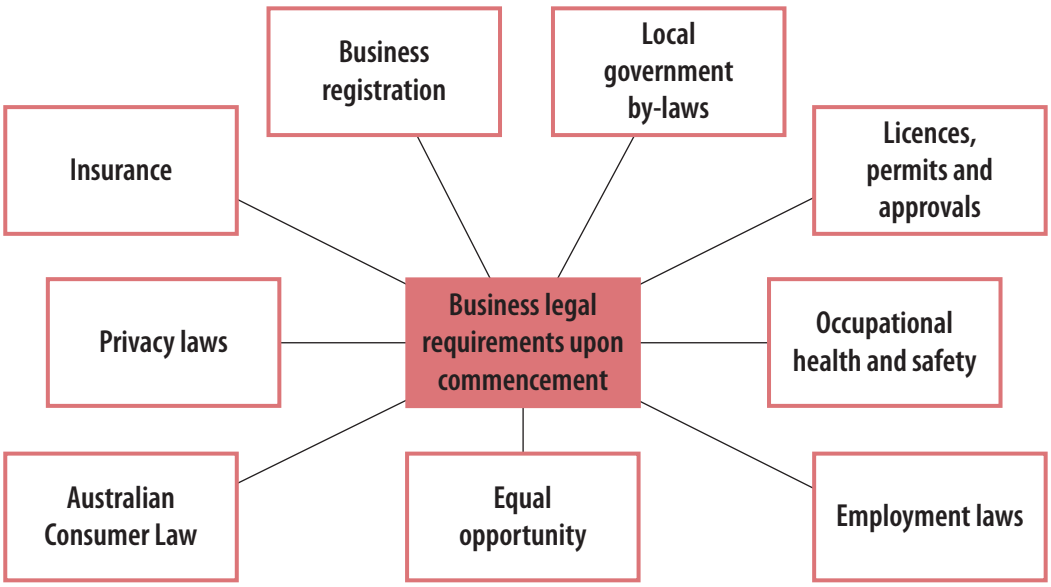

Figure 10.1 Legal requirements for businesses to comply with before commencing

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legal compliance the process by which a business ensures that it observes and complies with the external statutory laws and regulations

corporate citizenship acceptance by a corporate of its responsibility to stakeholders for actions and decisions

regulation a rule that is created, maintained and enforced by an authority

10.1 Compliance with key legal and government regulations

Legal compliance must be considered both prior to business commencement and throughout the life of the business. Like individual citizens, businesses are subject to a plethora of laws and other government-imposed regulations that both restrict and impact on business activity. As citizens, individuals are subject to laws imposed by governments. Similarly, the business sector is also subject to laws and standards of expected behaviour. This concept of **corporate citizenship** and its consequent social obligations has increasingly become the focus of media attention in recent years.

A business is subject to numerous and changing legal, ethical and social responsibility requirements. Failure to take account of these may mean legal prosecution, professional deregistration and/or forcible closure of the business. It is vital that a business operator complies with the relevant laws, regulations, licensing requirements and codes of behaviour included in Australian business **regulation**.

Figure 10.2 A registered business name helps customers to identify and connect with a business.

National Business Names Register

In 2012, the Australian Securities and Investments Commission (ASIC) took over the administration of business names from states and territories to establish Australia's Business Names Register. Under the national business names legislation, businesses need to register just once and this provides national recognition. New businesses are expected to have an Australian Business Number (ABN) to register the business name.

If a business operator chooses to trade under his or her own name, there is no need to register; however, business structures such as partnerships, family trusts and joint ventures require the business name to be registered.

Registering a company

Businesses wanting to register a company must have an Australian Company Number (ACN) as well as an ABN. This is a unique, nine-digit number issued by ASIC that offers identification while transacting business. It is a legal requirement for the ACN to be displayed on a range of documents, including invoices, official company notices, cheques and business letterheads.

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Registering a website domain

Although not compulsory when starting a new business, it is highly recommended to register a **domain name**, a website address or URL which effectively provides an online identity. When selecting a website domain, a business should select a name that represents the business in a unique way that is easy to remember, pronounce and spell.

domain name a unique name identifying the website in a web address

Registration for a .com.au domain must be done through a domain register accredited by the Australian Domain Name Authority (auDA). Businesses are required to have an ABN or ACN to register as .com.au. Australian technology companies or business websites prefer to register as .net.au while non-commercial Australian organisations register as .org.au.

If a business plans on using social media for marketing purposes, it is wise to check that the business name is indeed available on the certain channels that the business plans to use. A quick way to find out if a domain name is available is to use the free service provided by Afilias Australia, which can easily be found online using your favourite search engine.

Figure 10.3 It is recommended to register a domain name for your business.

Business taxation compliance

There is an old saying that there are only two things that are certain in this life: death and taxes. A business *must* pay tax. The Australian Taxation Office (ATO) administers Australia's taxation and **superannuation** systems. Business taxation obligations include:

superannuation a pension or lump sum payment made to workers on retirement; the money comes from employers' contributions made during the working life of the employee

- A business carrying out an enterprise in Australia must obtain an ABN. Businesses without an ABN are effectively penalised as their business clients withhold 46.5% of any payments they make to the business.
- Business partnerships and companies require their own tax file number (TFN).
- All businesses must pay tax on income, and collect income tax from the wages of employees.
- If earning over $75 000, businesses are required to collect goods and services tax (GST) from their sales.
- A Business Activity Statement (BAS) must be submitted periodically to advise the ATO and remit tax due on income earned during that period, plus any GST and employee income tax owed.
- Fringe benefits tax (FBT) and capital gains tax (CGT) may also apply.
- A business with employees may also be subject to state government payroll tax.

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Table 10.1 Steps to register a business. To find out more about each step visit the business.gov.au website, which has pages on each topic.

Initial business registration steps	What it does for a business
Australian Business Number (ABN)	An ABN is an eleven-digit number that uniquely identifies a business.
Australian Company Number (ACN)	An ACN is a unique nine-digit number that every company in Australia must have. ACNs are managed by the Australian Securities and Investments Commission (ASIC).
Pay As You Go (PAYG) withholding	PAYG withholding is a legal requirement when a business makes payments to employees and some contractors. The business must withhold a designated amount of money and send it to the Australian Taxation Office (ATO) at regular intervals.
Intellectual property (IP) registration	IP represents creations of the mind or intellect that can be legally owned. Almost every business has some form of IP that they need to protect, so that their rivals can't simply copy their ideas. Businesses register patents, copyrights and trademarks to protect their IP.
Goods and services tax (GST)	GST is the tax of 10% on most goods, services and other items sold or consumed in Australia. GST applies to most Australian businesses.
Business Tax File Number (TFN)	A TFN is a unique number issued by the ATO to individuals and organisations to help manage tax and other government services. Businesses that are classified as partnerships, companies or trusts require their own TFN.
Business name	A business name, or trading name, is a name or title under which a person, or other legal entity, trades. A business name identifies a business to its customers, and allows it to differentiate itself from the competition. The name is often the most valuable asset of a business.
Register website name	A domain name is a website address or URL on the internet and enables a business to have an online identity or brand. It's an important marketing tool to help customers find and identify with a business.

ACTIVITY 10.1

The Australian Business Licence and Information Service (ABLIS) website is a useful resource for businesses to determine the range of expected legal compliance that the business must meet in relation to government licences, permits, registrations, codes of practice and standards.

Using the ABLIS website, list the licensing requirements for each of the following businesses:

a restaurant
b real estate agency
c car repairs
d hair salon.

Business licences, permits and approvals

licence a document or permit that gives official permission to do, use or own something

Many businesses require some type of **licence**, permit or approval from a government authority or professional association to operate. Licences grant the right to perform a specified activity or role. For example, skilled tradespeople or professionals such as accountants need to be licensed with the appropriate authority. Often a particular qualification is required to practise. A licence is issued for a specified period of time and must be reapplied for once this period has elapsed. For example, a medical practitioner must be registered with the Health Insurance Commission to treat patients under the Australian system of Medicare.

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Local government by-laws

Local government **by-laws** affect the operation of businesses in a given local area. These vary according to the local government.

by-laws local government laws/ regulations relating to activities within a municipality

Building and planning controls

Each local government has a planning scheme administered by its planning department. Different areas are designated for different types of use. For instance, large parts of any local government area will be zoned for 'residential use' only. This designates the area for residential dwellings with very few exceptions; for example, home offices and a few mixed businesses.

Other areas are zoned 'light industrial', 'heavy industrial', 'retail' and 'commercial'. The purpose of this system is to ensure that like businesses are restricted to similar areas. No one, for instance, would like to discover that the vacant block of land next to their house has been sold to a developer building a four-storey office block, or even a supermarket. The system of zoning largely prevents this from occurring.

Council planning approval must also be obtained for all plumbing and building work. The operation of a home office may also require council planning permission.

Other by-laws impacting on business

Businesses must also be aware of other local by-laws, including:

- parking restrictions
- hours of operation
- health regulations covering hygiene and food handling
- restrictions on activities such as outdoor dining.

Permits and approvals are required from the local government planning department to set up or make fit-out changes to business premises.

Some businesses require a variety of licences. For example, a restaurant might require the following:

- food premises registration for preparing and selling meals
- liquor licensing for selling alcohol
- Australian Prudential Regulation Authority (APRA) copyright licensing for playing music
- local council permits for footpath seating.

ACTIVITY 10.2

Using your favourite search engine, locate the 'Permits and approvals' page in the Business section of the City of Melbourne website and answer the questions:

1. Street trading:
   a. Describe three types of street trading activities offered by the City of Melbourne.
   b. Select one type of street trading and outline the application process.
   c. Suggest two reasons as to why a council regulates this type of activity.
2. Outline two by-laws that apply to mobile food vans and their operation in the City of Melbourne.
3. Outline three requirements applying to hospitality businesses in the City of Melbourne.
4. Identify three health by-laws that apply to a healthcare business operating in the City of Melbourne.
5. List and describe the guidelines required to be followed for a music venue in the City of Melbourne. Discuss why these guidelines have been established.
6. Describe the waste and recycling programs that businesses in the City of Melbourne are expected to adhere to.

Figure 10.4 City of Melbourne Town Hall

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10.2 Employment laws

The Australian federal and Victorian state governments are responsible for the creation and implementation of workplace laws. Employers' obligations and responsibilities are set out to ensure that employees' rights are protected. Key areas of legislation relate to workplace safety, awards and agreements, equal opportunity and anti-discrimination laws.

Workplace relations laws

Fair Work Commission (FWC) Australia's national workplace relations tribunal. Its role is to assist employees and employers to maintain fair and productive workplaces.

workplace relations the relationship between employer and employee with regards to contractual, emotional, physical and practical concerns

Fair Work Ombudsman (FWO) an independent statutory agency of the Australian Government that acts as a central point of contact for free advice and information on the Australian national workplace relations system

The **Fair Work Commission (FWC)** is the independent, national body established under the *Fair Work Act 2009* to regulate **workplace relations** between employees and employers including:

- setting minimum wages and conditions.
- resolving disputes in the workplace.

In establishing the National Employment Standards (NES), the FWC protects the minimum workplace entitlements for all Australian employees. In addition, the FWC determines the minimum standards for wages and conditions specific to an industry, known as awards. The FWC acts like an industrial court to resolve disputes and establish minimum wages and conditions. The FWC oversees and enforces regulations regarding:

- the safety net of minimum wages and employment conditions (NES)
- enterprise bargaining
- industrial action
- dispute resolution
- termination of employment
- other workplace matters.

The **Fair Work Ombudsman (FWO)** is an independent statutory agency of the federal government that acts as a hub of information and advice regarding the workplace relations system. Investigations into workplace complaints are carried out by the Office of the Fair Work Ombudsman, which also enforces compliance with Australia's workplace laws.

ACTIVITY 10.3

Go to the Fair Work Ombudsman website. This is a website provided by the government for both employers and employees to check their entitlements and obligations.

1 Using the website, go to 'Employee entitlements' then 'National Employment Standards' and answer the following questions:
   - a Explain what the National Employment Standards (NES) are.
   - b Explain how the NES are designed to protect employees.
   - c List the 10 NES that apply to all employees covered by the national workplace relations system.
   - d Outline the potential penalties that an employer faces for providing an enterprise agreement to their employees with entitlements less than the NES.

2 Go to the 'Pay And Conditions Tool'. Use this to calculate the minimum pay rate for each of the following employees, assuming they are working full time:
   - a Sam is over 21 years of age and is a level 1 cleaning service employee.
   - b Eleni is a 20-year-old third-year apprentice chef.
   - c Justin, a 19-year-old second-year apprentice hairdresser.
   - d Sarah is 23 years of age and a year 2 trainee clinic transport officer, providing transport to non-emergency patients.

3 Find the 'How we will help' tab, and click on 'Templates & guides'. Go to 'Fact Sheets' then 'About Us', to 'Powers of Fair Work Inspectors'. Summarise the role and powers of a Fair Work inspector.

4 Discuss why the federal government would establish this type of website.

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Occupational health and safety laws

Figure 10.5 Occupational health and safety is an important obligation of a business.

All businesses need to ensure they comply with the relevant occupational health and safety laws for their state. In Victoria, businesses are to observe occupational health and safety laws that set out the responsibilities of employers and employees to ensure a workplace is safe. Workplaces are to be proactive in reducing all physical, chemical and behavioural hazards as far as is practicable. These obligations and responsibilities are set out in the *Occupational Health and Safety Act 2004*.

Occupational health and safety (OH&S) laws aim to prevent accidents in the workplace by involving all within the business in actively working to identify and remove hazards.

An employer's obligations under OH&S include:

- a commitment to a safe workplace covering all workplace activities
- to involve all workers, management and owners in the development of an OH&S policy
- to communicate the OH&S policy and its relevant processes and procedures
- to provide training in all relevant OH&S procedures and processes
- to regularly monitor compliance and review the policy.

In addition to the Act, there are compliance codes that provide practical advice to those who have duties or obligations under the Act.

occupational health and safety (OH&S) laws concerned with the safety and welfare of people engaged in work or employment

Figure 10.6 Elements of a health and safety system operating in accordance with Victorian OH&S laws.

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WorkSafe Victoria

WorkSafe is the Victorian Government's regulator in the enforcement of health and safety in all workplaces in the state. Inspectors from WorkSafe may assess risks and hazards and, if necessary, may close down the business until these are removed. The business operator, therefore, must be aware of OH&S legislation and the standards and codes relevant to their particular industry. Failure to do so could result in legal prosecution.

WorkCover compulsory insurance scheme that provides employers with insurance cover for the cost of benefits if workers are injured or become ill because of their work

WorkSafe Victoria established a compulsory workplace injury insurance where employers contribute to **WorkCover** insurance. This provides employers with insurance cover for the cost of benefits if their workers are injured or become ill because of their work. An income and compensation for employees and/or their families is provided in the event of injury, disability or even death in the workplace. Premiums vary according to the level of risk in the workplace. The insurance may cover:

- replacement of lost income
- medical and rehabilitation treatment costs
- legal costs
- lump sum compensation in the event of a serious injury.

CASE STUDY **10.1**

WorkSafe in action: solar installation company convicted and fined

A serious fall of an employee from the roof of a warehouse has led to a solar installation company to be convicted and fined $30 000 at Bendigo Magistrates Court.

On the day of the accident, the employee was not wearing a safety harness and stepped onto a fibreglass skylight on the roof a warehouse which gave way, causing him to fall 5.6 metres. He suffered a broken hip.

According to WorkSafe guidelines, the installation of solar panels where an employee risks falling over 2 metres is high-risk construction work. This requires employers to complete a Safe Work Method Statement (SWMS), a safety-planning tool that identifies the risks and hazards of high-risk construction work. Management of Solar 360 were expected to complete and implement the measures identified to manage the recognised risk and hazards.

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Solar 360 Pty Ltd was charged with failing to prepare an SWMS and a safe system of work. The owner pleaded guilty and was sentenced to pay $15 000 for each charge as well as $4725 in costs.

ANALYSIS

1 Name and describe the business that has been prosecuted.
2 Describe what has occurred and how the law has been breached.
3 Explain the importance of a Safe Work Method Statement (SWMS) to a workplace such as Solar 360.
4 Propose how this prosecution and the publicity surrounding it might affect the business in terms of its reputation and sales.

Equal opportunity, anti-discrimination and sexual harassment laws

The Victorian Equal Opportunity and Human Rights Commission defines discrimination as 'treating, or proposing to treat, someone unfavourably because of a personal characteristic protected by law'. Victoria's *Equal Opportunity Act 2010* protects people from discrimination and harassment in all areas of public life, including the workplace.

Anti-discrimination laws aim to protect employees from discrimination on the grounds of age, gender, sexual orientation, gender identity, religion, pregnancy, race, ethnic background, disability or any other personal characteristic. The Victorian Equal Opportunity and Human Rights Commission may fine employers if they perpetrate or allow discrimination based on an employee's personal characteristics to occur in their workplace. Discrimination can be direct or indirect and includes:

- the recruitment process; for example, job advertisements or interviews being inaccessible because of a disability
- being offered unfair terms of employment; for example, because of your race or religion
- being denied access to training; for example, because of your age
- being refused or having limited access to opportunities for promotion, transfer or other employment benefits; for example, because of parental status
- being unfairly dismissed, retrenched or demoted; for example, because you become pregnant.

Sexual harassment is against the law according to the *Equal Opportunity Act 2010*. It is unwanted or uninvited sexual behaviour that is offensive, embarrassing or humiliating in the workplace either by employers to workers or between workers. Despite being outlawed for over 25 years, sexual discrimination continues to be an issue. There are clearly specified procedures for investigating a sexual harassment claim that must be followed by employers.

Figure 10.7 Discrimination is treating, or proposing to treat, someone unfavourably because of a personal characteristic protected by law.

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10.3 Trade practices legislation and rights of the consumer

Figure 10.8 Australian Consumer Law is designed to protect consumers from exploitation and is administered by the ACCC.

The *Trade Practices Act 1974* was replaced by the *Competition and Consumer Act 2010* with Schedule 2 of the Act known as the *Australian Consumer Law 2011* (ACL). All Australian businesses must comply with the national law designed to protect Australian consumers. The Competition and Consumer Act established the Australian Competition and Consumer Commission (ACCC) to protect consumer rights, business rights and obligations, perform industry regulation and price monitoring, and prevent illegal anti-competitive behaviour.

The ACCC also works to ensure that both business owners and consumers are aware of their responsibilities and rights so that all parties are well informed and are able to stimulate effective competition. Australian consumers now have the same rights no matter where they live, where they purchase goods and services or where a supplier is located.

Consumer guarantees

Businesses need to be aware of consumer rights as they are protected by ACL which covers goods and services purchased up to the value of $40 000 for domestic, household or personal use. All goods and services are expected to be fit for the purpose they were purchased for, be free of defects and be safe to use.

There are legal obligations businesses must meet when devising warranties and guarantees. The business must ensure that its products and services are suitable, not faulty and will perform satisfactorily, the product or service must be fit for the purpose for which it is sold and must be of a quality that means it can be used. While the focus of warranties and guarantees is on retailers of goods and services, manufacturers also need to ensure the products they supply and design are suitable for use.

Consumers are automatically covered by **warranty** protection under the Act. Should a product fail to meet these criteria, a consumer has the right to a remedy through repair, replacement, refund or compensation. There are penalties imposed on businesses that fail to follow the provisions relating to guarantees, warranties and advertising.

warranty a written guarantee, issued to the purchaser of an article by its manufacturer, promising to repair or replace it if necessary within a specified period of time

Misleading and deceptive conduct

A seller may not make **false and misleading representations** to a consumer. This means they must not lie or exaggerate the quality, benefits, warranty, possible uses or prices of the products they are selling.

A business must ensure that it does not make false and misleading representations about products sold. Illegal practices include:

false and misleading representation to lie or exaggerate about the features or benefits offered by a product being sold

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- a 'half-truth' in advertising
- suggesting that a product has an attribute that it does not have
- stating that a product is made in one country when it is made in another
- using a logo, business name or packaging that is similar to a well-known brand
- overly optimistic claims about a product
- false or misleading labels or misleading statements about the characteristics of a product
- offering gifts and prizes with no intention of supplying them
- bait advertising, which is advertising a good when there are only a few available.

CASE STUDY
10.2

ACCC in action: art company breaches Australian Consumer Law

COURT FINDS THAT BIRUBI ART MISLED CONSUMERS OVER FAKE INDIGENOUS AUSTRALIAN ART

The Federal Court has found that Birubi Art Pty Ltd made false or misleading representations that products it sold were made in Australia and hand painted by Australian Aboriginal persons, in breach of the Australian Consumer Law.

From July 2015 to November 2017 Birubi sold over 18,000 boomerangs, bullroarers, digeridoos and message stones to retail outlets around Australia.

These products, despite featuring designs associated with Australian Aboriginal art and words such as 'Aboriginal Art', 'genuine', and 'Australia', were made in Indonesia.

The Court concluded that the overwhelming impression conveyed by some of the products, and the associated images and representations, is that they were made in Australia and were hand painted by Australian Aboriginal persons.

CONTINUED ITEM

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'It was unacceptable that Birubi sold Indonesian made products as having being hand painted by Australian Aboriginal persons when that was not the case,' ACCC Commissioner Sarah Court said.

'The artwork, images and statements used by Birubi suggested a relationship between Australian Aboriginal people and the production of the products which did not exist.'

'The ACCC is particularly concerned about any conduct that has the potential to undermine the integrity and value of genuine Indigenous Australian art, and consequently, the impact that could have on Indigenous Australian artists,' Ms Court said.

'The ACCC will not hesitate to take further action against traders who mislead consumers about the nature of their products, in order to ensure confidence in the Indigenous Australian art industry,' Ms Court said.

(Source: 'Court finds that Birubi Art misled consumers over fake Indigenous Australian art', ACCC website, 24 October 2018)

ANALYSIS

1 Outline the facts of this case including how this company breached ACL.
2 Describe the role of the Federal Court in this case.
3 Propose a possible penalty. Do you think that this will also deter other businesses from making misleading representations?
4 This case reinforces the importance of businesses being ethical. Suggest the possible impact this outcome may have on the business and propose three strategies that Birubi should implement in planning viable business in the future.

ACTIVITY 10.4

Search for the website of Consumer Affairs Victoria. Go to 'Products and services' and answer the following questions relating to returns and refunds.

1 Describe the circumstances under which a trader is legally obliged to provide a refund at a customer's request.
2 Does a refund have to be a cash refund or will a credit note suffice?
3 Describe the circumstances where a customer is not legally entitled to a refund.
4 Are the following signs legal in Victoria? Explain your answer.
   a 'Refunds on unworn items only'
   b 'No refund on sale items'
   c 'No refunds'

Figure 10.9 Consumer guarantees require goods to be of an acceptable quality.

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10.4 Further obligations with insurance

Many businesses require some form of **insurance** to provide financial compensation in case of accidents, fire, theft and other mishaps and disasters. An insurance policy is a legal contract where the insured (client) pays a sum of money (**premium**) to an insurer (usually an insurance company). In return, the insurer guarantees to financially compensate the client for accidental losses incurred, or for the client being liable to compensate staff, customers or members of the public for accidental damage and loss suffered due to the business's operations. Premiums increase according to the amount of risk and the cost of replacement or amount of financial protection offered. For example, it costs more to insure against fire in a bushfire-prone area, and more to insure against theft in an area with high rates of burglary.

The small business operator should carry out risk management by investigating potential safety risks and hazards, taking action to reduce them, and taking out insurance accordingly. Risk management should be repeated regularly as the business develops. The insurance company will also conduct **risk assessment** of the business to gauge premiums. Business owners can obtain reduced premiums if they take action to reduce their level of risk. For example, installing fireproof doors, smoke alarms and extinguishers reduces fire risk.

insurance a contract, represented by a policy, in which an individual or entity receives financial protection or reimbursement against losses from an insurance company

premium periodic payment made to an insurance company

risk assessment an assessment of the level of risk for which insurance cover is sought, conducted by an insurance company

public liability insurance the protection of businesses against damages or injuries to another person or property

Some types of insurance are compulsory and must be purchased by all businesses.

- Businesses are required to pay workers' compensation insurance, if their employees are paid over $7500 per annum (covered in WorkSafe Victoria – see section 10.2, 'Employment laws').
- **Public liability insurance** is required by many types of businesses.

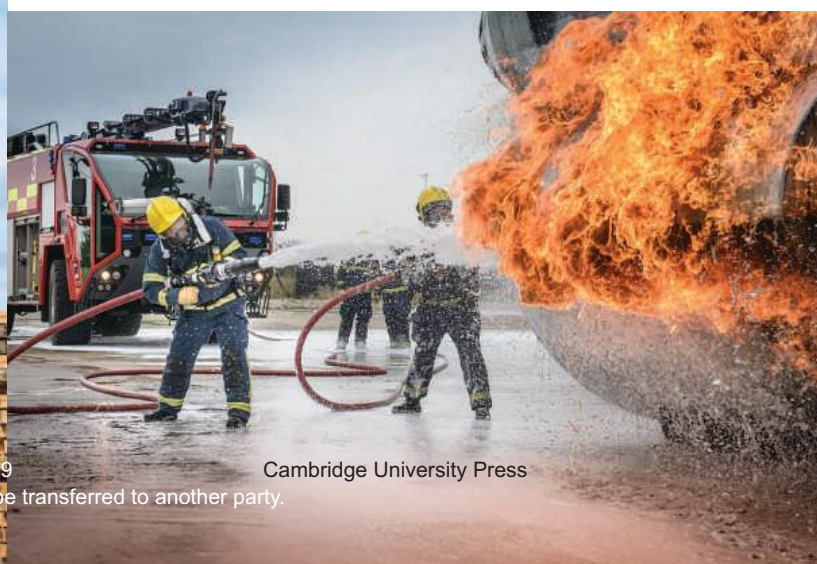

Figure 10.10 Some businesses have higher levels of risk than others.

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Chapter summary

- A business must be aware of its legal, ethical and social responsibility obligations, otherwise it runs the risk of prosecution, which may also involve hefty fines.
- ASIC requires the registration of business names, including names of companies.
- The ATO issues businesses with an ABN which is a unique 11-digit number that confirms a business identity.
- An ABN will allow a business to obtain an Australian domain name.
- Local councils are empowered to create rules, by-laws and regulations that are most suited to the needs and resources of the local area. Businesses are expected to operate within the established guidelines in relation to areas such as parking, footpath trading and health regulations. Required licences, permits and approvals are applied for at local council level.
- Requirements to maintain occupational health and safety at workplaces is a legal obligation for all employers. In Victoria, OH&S laws are implemented by WorkSafe.
- Employment laws exist to protect employees and to ensure that there are equal rights and responsibilities in workplaces. Employers are expected to provide equal opportunity throughout all of the stages of employment including the application process.
- Employers are expected to provide employees the 10 National Employment Standards.
- There are mechanisms for resolving disputes in the workplace outlined in industry awards and enterprise bargaining agreements.
- Australian trade practices law exists to support fair competition to Australian businesses and includes Australian Consumer Law, which outlines the rights of consumers. Business owners are expected to be responsible in assuring that the rights of consumers are maintained.
- Some insurances are compulsory for business owners. Trades such as electrical contractors are expected to show evidence of their public liability insurance when completing registration renewal every three years.

Chapter summary questions

1 List the main areas of legal compliance with which business operators must be acquainted.
2 Identify to which organisation an employer would go for advice on the following:
   a resolution of an employee's sexual harassment claim
   b obtaining a licence to discharge waste into the environment
   c obtaining an ABN
   d finding out their legal obligations in regard to consumer rights
   e registration of a website domain name
   f breakdown in employer and employee relations.
3 Define the following terms and explain how each relates to the issue of small business legal compliance:
   a by-laws and licences
   b social responsibility
   c occupational health and safety
   d workplace relations
   e equal opportunity
   f consumer guarantees
   g codes of practice.

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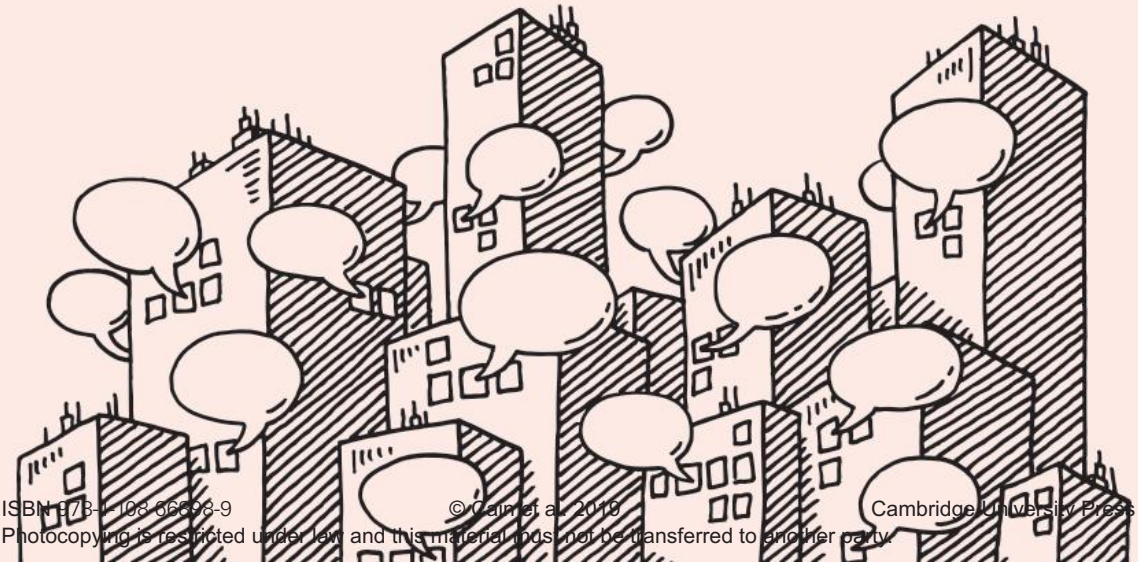
4 Explain what occupational health and safety laws are. What is the purpose of these laws?
5 Outline the obligations of a Victorian employer with regards to occupational health and safety.
6 Compare the role of the Fair Work Commission with that of the Fair Work Ombudsman in the Australian system of workplace relations, noting the differences and similarities.
7 Identify and describe four guarantees that are protected for Australian consumers and explain the role of the ACCC in working towards solutions should a guarantee be breached.
8 Explain what each of the following are and outline the obligations of Australian business with regards to them:
   a income tax
   b ABN
   c TFN
   d GST
   e FBT.

Extension questions

1 Discuss the social obligations you believe Australian businesses have to the general community. Use examples to support your arguments.
2 Working in small groups, develop a 'Meet Your Legal Obligations in Business' brochure designed for new business owners in Victoria.



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Chapter 11
Establishing a business – policies and procedures

Overview

All businesses need to plan for and develop policies and procedures to ensure consistency and stability in their day-to-day operations. Having policies also means a business is more likely to be compliant with legal and other requirements. Particularly in the planning and establishment phase of a business, it is important that bank accounts, financial control systems and record keeping strategies are all in place.

Suppliers are a vital component of a competitive business venture and there are important factors to be considered in establishing socially responsible supply chain management. It is also essential that a business takes into consideration its technological needs, and to ensure that data obtained from customers is protected.

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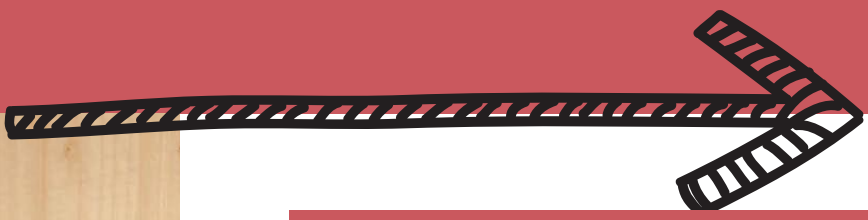


Key terms

- balance sheet
- bank statement
- cash book
- cash flow
- cash payments
- cheque
- cheque butt
- code of conduct
- code of practice
- customer database
- environmental sustainability
- evidence
- financial management
- petty cash
- policy
- procurement policy
- Profit and Loss Statement
- record keeping
- source documents
- transactions

Key knowledge

In this chapter you will learn about:

- the need for policies and procedures to achieve compliance with legal requirements and establish business routines
- the importance of establishing bank accounts, financial control systems and record keeping strategies
- the importance of choosing appropriate suppliers, including the benefits and limitations of suppliers which meet the corporate social responsibility objectives of the business
- technological and global issues that may affect decision-making when establishing a business, such as generating customer data bases and contacts with overseas suppliers and retailers.

(Source: VCAA Business Management Study Design, 2017–2021, p12)

What's ahead

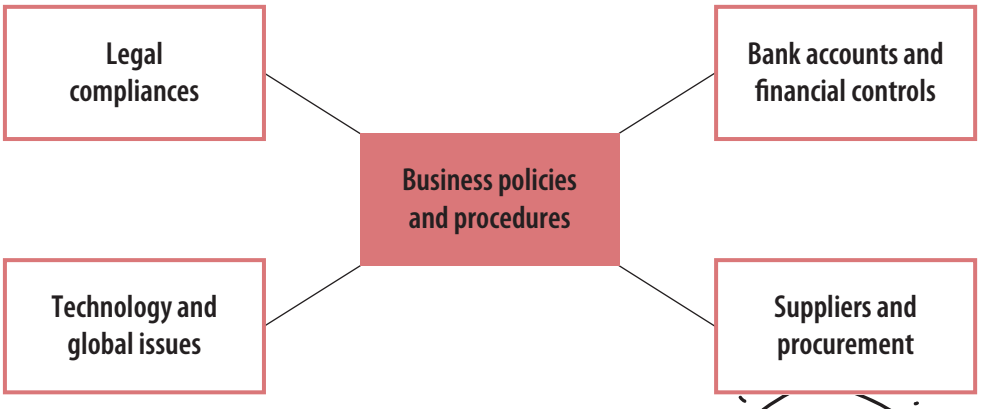
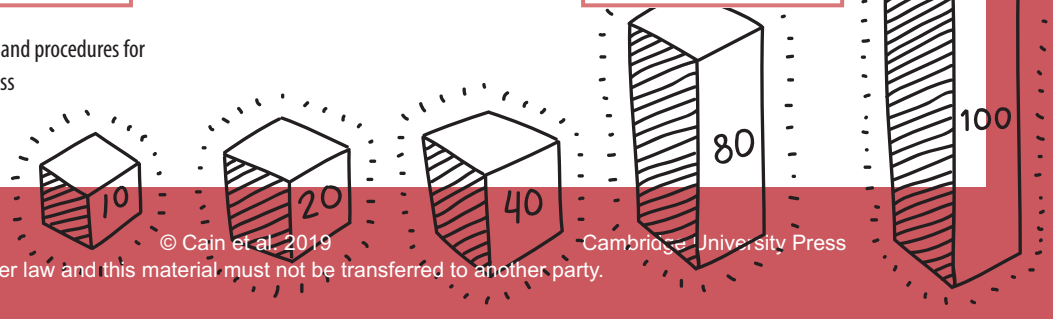


Figure 11.1 Policies and procedures for establishing a business



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11.1 Policies and procedures relating to legal requirements

policy a written statement of the processes, procedures, rules and regulations

A **policy** is a written statement detailing the processes, procedures, rules and regulations that are expected to be followed in certain situations. It is important that a business develops policies and accompanying procedures to ensure it complies with legal and other regulatory requirements. Policies ensure that the values of an organisation are clearly communicated. With consistent and uniform expectations, policies foster stability and confidence in the workplace.

A business needs to make sure it has clear policies that comply with relevant laws. An employer is obliged to ensure their employees understand the policies and there are processes in place to deal with complaints. Some policies establish guidelines about how issues will be dealt with in an organisation. Policies are developed in a range of different areas including:

- occupational health and safety, anti-discrimination, equal opportunity and anti-bullying
- customer service, such as returns, marketing and refunds
- **codes of practice**
- emergency management procedures
- financial management including bank accounts
- procurement procedures and processes.

codes of practice sets of guidelines established by external bodies to regulate the standards of behaviour and conduct within an industry

Table 11.1 Policy development is essential in ensuring legal compliance requirements are being met by business.

Area of management	Legal requirements impacting policy development	Areas of policy development
Human resources	Equal opportunity, anti-discrimination and sexual harassment laws Workplace relations laws	Recruitment and Selection Bullying and Harassment Policy **Code of Conduct** Internet and Email Policy Staff Induction and Procedures Policy
Operations	Occupational health and safety laws	Hazards Control Policy Workplace Health and Safety Policy Emergency Evacuation Policy Procurement Policy
Technology support	Privacy Act Australian Privacy Principles	Data Management Policy Privacy Policy
Sales and marketing	Competition and Consumer Act	Customer Service Policies Returns and Refunds Policy Marketing Policy Social Media Policy
Finance	Corporations Act Australian Accounting Standards Board (AASB)	Financial Policy and Procedures Bank Account Policy Use of Business Credit Card Policy New Supplier Policy Purchasing Policy Customer Debt Collection Policy

code of conduct guidelines to regulate standards of behaviour and conduct either within an organisation or within an industry

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ACTIVITY 11.1

Emergency evacuations

It is a legal requirement that all businesses have a policy to deal with emergency management and evacuations. By developing a policy, a business will need to consider how it might cope with events and unforeseen emergencies. Search for the 'Emergency management' page on the Australian Government Business website for more information.

Find the emergency management plan for your school or institution.

1 Outline the type of information that is included in the plan.
2 Explain why schools and all businesses need to develop these types of policies.

11.2 Financial control systems

Among the most vital aspects of business operations are **financial management**, **record keeping** and the ability to evaluate financial performance. It is essential that a manager/owner of a business has the necessary skills to perform these tasks and enable the business to remain financially viable. Financial planning, management and evaluation necessitate the development and maintenance of financial record keeping, control and evaluation systems and processes.

financial management managing financial activities relating to the operation of a business

record keeping maintaining accurate records of all matters related to business activities

Establishing a bank account for a business

When establishing a business, it is important to set up a bank account that is separate from the owner/s of the business. If this does not occur, then it may become impossible for the owner/s to monitor and separate personal and business income and expenses. It can also become an issue when tax returns need to be completed. If the business is a company, partnership or trust it is strongly advised to have a separate account (see Chapter 7 for further information on business structures).

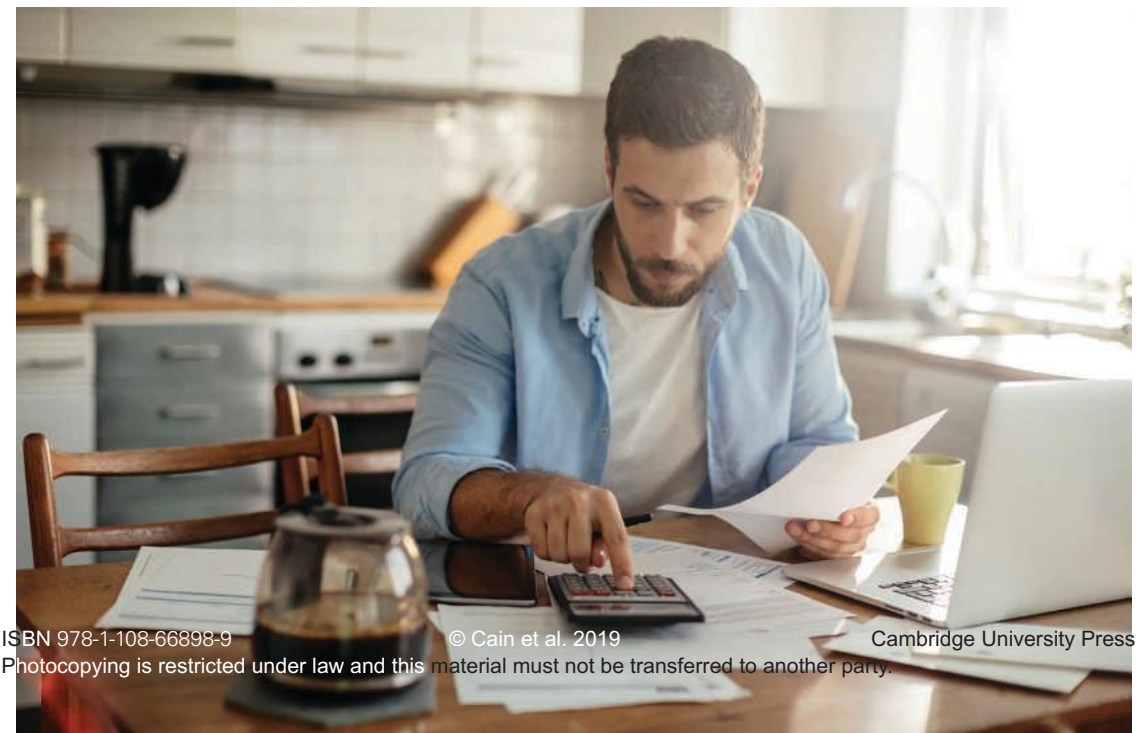

Figure 11.2 When establishing a business, it is important to set up a separate business bank account that is used only for business transactions.

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ACTIVITY 11.2

Sunni and Liam have started a business selling comic books. Presently the business is selling online and the comics are stored in their bedroom. Sunni believes they should open up a separate bank account because the revenue from sales and business expenses are coming out of Liam's personal bank account.

Explain why it is advisable that the business has its own separate bank account.

Financial control systems and record keeping strategies

It is essential that all businesses establish a financial management system, although this is sometimes more difficult for a small business. However, this does not mean it should not be done. A business needs to have control over its cash and **cash flow**.

cash flow tracking the cash or money coming into and going out of the business

There are a range of factors to be considered when establishing financial control systems. If a business is to be successful and viable over a long period of time, controls and systems are required.

Financial control and business documents required

Small and new businesses are often the most vulnerable to fraud because they often do not have effective internal controls. By removing the opportunity and motivation for fraud and theft, and ensuring systems are in place to discourage errors and identify mistakes and anomalies quickly, it is easier to avoid fraud and easier to take corrective action to minimise losses.

Internal controls are adopted by businesses in order to:

1. safeguard its assets;
2. ensure financial information is accurate and reliable;
3. ensure compliance with all financial and operational requirements.

If the owner/manager does not establish controls then it is unlikely that staff will, and this can lead to issues around financial control and resource management. Having a code of ethics, plus clear processes and policies that are known and followed, will set the culture and tone of the business. It is also important for the business to have formal systems and written procedures and policies in place to identify any issues or oversights. Proper and accurate record keeping and clear procedures will minimise exposure to risk and possible fraud because these can then be detected early and quickly.

Each internal control procedure should address at least one of the following criteria:

- completeness – all reports of business contain records and **transactions**
- accuracy – the appropriate amounts are recorded in the appropriate accounts
- authorisation – the correct levels of authorisation are in place to cover such things as approval, payments, data entry and computer access
- validity – the invoice is for work performed or products received and the business has incurred the liability properly
- existence – of assets and liabilities; that these have been recorded accurately and in a timely manner
- error handling – that errors in the system have been identified and processed
- segregation of duties – to ensure certain functions are kept separate; for example, the person taking cash receipts should not also do the banking
- presentation and disclosure – timely preparation of standard financial reports.

transactions contractual arrangements undertaken by a business; for example, payment of wages or rent

(Source: Based on CPA Australia website, 'Internal controls for small business: 2008 update'.

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There are a range of financial records that should be kept by business. These can be used to compile reports accessible by owners and other interested stakeholders. A simple book-keeping system for a small business should include records of financial transactions such as cash and credit sales and payment of expenses. These transactions should be recorded. There needs to be **evidence** of all financial transactions. A document should include the date, the type of transaction, the monetary value and the name/s of those involved where relevant.

evidence information which identifies type of transaction, its date, parties and financial value (if any)

Figure 11.3 A spreadsheet is one of the simplest forms of financial record keeping.

If these **source documents** are not kept it is almost impossible for a business to track the financial data or prove expenditure; for example, phone expenses.

A **cash book** is one of the simplest forms of financial record keeping. A cash book sets out all the cash transactions of a business including receipts and payments. Once a business starts operation it enters into transactions, which must be correctly recorded. Examples of transactions include revenue from the sale of a good or service and **cash payments** such as employee wages and payment of rent. A business needs to ensure that it keeps evidence of all transactions. The cash book can be kept manually as a multicolumn cash book, on a spreadsheet program such as Microsoft Excel, or on a computerised accounting package such as MYOB (Mind Your Own Business), Xero or QuickBooks.

A cash receipt is a source document and also provides evidence for the business. Cash source documents are set out in Table 11.2 over the page.

source documents documents that provide evidence of transactions

cash book one of the simplest forms of financial record keeping; sets out all the cash transactions of a business including receipts and payments

cash payments when items are purchased and paid for in cash

ACTIVITY 11.3

Determine whether the following events are transactions. Justify your answers with reasons.

a A customer places their name on a mailing list.
b A manufacturer purchases raw materials.
c A supplier distributes a catalogue of plumbing parts to a hardware store.
d A customer returns a faulty toaster.
e A phone bill is paid by an advertising agency on a Visa card.

Figure 11.4 Businesses must be systematic in developing financial control systems.

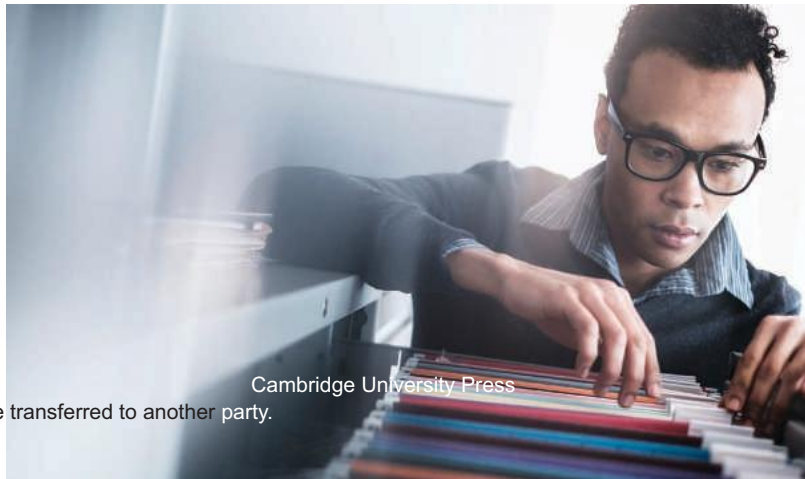

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Table 11.2 Cash source documents

Type	Explanation
Receipts	A receipt is a record of cash transactions and money received by a business.
Cash register roll or summary	Most retail stores use electronic cash registers. A cash transaction is recorded by the business, often on a cash register roll, or a summary which can be accessed.
Pay-in book or slip	When cash is deposited into the bank, a pay-in book or slip is completed and provides evidence. It is a sound practice to bank cash daily to ensure that the records balance with the cash received or paid out by the business.
EFTPOS records	EFTPOS (Electronic Funds Transfer at Point of Sale) are widely used. While it is still recognised as a cash transaction, the money is transferred into the bank account of the business by the customer's financial institution. The growth in the use of EFTPOS and internet banking means that small businesses need to check that these electronic transactions are in the business records and bank accounts. Failure to check may mean that the cash flow is not accurate.
Credit card transactions	Many businesses offer credit card facilities. The financial institution or credit card provider reimburses the business for the sale, with the business also paying a fee for the use of these facilities.
Periodic payments	Businesses also have periodic payments (direct debits or payments) made by the bank or other financial institution on behalf of the business. The business has authorised the financial institution to withdraw the amount from its bank account. Lease payments, insurance instalments, electricity bills and many other regular payments can be made.
Petty cash	Businesses usually need to make small payments including for stamps, tea, coffee and tram fares. The petty cash system allows small amounts of cash to be kept on hand for these expenses. A petty cash voucher should be completed when petty cash is required; this voucher provides evidence of the expenditure and is recorded in the petty cash book.
Cheques	Cheques are used less now and most businesses use direct debit and EFTPOS for payments of business expenses. A cheque is simply an 'IOU' to the person or business. The bank involved transfers this amount into the account of the person owed the money. A **cheque butt** provides the business with a record.

petty cash a small amount of cash held to pay for items such as stamps, tea and coffee

cheque an instruction to the bank to pay money from an account to the person named on the cheque (drawee)

cheque butt form of evidence to support writing of the cheque and payment of an account

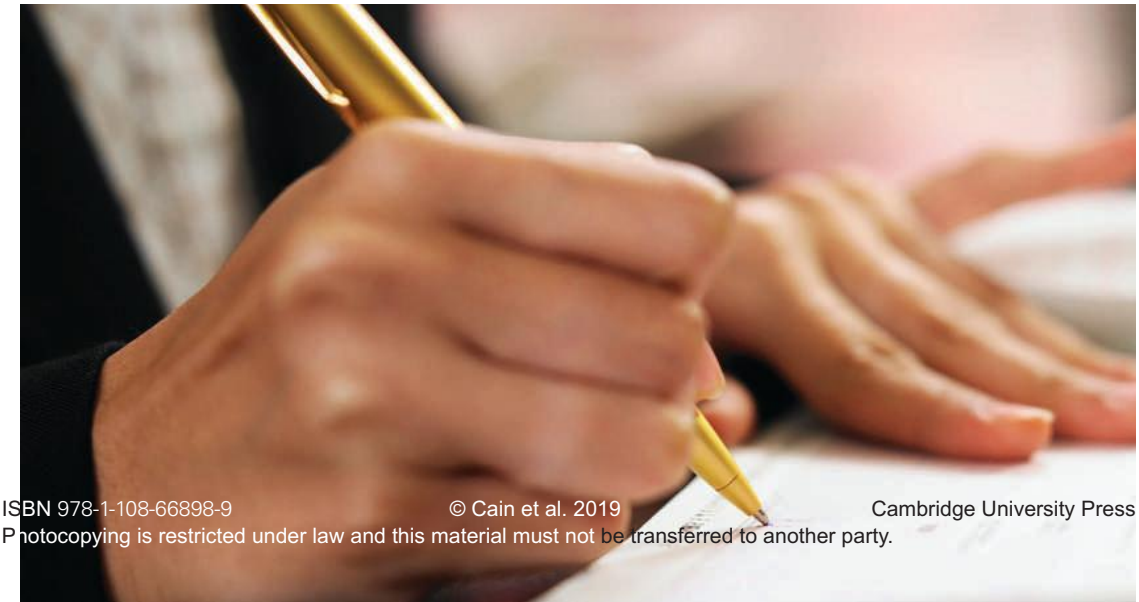

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Figure 11.5 An example of a cash book, for Bob's Pet Grooming Service

Bob's Pet Grooming Service
Cash Book for the month ended September 2021

Cash Receipts							Cash Payments							
Date	Details	Rec no.	Grooming fees	Sale of pet products	Sundries	Bank	Date	Details	Ch. No.	Products	Motor Vehicle Exp.	Wages	Sundries	Bank
3-Sep	Fees	112	350			350	4-Sep	Wages	123			150		150
9-Sep	Pet care	113		56		56	11-Sep	Petrol	124		50			50
13-Sep	Fees	114	123			123	14-Sep	Cleaning products	125	34				34
16-Sep	Fees	115	68			68	17-Sep	Wages	126			72		72
21-Sep	Pet minding service	116			86	86	20-Sep	Petrol	127		24			24
25-Sep	Fees	117	193			193	24-Sep	Cleaning products	128	18				18
27-Sep	Fees	118	67			67	26-Sep	Electricity	129				75	75
29-Sep	Fees	119	48			48								
30-Sep			849	56	86	991	30-Sep			52	74	222	75	423

ACTIVITY 11.4

Katie Walker has been successfully running her business A-Plus Dog Walking for the past six months. She has been trying to keep her records manually in a cash book. This seemed to be working, however, she cannot account for $150 of petty cash expenses, although she may have used some of it to buy coffees, movie tickets and dinner during the last month. Her **bank statements** are sent every three months, but Katie has not had time to check them properly. She paid three suppliers and has received a phone call from one of them telling her that the direct deposit did not go through.

Advise Katie as to what she could do to ensure that she can gain control over her business finances.

bank statement a periodical statement where the bank itemises the transactions relating to an account; for example, debits, credits, government and bank charges

Cash control

Figure 11.6 For a business to be financially successful, it must keep control over cash and cash flow.

For a business to be financially successful it must maintain control of its cash and cash flow. Cash flow is tracking the cash or money coming into and going out of the business. As part of the control over the cash and financial system, a business should also put in place the following processes:

- Cash registers should be used and cash stored securely.
- Cash should be banked regularly, preferably daily.
- If possible the tasks of handling cash, banking and writing cheques should be completed by different people.
- Bank statements and cash books should be checked regularly and reconciled (balanced).
- Correct procedures should be in place for petty cash. Cash should not be reimbursed without a receipt and a petty cash voucher. The petty cash tin should be kept locked and in a secure place.

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Profit and Loss Statement an accounting report that outlines the revenue less the expenses for an accounting period. It provides a business with an overview of whether it has made a profit for the accounting period.

balance sheet an accounting report that sets out the assets, liabilities and proprietorship (owners' equity) of a business as at a given date

Many businesses also have credit transactions as well as cash, and these are just as important to control. Again, this means it is important to have accurate records and ensure that any outstanding money from customers is followed up. Many businesses will put in place strategies, such as limiting the amount of credit given to customers and monitoring the terms and time given to customers to pay. At the same time, a business should try to extend the time given by suppliers to pay bills at a later date to keep cash in the business.

There are two important financial statements a business will use; these are the **Profit and Loss Statement** and the **balance sheet**. The Profit and Loss Statement will provide an outline of the revenue and expenses of the business and any profit (if one has been made). A balance sheet will set out the assets, liabilities and owners' equity (investment) in the business. Both provide information that can be useful for business owners and allow them to monitor and evaluate business performance.

ACTIVITY 11.5

Go to the website of a large business; for example, the Commonwealth Bank, EFTPOS, Wesfarmers or Flight Centre. Look at the first few pages of the business's current annual report (a summary and overview).

1 Identify the profit or loss of the business.
2 List other financial information regarding expenses and revenue that is outlined.

A business should have financial statements audited and checked by an independent auditor or accountant. Audits are generally prepared by an appropriately qualified accountant (e.g. a CPA or CA) who will ensure that the financial statements are compliant and meet standards. Large businesses must have an independent financial audit and there are codes of corporate governance.

'The top ten do's for a business'

1 Adjust and readjust cash flow projections.
2 Establish maximum limits of purchasing authority.
3 Require all payments be supported by invoices.
4 Use an inventory control system.
5 Work with a CPA to upgrade financial controls.
6 Require bids on all purchases over a stated limit.
7 Be loyal to good suppliers.
8 Pay on time, but only after verification.
9 Consider higher audit levels.
10 Implement an 'edit log' for website changes and updates.

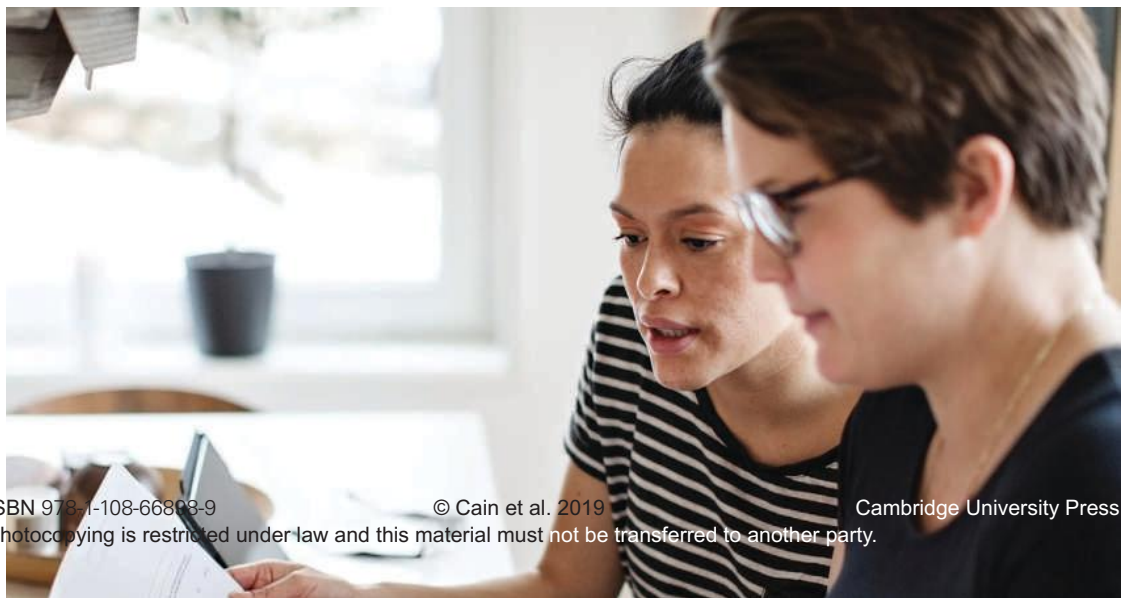

Figure 11.7 Businesses of all sizes need to keep financial records.

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'The top ten don'ts for a business'

1 Run out of cash … ever.
2 Discount the importance of hiring an accountant.
3 Overlook suppliers as sources of financing.
4 Disregard contingency planning.
5 Have the same person handling payables and receivables.
6 Place an order without a written price and terms.
7 Delegate signing of cheques.
8 Assume that shipments are complete and in perfect condition.
9 Neglect to ask for and use term discounts.
10 Think that hand-shake agreements are best when buying.

(Source: 'Session 1: Getting financial controls in place', My Own Business Institute)

All internal controls, whether administrative or accounting, are linked to a financial consequence. Many decisions are based on the information in financial reports, hence accurate and up-to-date information is crucial. Businesses have many compliance obligations and need to ensure these are met. Without accurate financial information, decision-making becomes very difficult and the business will suffer. Internal controls also help to ensure financial information is accurate and timely, so that managers and owners can take the correct action to meet the business's objectives and goals.

The types of controls needed will vary with the different flows of goods and funds within a business. Some areas of the business are at greater risk of loss or fraud and require more stringent controls.

CASE STUDY 11.1 *Strategies for small businesses – financial control and record keeping*

It is important for a small business to keep record keeping simple while still ensuring records are accurate. A number of strategies should be introduced, including:

- keeping financial records and transactions separate from the owner/s
- keeping documents of all transactions in one place and filed in a logical way
- at least once a week checking that all transactions have been accurately recorded
- at the end of each month 'closing off' the records. Any adjustments can be made in the next month.

CONTINUED ITEM

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FINANCIAL CONTROLS FOR LARGE BUSINESSES

Large businesses have several obligations regarding financial record keeping and financial control. These financial reporting and auditing requirements are set out in the *Corporations Act 2001*. The Australian Securities and Investments Commission (ASIC) regulates compliance. Companies listed on the Australian Securities Exchange are actively monitored to ensure that financial reports and audit opinions are relevant and reliable to assist users of this information to make informed decisions.

ANALYSIS

Discuss why it would be important for a business owner to record and monitor this type of information.

11.3 The importance of choosing appropriate suppliers and procurement policies

The relationship a business has with its suppliers is crucial to competitiveness. Contracts must be established with reliable suppliers of high-quality inputs in order to maximise competitiveness. A reliable supplier of high-quality inputs will bring the following competitive advantages:

- *Quality*: the quality of inputs a business is able to access will directly impact on the quality of the products it is able to provide for sale in the market. Higher-quality products will in turn create higher levels of customer satisfaction, reduce defects and returns and generally improve the level of sales and efficiency. For example, if a bakery is able to access high-quality eggs, flour and butter the quality of the cakes it produces will be high. This will make the business more competitive, and increase sales and business performance.
- *Timeliness*: suppliers that deliver reliably and on time enable a business to create products both reliably and in a timely manner. Unreliable suppliers may mean a business is forced to halt or slow production. This in turn will affect its reputation for reliability and reduce productivity levels. Reliable deliveries from suppliers mean that a business is able to maintain minimal inventory levels, thereby reducing storage costs and thus minimising waste, theft and loss of items in inventory. This in turn increases efficiency and business competitiveness.
- *Competitiveness*: businesses with reliable suppliers of high-quality inputs at competitive prices can offer high-quality products at competitive rates.
- *Innovation*: suppliers are often major contributors to new product development and innovative ideas. Having established relationships with them will mean that a business is able to take advantage of these as they arise. For example, if a florist already has an established relationship with a flower grower who has developed a new type of rose, the florist will likely be the first to gain access to and sell the new flower, thereby gaining a competitive advantage.
- *Finance*: a good relationship with a supplier may allow a business to postpone debt.

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Maintaining positive supplier relationships

A business may establish and maintain a mutually beneficial relationship with a reliable supplier of quality inputs using the following strategies:

1 Settle bills on time: a business that pays accounts reliably and promptly becomes a valued customer. This will often extend into preferential treatment over other clients.
2 Allow adequate lead times for orders: a supplier given ample warning of an order is more likely to deliver on time and provide high-quality products.
3 Maintain transparent, open and frequent communication: regular contact with suppliers and maintenance of positive relationships often leads to preferential treatment. News of new products and promotions may consequently reach the business before it reaches competitors.

Figure 11.8 A business may establish and maintain a mutually beneficial relationship with a reliable supplier.

Choosing suppliers and corporate social responsibility

The following criteria should be applied when selecting suppliers:

1 Price: lower input costs enable a business to produce at a lower cost, thereby increasing competitiveness.
2 Quality: quality inputs enable high quality in a finished product, also enhancing competitiveness.
3 Reliability: suppliers who are reliable reduce the risk of production delays. This means increased productivity and business reputation.
4 Social responsibility: **environmental sustainability** and other social responsibility considerations are also important criteria in selection of suppliers. Many businesses adopt a **procurement policy** that stipulates environmental sustainability and social responsibility criteria to be applied when selecting suppliers of inputs. This means the environmental and social performance of potential suppliers is considered as part of the tender process. Factors to be taken into consideration when evaluating the environmental and social responsibility credentials of a supplier include:
   a the environmental management practices in use; for example, many businesses will not trade with sellers of genetically modified foods
   b supplier environmental and social responsibility policies: suppliers are increasingly chosen according to their levels of commitment to environmental practices and policies such as recycling or fair-trade principles. The Body Shop, for example, will only trade with cosmetics suppliers who do not test their products on animals. Traders who sign up to fair-trade agreements agree to only purchase from ethical suppliers who pay a fair price to producers in less developed countries.

environmental sustainability the ability of an ecosystem to maintain itself into the future; involves using the Earth's resources at a rate they can be replenished

procurement policy the specific regulations that a business uses to guide the process of procuring goods and services that are necessary for business

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c local suppliers may also be given first consideration as they have a reduced impact on CO_2 emissions owing to the shorter distances required for deliveries. Similarly, local suppliers may also be favoured in an effort to protect Australian jobs and industries.

d social responsibility considerations may include treatment of employees by the supplier; for example, the payment of fair wages and not using child or forced labour. They may also include aspects of how the supplier supports its local community and the employment policies of the supplier.

e socially responsible inputs: every product has an effect on the environment. The purchase of more sustainable inputs will minimise the environmental impact of a business. Therefore, suppliers of more environmentally friendly inputs are often favoured because these produce less waste, can offer greater efficiencies and improve the reputation of a business in terms of environmental performance.

Figure 11.9 Suppliers are increasingly chosen according to their levels of commitment to environmental practices.

Social responsibility and supply chain management

The community increasingly expects that a business considers social responsibility factors when selecting suppliers. Many businesses adopt a procurement policy stipulating environmental sustainability and social responsibility criteria to be applied. An environmental management system (EMS) sets out a sustainable procurement process.

The lowest price is no longer the only criteria for the selection of a supplier. Evaluation of a supplier's environmental and social performance must be made before awarding a contract. Factors to be considered may include:

- Does the supplier use environmental management practices? Does the supplier have an EMS? Does the supplier meet ISO 14001 environmental management standards and practices?
- Is there legal compliance with environmental legislation?
- Does the supplier have appropriate environmental and social responsibility policies in place?
- Does the supplier treat employees properly and pay them a fair wage?

An audit of suppliers and their social responsibility practices and policies may be done to assess which suppliers satisfy the criteria.

Figure 11.10 When selecting a supplier, ensure their products are produced ethically.

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Social responsibility considerations may include treatment of employees. Do they pay fair wages and provide adequate working conditions? Suppliers who are found to use child labour or exploit workers may be excluded on these grounds.

Examples of environmentally sustainable input strategies include:

- purchase and use of green energy options: this will reduce carbon emissions and minimise energy use
- purchase of sustainable technology and equipment options: energy efficient equipment will save on energy use. Green company vehicles, for example, with smaller hybrid engines will save on fuel costs, reduce CO_2 emissions and improve the business's image.
- purchase of the most sustainable input options; for example, recyclable materials
- choosing local suppliers to reduce carbon footprint and transport costs
- choosing suppliers based on principles of corporate social responsibility.

Advantages of ethical procurement are:

1 Suppliers of environmentally sustainable products usually offer reduced costs due to energy efficiencies such as:
   - **a** lower transport costs
   - **b** reduced waste and waste disposal costs
   - **c** newer, more efficient technologies
   - **d** recycling.
2 Improved business reputation in terms of social responsibility including:
   - **a** a better reputation among investors who look for 'green' or socially responsible investment opportunities
   - **b** improved customer relations: consumers are often drawn to purchase from businesses with a positive reputation in terms of corporate social responsibility
   - **c** a positive message is sent to investment analysts, the media, shareholders and the local community about the commitment of the business to social responsibility.

The positive publicity associated with an ethical procurement policy will often result in improved business competitiveness levels.

Potential disadvantages of ethical procurement are:

1 increased costs involved in sourcing ethical and socially responsible suppliers
2 potential for reductions in quality of products.

Figure 11.11 Sustainable sourcing integrates social, ethical and environmental performance factors into the process of selecting suppliers.

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CASE STUDY
11.2

Green logistics – the competitive advantage of bicycle couriers

In Paris, one of Europe's most traffic-congested cities, a green delivery company is bringing the world one step closer to a low carbon future.

With a team of 45 people, 34 customised electric cargo bikes and seven electric small vans working from two sorting offices, The Green Link makes a range of daily deliveries, from meals to housebound citizens to goods to large multinationals, servicing a total of 2000 customers.

The Green Link chief executive and co-founder, Michael Darchambeau, is passionate about ecology and about the role that small businesses can play to ensure clean energy. He not only wants to grow the company financially (it started in 2010 with just €10 000 in personal savings and now has an annual turnover of €1.3 million), but he wants his model to be replicated throughout Europe, and then the world. 'It's much more important than business', he explains. 'The environment, when it's destroyed you cannot restore it.'

The Green Link receives parcels from global courier companies and then delivers them throughout Paris using bicycle lanes, outpacing its competitors' four-wheeled delivery vans and, claims Michael, leaving a zero carbon footprint.

Not everyone is eager to embrace green solutions, however. Alluding to the plunge in oil prices that encourages consumers to continue using petrol and diesel, Sony Kapoor from the think tank Re-Define calls for radical action by governments to ensure that clean energy businesses thrive. He suggests, 'Increasing tax on oil at the pump would make sure that the real cost doesn't fall.'

ANALYSIS

1. Describe how The Green Link delivery company differs from its competitors. Describe its competitive advantage.
2. Identify the capital investment required to establish this business.
3. Describe the effect the fall in oil prices has had on this business.
4. Identify three suppliers this business would use.
5. Suggest three types of businesses that might utilise the services of this business.
6. Identify the long-term goals the owner has for this business.
7. Analyse the advantages and disadvantages of using this business rather than a conventional courier business.

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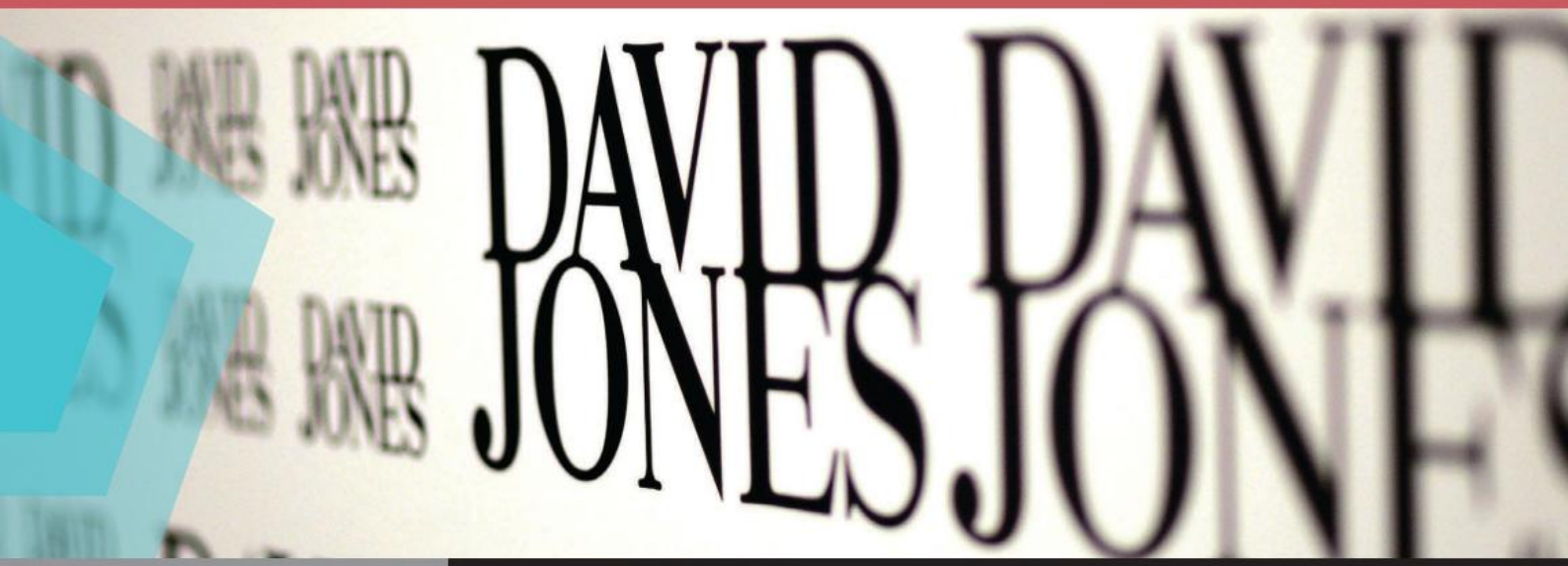

CASE STUDY
11.3

David Jones and ethical sourcing

OUR COMMITMENT

Given our standing as an iconic Australian retailer, our stakeholders expect David Jones to play a positive role in improving social, ethical and environmental standards along our supply chain. With this in mind, we are committed to building a world-class ethical sourcing program that creates positive impact along our supply chain and establishes David Jones as the ethical choice for consumers.

This commitment is outlined in our 2015–20 Ethical Sourcing Strategy, an ambitious plan to collaborate with our people, our suppliers and the wider industry to improve working conditions for people employed along our supply chain, strengthen relationships with our suppliers, protect the environment and promote animal welfare.

Our approach is to work collaboratively with a range of stakeholders in a way that promotes and supports continuous improvement. We will be open and honest about the complexity of the challenges that lay ahead but we will also be very clear in relation to what we expect of our supply chain partners.

OUR SUPPLIER CODE OF CONDUCT

Our Supplier Code of Conduct outlines the minimum requirements of doing business with David Jones, in relation to environmental, social and ethical issues along our supply chain. There are four key elements of our Supplier Code of Conduct, which requires suppliers to:

1 Ensure safe and fair working conditions, in line with the ETI Base Code (Ethical Trading Initiative)
2 Ensure integrity and transparency in dealings between David Jones and its supply chain partners
3 Improve environmental outcomes beyond David Jones' operational control
4 Protect the welfare of animals.

All of our suppliers are subject to the Code.

(Source: David Jones website, 'Ethical sourcing')

CONTINUED ITEM

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ANALYSIS

1 Summarise the key principles of the David Jones policy outlined on the previous page.
2 Define the 'stakeholder's expectations' referred to in the first paragraph.
3 Outline the effect this policy is likely to have on:
   a David Jones's costs
   b David Jones's suppliers
   c the reputation of David Jones
   d David Jones's levels of competitiveness.
4 Construct a table outlining the potential costs and benefits of the adoption of this policy for David Jones Ltd.
5 Go to the David Jones website and view this policy in more detail. Summarise what the policy says with regards to:
   a the ethical sourcing team and what its role is
   b the United Nations Global Compact
   c packaging
   d harmful substances.
6 Investigate the ethical sourcing policy of one of the following:
   a Cotton On
   b Coles
   c Bonds
   d Big W.

11.4 Technological and global issues

Planning considerations

In order for a business to succeed and flourish, information technology is a key resource that should be utilised to its full potential. Planning and decision-making should ensure:

- the system (internal and external) is user friendly and easy to navigate
- maintenance scheduling is proactive rather than reactive with respect to technological issues
- technology is a key component in strategic planning
- cyber security procedures and remedies are put in place to ensure data protection
- the ability to track trends and data to inform the business
- information and records are stored in a digital environment that is able to be accessed when required
- hardware and software requirements of the business are thoroughly audited in a timely manner.

Technology has raised customer requirements, and customer experience and expectations are of a high standard. Websites that do not allow for online purchasing or have information that is difficult to navigate are no longer 'par for the course' or acceptable to consumers.

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Recently published studies emphasise a growing divide between the customer and the retailer. Careful planning and research of customer needs and wants should be conducted by businesses to reduce this gap.

While customers understand that they are required to pay and wait for delivery from overseas outlets, many expect that Australian outlets will offer a 24-hour service and the option to pick up the purchase if they desire. It is important that these systems are set in place, whether they be technological or a resource requirement.

Technology has enhanced information gathering for retailers, who are now able to track consumer preferences and buying habits. Data can be collated and used to plan for future products and services. Digital marketing is now key to many retailers' success and considerations such as smart phone apps and compatibility of websites for phones and computers is a key component of a successful retailer's considerations.

Many retailers have invested in apps that eliminate the need for consumers to search online for their store or product. Downloading the app gives the consumer direct access and gives the retailer confidence that the consumer is not going to stray to a competitor. Technology has also had to advance in the area of cyber security, as financial details are transferred from the customer to the retailer.

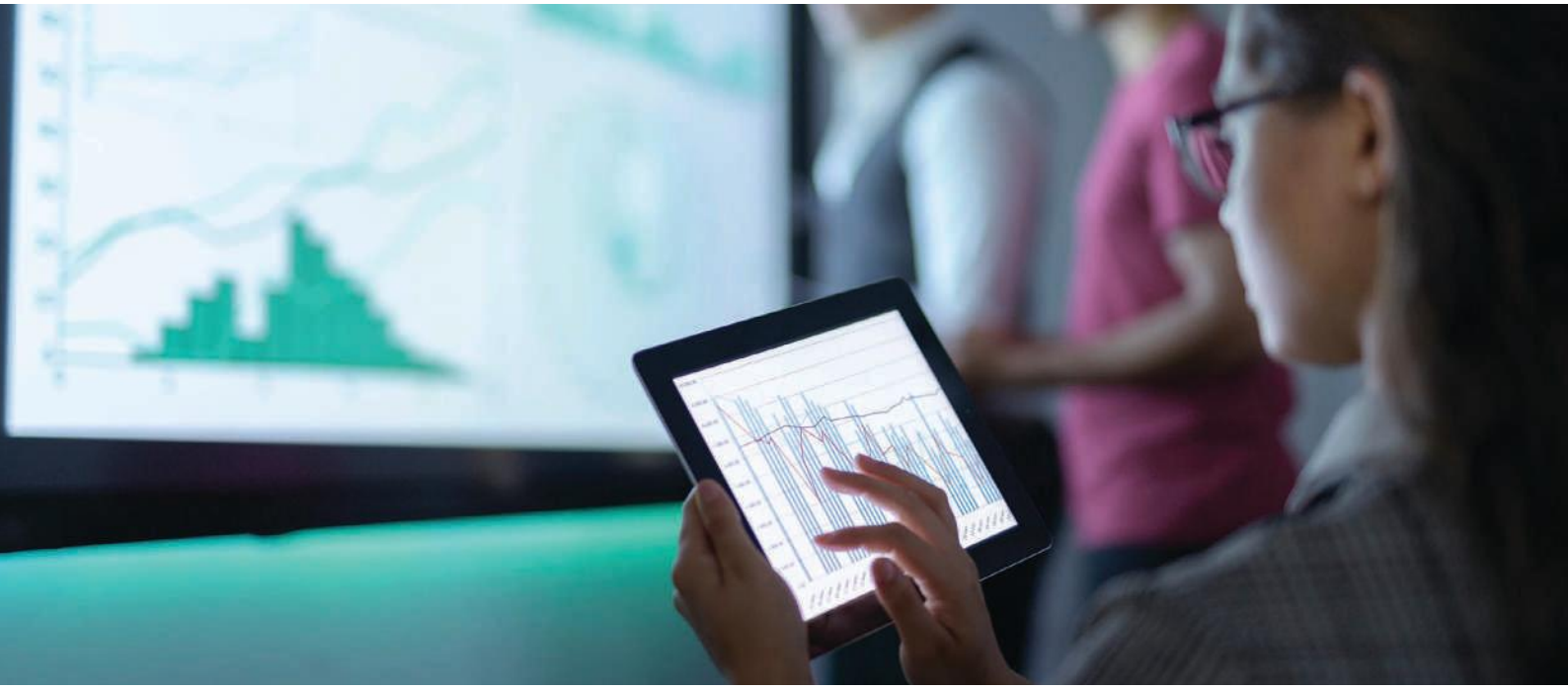

Figure 11.12 Technology allows businesses to track and gather data on what customers are purchasing.

Customer databases

Amendments to the Commonwealth *Privacy Amendment Act 2012* came into force on 12 March 2014. These amendments replaced the National Privacy Principles and Information Privacy Principles with a new set of 13 Australian Privacy Principles. These principles are in place to protect people's privacy and, among other things, set out to ensure that data collected on **customer databases** cannot be used without a customer's consent. This data protection and maintenance is also often handled and managed by technology. Many existing businesses have had to incorporate retraining of staff for the management and storage of customer data, and new businesses need to consider data maintenance as a key element of their planning. Data management also assists businesses with product placement and is a key consideration in attracting new customers.

customer database the collection of information gathered from each customer. A database may include contact information, as well as details about past purchases and future needs.

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CASE STUDY
11.4

Federal government responds to privacy issues

My Health Record is an online summary of an individual's health records that gathers information about where Australians seek professional advice, diagnosed medical conditions, prescribed medications and where they are filled, reports from tests and scans as well as hospital discharge summaries.

Many medical practitioners view the scheme as a much needed service to collate complex health information that becomes essential background information in establishing a patient's current needs. My Health Record supports the health literacy of Australians who cannot read, recall or locate critical health records. Australians no longer need to attempt to maintain their personal, and for many, complex health history.

However, the introduction of the system raised substantial public debate along with experts in information technology, high-profile medical practitioners and privacy experts expressing reservations about the security and privacy protections of the system.

The federal government referred the issue to a Senate Standing Committee on Community Affairs in 2018. The Committee took the view that My Health Record offered potential to improve health care if it was widely adopted by practitioners and recipients. The Committee recommended substantial changes, which were largely adopted by the Australian Parliament, passed the *My Health Records Amendment (Strengthening Privacy) Act 2018*, enacting the following:

- Allow people to permanently delete their records, and any backups, at any time in their life.
- Prohibit by law access to My Health Records by anyone for insurance or employment purposes.
- Strengthen privacy for teenagers 14 years and over.
- Strengthen protections for people at risk of family and domestic violence.
- Require law enforcement and other government agencies to produce an order from a judicial officer to access information in a My Health Record.
- Make clear that the system cannot be privatised or commercialised.

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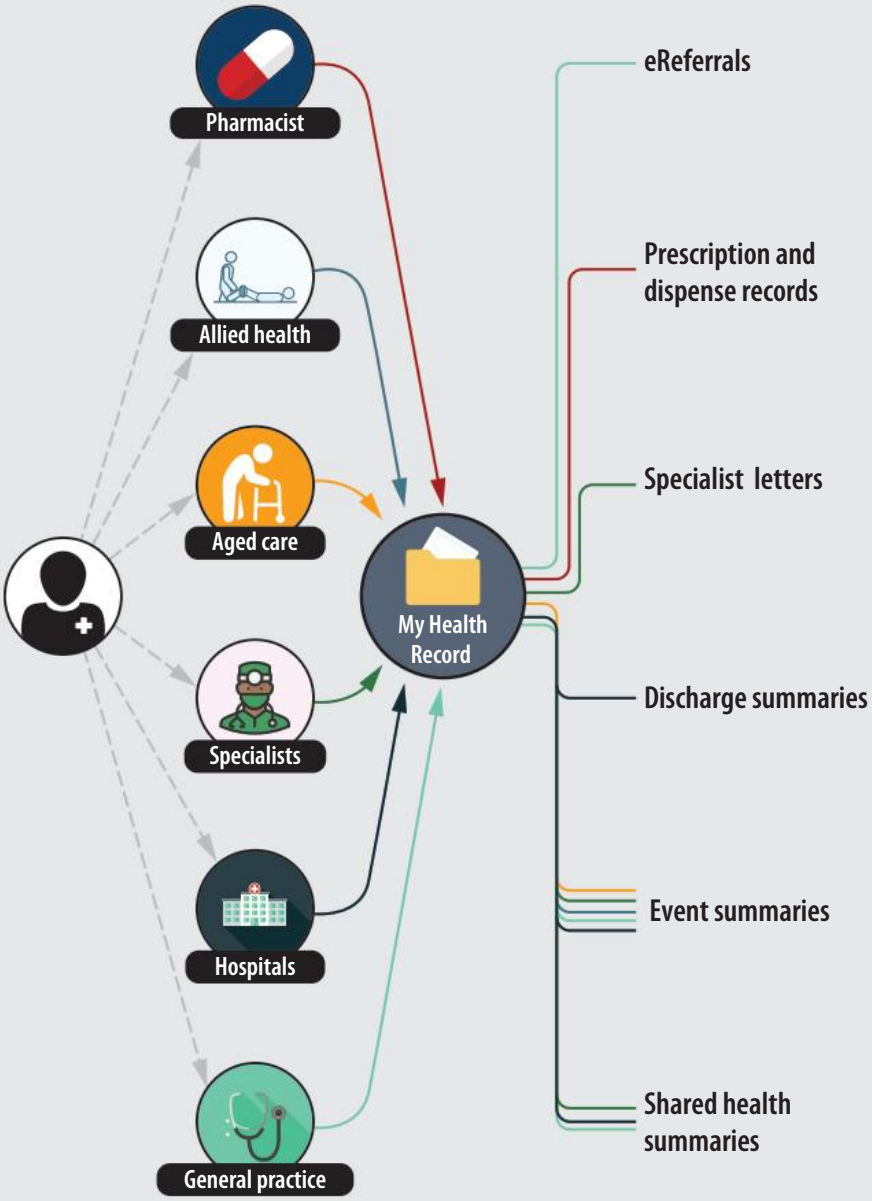

Figure 11.13 My Health Record

ANALYSIS

1 Discuss the benefits and issues in implementing a database such as My Health Record.
2 In your opinion, do the benefits of such a system outweigh the disadvantages? Justify your point of view with reasons.
3 Explain whether or not the Australian Government will be able to safeguard the Australian Privacy Principles.
4 Propose two possible strategies that could be implemented to ensure the privacy of Australians.
5 Predict whether the issues related to wide-scale national databases will impact on how Australian businesses will collect and manage databases in the future.

Figure 11.14 My Health Record is a powerful resource for many medical practitioners.

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Establishing contacts with overseas suppliers and retailers

As Australia has a relatively small population, Australian businesses may find it necessary to explore opportunities to trade overseas if they want to expand. A business can look to grow by investigating opportunities to develop supply chains in other countries and sell its products and services in foreign markets, either through offshore retail outlets or online stores.

Austrade is a federal government body that provides support for businesses exploring offshore trading opportunities. Registering is free, and support includes promotion of the business to overseas buyers through the Australian Suppliers Directory.

Free trade agreements are another way that the Australian Government tries to support Australian businesses looking to trade overseas. A free trade agreement is a legally binding agreement between two or more countries which establishes an area of trading that removes tariffs and other trading restrictions. Free trade agreements aim to increase the competitiveness of Australian businesses, provide better access to lucrative offshore markets, reduce trading costs for Australian businesses and promote two-way investment opportunities (allowing offshore businesses to explore trading opportunities in Australia). Currently, Australia has six free trade agreements in place and eight more are under negotiation.

In general, a business that is looking to import goods from overseas or sell in foreign markets needs to keep in mind that tax is calculated on worldwide income, that tax obligations may vary from country to country, and that there are legal and ethical considerations involved in setting up factories, workshops or retail outlets in other countries.

Businesses that attempt to achieve financial gain through practices that involve mistreatment of overseas workers and unsafe working conditions face enormous fines. As such, it is imperative for a business operating overseas to have in place a comprehensive compliance process and to adhere to it, and ensure that suppliers and third-party manufacturers are frequently audited.

ACTIVITY 11.6

1 Explain why Australian businesses have been looking at expanding into global markets.
2 Perform some online research about skateboards, surf and streetwear group Globe International. Outline how Globe has been a successful retailer in the global market.
3 Discuss the costs and benefits associated with working with overseas suppliers and retailers.

Figure 11.15 Importing from foreign suppliers, or exporting goods to foreign markets, may be a necessary step in expanding a business.

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Chapter summary

- All businesses need to plan and develop policies and procedures to ensure compliance and consistency.
- Businesses have to comply with federal, state and local government laws.
- Anti-discrimination and equal opportunity legislation has to be followed.
- Customer service policies allow a business to comply with legal practices.
- Food handling policies are important for businesses in the hospitality area.
- All businesses, regardless of size, should have a separate bank account.
- It is important to establish financial controls over all aspects of the business.
- Businesses need a range of documents as evidence of transactions.
- Small businesses often find it difficult to keep records and monitor financial information.
- There are a range of financial records that should be kept by a business.
- In order to become and remain competitive, it is important for businesses to establish and maintain good relationships with suppliers who are reliable and provide high-quality inputs.
- A procurement or purchasing policy states the principles and guidelines for selection of and dealing with suppliers.
- The criteria that should be applied in a procurement policy for selection of suppliers are price, reliability, quality and the levels of social responsibility exhibited by the supplier.
- A good supplier brings advantages to a business in terms of quality, timeliness, competitiveness, innovation and possibly credit.
- Selection of suppliers based on social and environmental credentials will often increase the competitiveness and reputation of a business. There may be disadvantages in terms of costs and quality at times.
- It is important for businesses to take into account technological needs as part of their business planning.
- Customers expect businesses to integrate technology into their operations.
- Many customers use technology to shop online.
- Businesses need to develop and maintain databases.
- Businesses in Australia are working at establishing contacts and relationships with overseas suppliers and retailers.

Chapter summary tasks

1 Explain why a business should develop policies.
2 Outline some of the policies a business might need.
3 Identify and describe why business owners should open a separate bank account.
4 Describe why it is important for a business to establish and use internal financial controls.
5 Explain three internal financial controls a business might use.
6 Explain the reasons why a business should complete and use financial statements.
7 Define the term 'business supplier'. Give an example of a supplier for each of the following:
   a a school
   b a bakery
   c a bank.
8 Outline the advantages of maintaining a good relationship with a group of reliable suppliers of high-quality inputs for a business.

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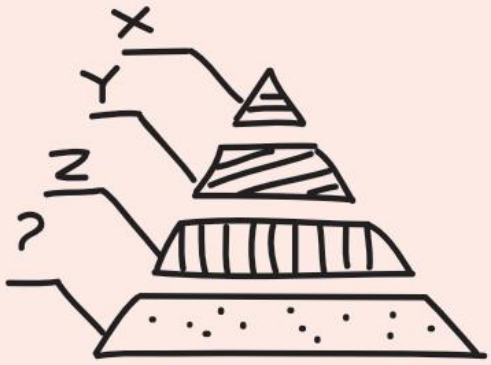
9 Define:
   a corporate social responsibility
   b procurement policy.
10 When selecting suppliers, ethical and social responsibility considerations as well as quality and reliability are key factors to consider. Explain why each of the following factors is important when selecting suppliers:
   a social responsibility levels of suppliers
   b environmental impacts of transport
   c quality of inputs supplied
   d reliability of delivery.
11 Discuss the implications of adopting corporate social responsibility principles as key criteria in selection of suppliers.
12 Analyse the potential advantages and disadvantages of using a local Australian supplier rather than one from overseas.
13 Analyse the potential effects of basing a procurement policy on principles of corporate social responsibility on:
   a business costs
   b business reputation
   c attracting business investment
   d business competitiveness.
14 Describe why a business should consider technology when in the planning phase.
15 Explain why a business should develop and maintain a customer database.



Extension questions

Melbournians are increasingly able to explore their passion for food beyond the realm of a bricks-and-mortar restaurant. Food trucks are popping up at a range of locations in Melbourne and throughout Victoria. There are now approximately 3000 licensed food trucks in Victoria.

Arepaland is a new food truck venture which offers traditional Venezuelan food. Carlos Fey, the owner, has left his lucrative IT career to focus on developing his business venture. He plans to develop a customer database that contains personal details such as age, address, phone contact, social media accounts and buying habits. If things continue to go well, Carlos will also purchase a second food truck.

1 Define 'financial control system' and explain why it is important for businesses to establish financial control systems. Propose a financial control system that would suit a business like Arepaland.
2 Distinguish between a policy and a procedure. Identify one area of business activity that a policy would ensure certainty and consistency for Arepaland and propose a plan for to follow Arepaland in developing the policy.
3 Discuss the potential advantages and disadvantages in developing a customer database for Arepaland.
4 Arepaland aims to produce authentic Venezuelan arepas and must make a decision regarding whether to source the ingredients from South America or locally. Evaluate the potential benefits and costs for Arepaland of using local suppliers instead of overseas suppliers that are socially responsible.

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Part 2
Area of Study 2
MARKETING A BUSINESS

VIDEO SUPPORT
Assessment advice for this Area of Study is available in the Interactive Textbook

Outcome 2

On completion of this unit the student should be able to explain the importance of establishing a customer base and a marketing presence to achieve the objectives of the business, analyse effective marketing and public relations strategies and apply these strategies to business-related case studies.

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

Key skills

- define, describe and apply relevant business management concepts and terms
- acquire, record, interpret and share business information and ideas
- research and analyse case studies and contemporary examples of business management applicable to establishing marketing in a business
- apply business management knowledge to practical and/or simulated business situations
- evaluate the costs and benefits of establishing a customer base, marketing a business and establishing positive public relations
- propose, analyse and justify marketing and public relations strategies chosen for practical and/or simulated business situations.

(Source: VCAA Business Management Study Design, 2017–2021, p13)

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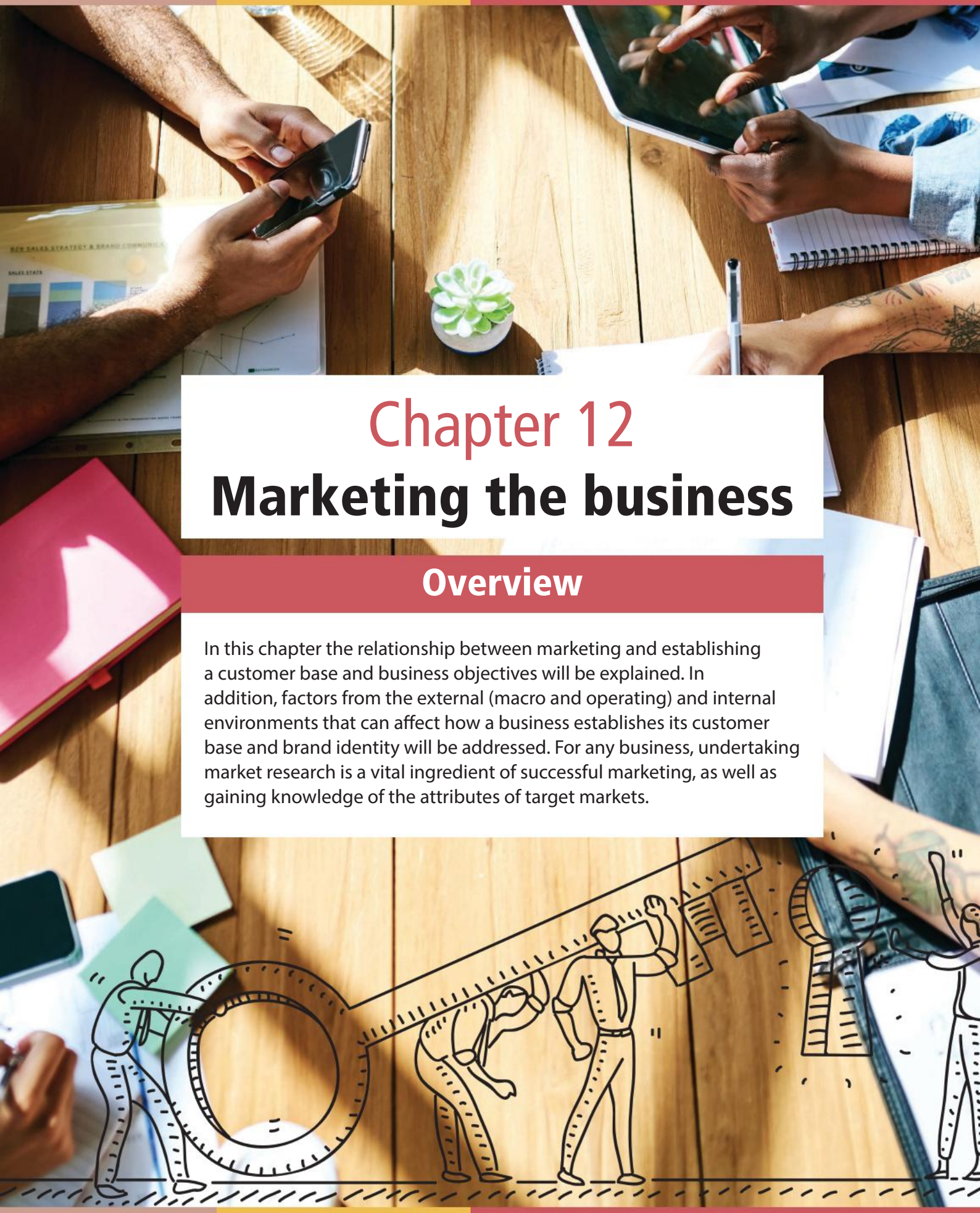

Chapter 12
Marketing the business

Overview

In this chapter the relationship between marketing and establishing a customer base and business objectives will be explained. In addition, factors from the external (macro and operating) and internal environments that can affect how a business establishes its customer base and brand identity will be addressed. For any business, undertaking market research is a vital ingredient of successful marketing, as well as gaining knowledge of the attributes of target markets.

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Key terms

- brand
- causal research
- consumer behaviour
- customer base
- descriptive research
- exploratory research
- focus group
- generic market
- market
- market positioning
- market segment
- market segmentation
- marketing
- marketing concept
- marketing consultant
- marketing mix
- market-oriented approach
- mass marketing
- niche marketing
- Pareto Principle
- population
- primary data
- product market
- qualitative research
- quantitative research
- questionnaire
- sample
- secondary data
- target market

Key knowledge

In this chapter you will learn about:

- the relationship between marketing, establishing a customer base and business objectives
- external (macro and operating) and internal environment factors affecting the establishment of a customer base and brand identity
- market research practices such as data collection techniques, analysis and interpretation
- target market attributes such as market dimensions, segments, consumer trends and behaviour.

(Source: VCAA Business Management Study Design, 2017–2021, p13)

What's ahead

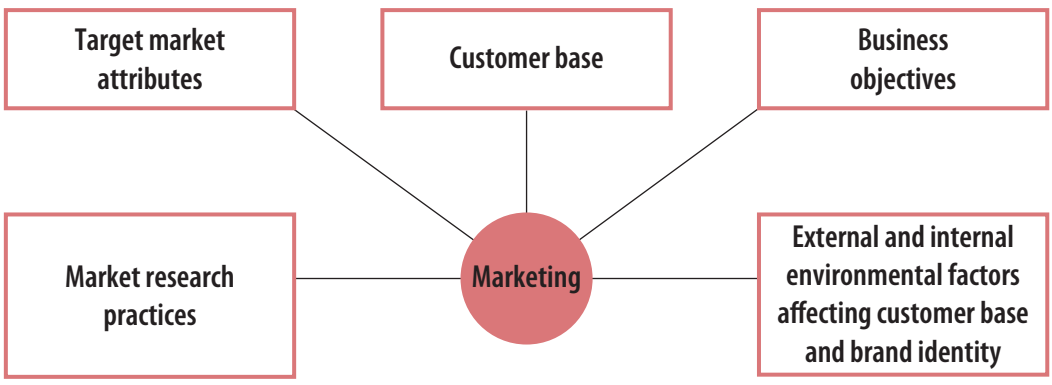

Figure 12.1 Marketing

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12.1 Marketing – what is it?

marketing the process that provides the link between producers or providers of goods and services, and the consumers of these

brand a powerful business asset that is essentially a maker's mark; it creates and brings with it awareness, desirability and power

Marketing is the process that provides the link between the producers or providers of goods and services, and the consumers. It involves the relationship whereby producers/providers and consumers create, offer and freely exchange products and services of value to each other. Marketing extends to:

- goods – the tangible items that businesses wish to sell such as food, commodities, clothing and housing
- services – provided by hotels, car rental businesses, dentists, hairdressers, accountants, doctors, solicitors, engineers, management consultants, airlines, real estate agents
- experiences – a visit to the Melbourne Star Observation Wheel, a museum, an art gallery
- events – the AFL for its games, Victorian Racing for the Spring Racing Carnival, rock concert organisers
- personalities – Nigella Lawson, Jamie Oliver and Curtis Stone, for example, all have their own marketing teams who work to create their image and **brand**.

12.2 Relationship between marketing, establishing a customer base and business objectives

marketing concept the business focuses on satisfying the needs of the customer/consumer rather than just selling a product or service

market-oriented approach a business strategy that focuses on the needs and wants of consumers and develops products to meet them

Most businesses would like to think they focus on the needs and wants of their customers (actual purchasers of the goods and services) and consumers, and therefore devote production and marketing resources to satisfy them. The **marketing concept** developed when the focus of businesses changed from just selling a product or service to actually satisfying the needs of customers and consumers. The concept is based on the belief that the best results are achieved through using an integrated approach to marketing. The marketing concept sits within the **market-oriented approach**, which means the business's efforts are aimed in a coordinated and integrated manner towards simultaneously achieving its business objectives and satisfying its customers. Using this approach lowers the risk of a newly developed product or service failing in the market because effective market research will have been undertaken prior to the manufacture of the product or provision of the service. There are four essential elements to the marketing concept.

Figure 12.2 Repeat customers are important to establishing the customer base of a business.

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1 Customer satisfaction is important.
2 A totally integrated effort is required by the business.
3 Business objectives must be set; for example, establishing a **customer base**, increasing market share.
4 Key performance indicators (KPIs) show whether the business objectives have been achieved.

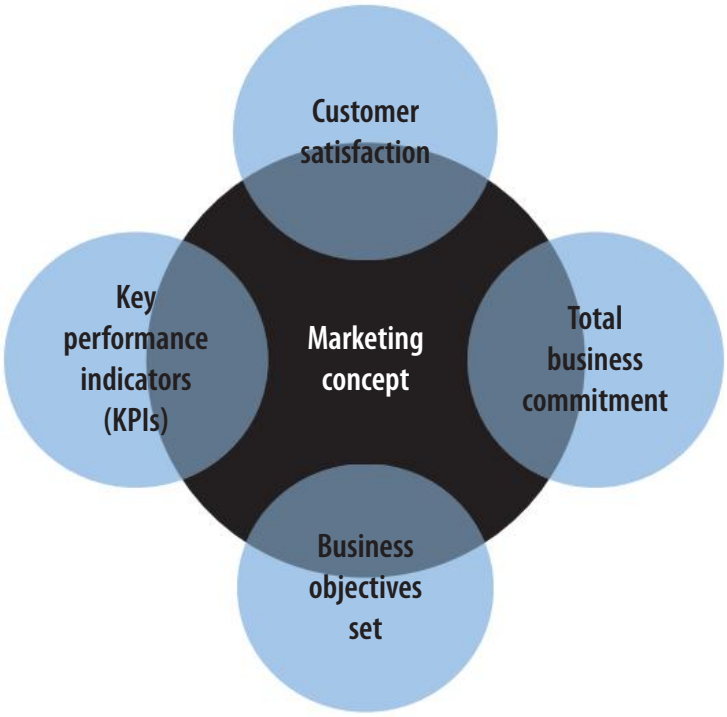

Figure 12.3 The marketing concept and its four essential elements

If a business is to be fully committed to the marketing concept approach, it must focus on the customer and adopt the philosophy 'the customer comes first'. To be successful, the business must understand its customers and align the performance of the business, its evaluation and rewards systems so that the business objectives are met. For the small business owner, good customer relationships developed through good customer service and customer satisfaction become very powerful marketing tools, and lead to customer loyalty and repeat business. Good customer relationships are also cost-effective to the business, because they do not require an expensive marketing campaign to attract customers. Businesses that are larger and more complex in their organisational structures, policies and procedures can redesign their organisational charts to represent the importance of the customer to their business.

customer base the people or entities that regularly purchase products or services from a business

It is very important that businesses recognise that approximately 80% of their business is actually generated by approximately 20% of their customer base. This is referred to as the **Pareto Principle** (i.e. the 80/20 rule). Marketing strategies may get the customer through the door initially, but it is essential for the business to 'do the right thing' to convert those customers into repeat customers, thereby establishing a reliable and consistent customer base.

Pareto Principle referred to as the 80/20 rule – approximately 80% of the business revenue is generated by approximately 20% of the customer base

By reversing the traditional organisation chart, customers are now at the top of the 'chain of command'. In this model, it is the purpose of management (senior and middle) to help employees take care of the customers, as they are the ones providing the main source of revenue to the business.

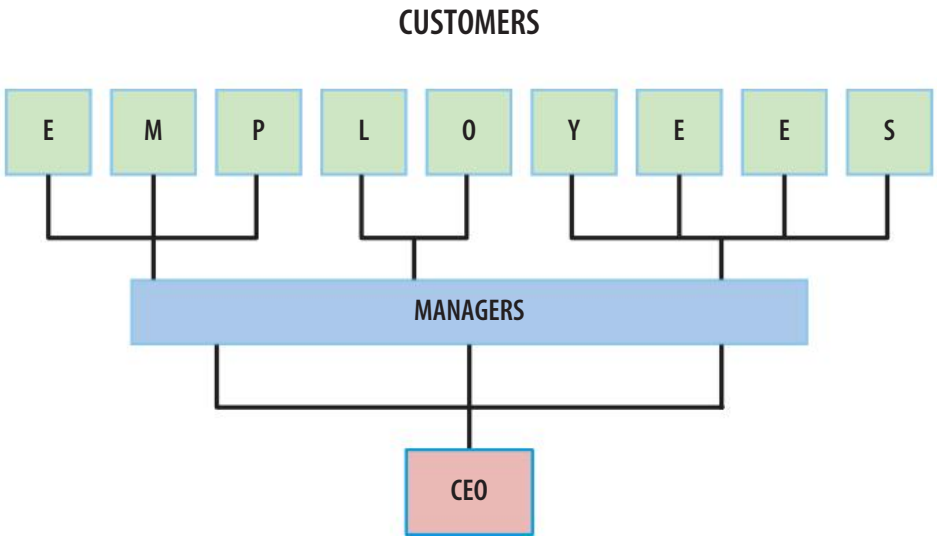

Figure 12.4 Customer-oriented organisation chart

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12.3 Factors affecting the establishment of a customer base and brand identity

Figure 12.5 Building a brand identity

Factors drawn from all levels of the business environment, namely macro, operating and internal, can affect how a business establishes its customer base and brand identity. As previously mentioned, a well-established customer base provides an important revenue stream for a business.

Establishing a brand identity is one of the key elements to building a relationship with customers.

A brand for a business is far more than simply designing an easily recognisable symbol or choosing a good name. It also involves determining:

- the attributes of the product or service to be sold or offered to the customer
- the positioning of the brand
- a desirable benefit and strong belief in its value.

To protect the brand and name for the future, a business should register the symbol as a trademark. Following creating the brand identity, decisions will need to be made as to whether the products will be launched as a manufacturer's brand, a private brand (store brand or distributor brand) or a licensed brand.

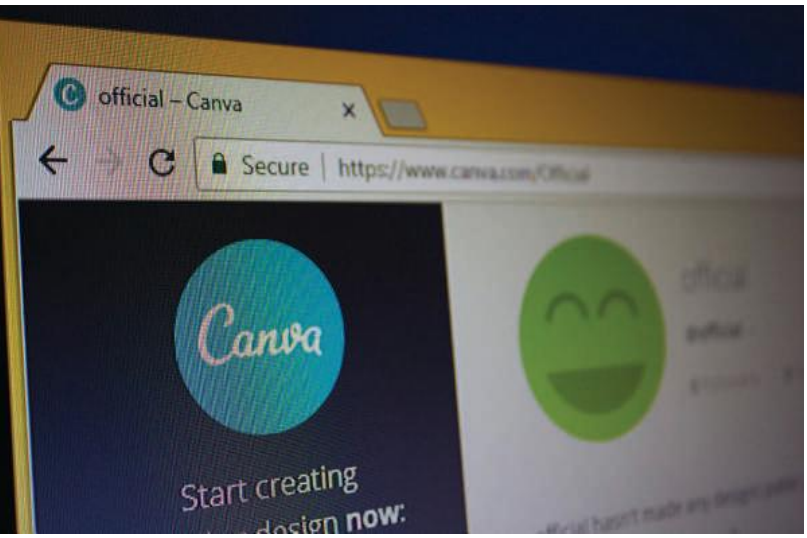

Figure 12.6 Canva is an online graphic design platform.

External environmental factors (macro and operating)

Customer base and brand identity of a business can be affected by a range of environmental factors.

Technological developments

Technological developments have had a large impact on businesses regarding their customer base and brand identity. They have allowed for the customised manufacturing of products to meet the growing appetite of customers for personalised products. In 2019 it was reported that the Australian-owned graphic design platform, Canva, is poised to dominate the online design space, with founder and CEO Melanie Perkins tipped to emulate the success of Adobe Design.

Founded in 2014, Canva offers easy to navigate web-based design tools for those who aren't versed in Photoshop or Adobe design suite. Canva was awarded unicorn status (a privately held start-up company valued at over US$1 billion) in January 2018.

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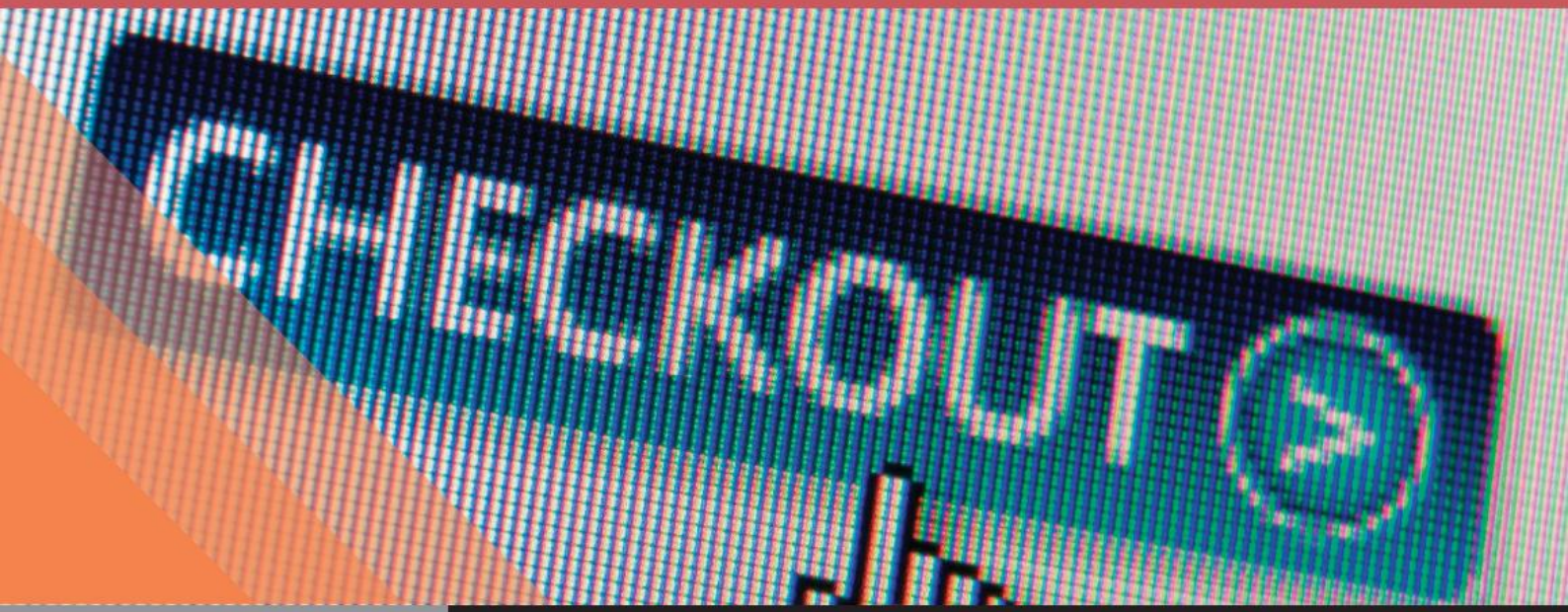

CASE STUDY
12.1

Kogan's online recognisability

> Kogan is the most recognisable face of the online retailing revolution in Australia.
>
> (Source: Inside Retail website, '50 most powerful retailers')

Kogan was established by Ruslan Kogan in 2006 and operates as a portfolio of retail and services business which includes Kogan Retail, Kogan Marketplace, Kogan Mobile, Kogan Internet, Kogan Insurance and Kogan Travel. From its headquarters in Melbourne, the business focuses on making in-demand products and services more affordable and accessible to customers. The Kogan brand has a reputation for 'price leadership through digital efficiency'. The business has established three key pillars as the basis for its operations, namely:

- An unwavering commitment to provide Aussies with better value products and services.
- A constant obsession to create the best possible shopping experience, from easy purchasing, to efficient delivery and reliable after-sales support.
- Our revolutionary online-only business model that allows us to bypass the expenses of bricks and mortar stores and pass the savings onto our customers.

(Source: Kogan website, 'About us')

ANALYSIS

1 Identify the types of products and services that are sold by the various Kogan online stores.
2 Outline the strategies used by Kogan to find out about its potential customers.
3 Identify the strategies used by Kogan to entice customers into giving it repeat business.
4 Discuss whether you believe that Kogan has used its strong brand identity to leverage new Kogan products and services.

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Social media can affect customer base and brand identity in a variety of ways. A positive aspect is that it successfully provides customers unprecedented access to information about businesses, their products and services and also what customers/consumers think of them. However, with social media at 'our fingertips' a business can be negatively impacted within a very short time by 'customer regulation' resulting from a bad review.

Legislation and regulators

Legislation (both federal and state) protects customers and consumers in the event of businesses misleading them. Regulatory bodies, such as the Australian Securities and Investments Commission (ASIC), Australian Competition and Consumer Commission (ACCC) and Australian Prudential Regulation Authority (APRA), act as corporate watchdogs to protect consumers from being misled by statements made by businesses when advertising their products or services. ASIC focuses on financial services, and as part of that conducts ongoing reviews of insurance-specific comparison websites. In past reviews, it has found on some websites there has been insufficient disclosure of the relationships between website operators and the issuer of the brands being compared. For example, in March 2016 ASIC directed iSelect, an insurance comparison website, to remove some misleading statements about it being 'independent' from its advertising and promotional material because it was, in fact, taking commissions from insurance companies (to read the ASIC media release on the case, find '16-056MR ASIC targets financial services licensees using the term "independent"' online). The *Corporations Act 2001* prohibits the use of words like 'independent, impartial and unbiased' by businesses receiving commissions, volume-based payments, gifts or other benefits through sales or referrals.

Customers

Businesses should be aware that there are now four generations of people in the workforce who have earned money to spend on goods and services. It is therefore important that a business does not adopt a 'one size fits all' approach to marketing, as it will then not be reaching all of its potential customer base and may even be alienating an important customer demographic.

As mentioned previously, customers' appetite for customised products continues to be a huge trend in retail. Many consumers now have more disposable income than in previous decades, and they want to have a personal connection with the products they buy. One entrepreneur who understood this trend was Gary Elphick, founder of Disrupt Sports. He recognised the desire people have for wanting to design goods, but who lack the means to do it. This Australian business based in Bondi, Sydney, has been so successful in designing and manufacturing personalised surfboards that it has now expanded its range of products to include skateboards, yoga mats and snow gear. In both 2015 and 2016, Disrupt Sports was a finalist of the Australian Small Business of the Year awards. The business has now expanded its operations to the United States and United Kingdom in the hope of increasing its customer base.

DISRUPT SPORTS

Figure 12.7 Disrupt Sports: recognising the needs of sports people to have individualised sporting gear

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Mistreating customers can have a detrimental effect on businesses. In 2015 the Commonwealth Bank's reputation and brand identity was tarnished by various scandals. The first related to mistreatment of clients associated with its financial planning business. The second related to the mistreatment of policy holders (customers) of its life insurance business, CommInsure. These two actions were widely reported in the media and caused concern to many customers who had either used the bank's financial planning services or were insured with CommInsure. Further to this incident, the Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry, held in 2018, brought to light many financial scandals in the way Australia's four large banks have treated customers with regards to both banking and financial planning.

Competitors

Establishing a customer base has proven to be a constant battle for the major supermarket chains. Retailers Woolworths, Coles and IGA (Independent Grocers of Australia) have been cutting shelf prices and increasing the depth and frequency of their promotions. The strategy of reducing everyday shelf prices on products that draw customers into the store is aimed at building the confidence in their customer base in the prices that are charged by those stores.

The arrival of ALDI into the Australian marketplace in 2001 and the successful marketing strategies it has used to establish its customer base and brand identity have also impacted on the major supermarket chains. ALDI now has 508 stores operating in the eastern states with plans to open more. According to Roy Morgan Research, ALDI has captured 13.2% of the Australian supermarket market. While this share of the market is still not anywhere close to those of its two main competitors, it is increasing on an annual basis. ALDI is implementing a new strategy to increase its market share by improving its customer experience and broadening its product range to include more fresh and organic products. This strategy is aimed at appealing to 'middle income' customers. Another part of the supermarket's strategy involves 'revamping' store layouts to modernise the store design and layout.

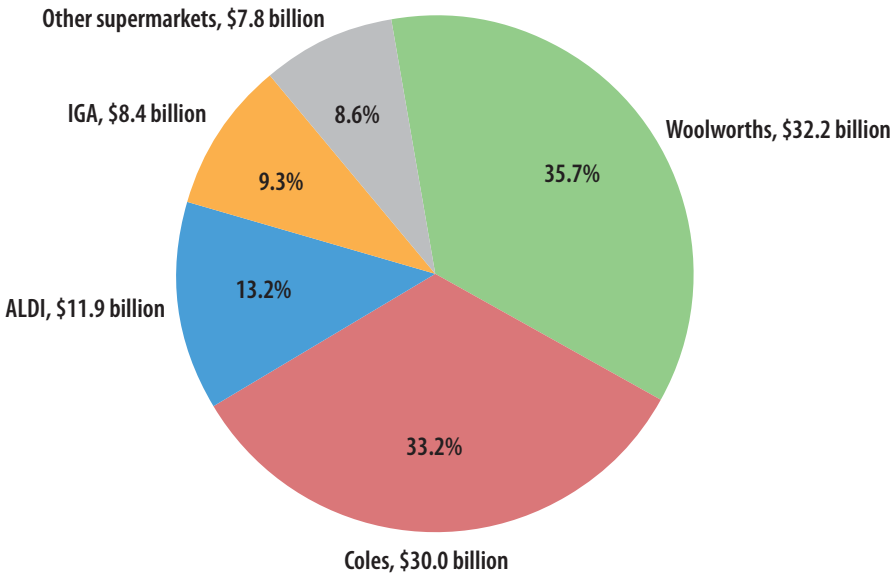

Figure 12.8 Shares of the $90.3 billion spent at supermarkets over the 12 months to March 2017, according to Roy Morgan data. Establishing and increasing their customer base and market share are key objectives for the major retailers.

ACTIVITY 12.1

1 Identify the strategies that major retailers Woolworths and Coles have used in their quest to narrow the price gap with ALDI.
2 Identify which retail store Woolworths regards as its major competitor.
3 Discuss whether you believe ALDI's strategies of broadening and increasing their product range and revamping their store layout will be successful in increasing ALDI's appeal to middle-income customers.

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Figure 12.9 Providing support and excellent service to customers is one way that employees can help a company cement a positive brand identity for their employer.

A change in market conditions can present some great opportunities for the growth of the customer base for some businesses. In recent years, Australia's largest baby goods retail chain, Baby Bunting, has been facing stiff competition from Baby Bounce and Baby Savings-Australia. In 2018 both these competitors went into liquidation. The impact in the short term due to the selling off of stock by these two businesses adversely affected Baby Bunting; however, in the medium and long term it is providing Baby Bunting with the opportunity to expand its customer base.

Internal environmental factors

Culture of business

The internal culture of a business is at the heart of how the business and its staff behave. Successful businesses seek and value customer feedback, putting customers at the heart of the business. If the corporate culture of a business fails to live up to community and customer expectations, it potentially can become a large threat to both the customer base and brand of that business. A business that conducts itself well can reap the rewards and get its message to the community very quickly via social media and the 24-hour news cycle. On the other hand, these same communication tools can turn on a business if the actions of the business are bad or unethical.

Owners and managers

Business owners and managers need to understand and possess the skills required to establish their customer base and create their brand identity. Larger businesses will seek to employ a marketing manager and team who already possess this required knowledge and the skills to write and implement a marketing plan for the business. Smaller businesses may seek assistance from external consultants or rely on their own abilities.

Employees

Employees act as the 'front-line' in their daily contact with customers. It is therefore important that their relationship with customers is positive. They need to provide polite, friendly and efficient service, which in turn will lead to the customer returning to that business and also being happy to identify with the brand.

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12.4 Market research practices

Market research is a systematic procedure used to develop and analyse new and existing information. This analysis helps businesses to make decisions relating to the marketplace and to satisfy the needs of both potential and existing customers.

Market research assists a business to:

- reduce the level of risk or uncertainty attached to introducing a new product or service
- assess current products, advertisements and forms of packaging, and determine whether changes need to be made
- predict future changes or trends in a product or service.

Should it be decided that there is an inadequate amount of information available for a good decision to be made, it may be necessary to arrange for additional market research to be undertaken. In small businesses, funds for market research are normally limited. It is therefore important to determine whether the benefit gained from research will outweigh the cost involved in conducting the research. It is possible to find informal, low-cost alternatives of information gathering, such as customer feedback surveys, keeping an eye on the competition and industry trends, and making sure internal record keeping is accurate. Larger businesses can allocate more funds to undertake market research and will often adopt a more formal approach, possibly engaging a **marketing consultant** to gather the data, carry out an analysis and interpret the results.

marketing consultant a professional (specialist) who provides advice on marketing-related issues

Any business that does undertake market research must ensure the information gained is used in an ethical manner and does not infringe on the privacy of the person giving the information. It is unethical for a business to contact consumers under the pretence of undertaking research when the real purpose is to actually sell something. A Code of Marketing Research Standards has been adopted by the Marketing Research Association (MRA) to protect research credibility in the eyes of the public.

Market research can be used to find answers to questions about:

- market size
- consumer likes and dislikes
- product positives and negatives
- promotion effectiveness
- packaging effectiveness
- degree of threat from competitors
- distribution – how customers like to get the product.

An objective and systematic approach must be adopted to undertake effective market research. 'Objective' means that the research must be conducted in an impartial and unbiased manner, often by a professional marketing consultant. 'Systematic' means the adoption of a formal method or approach.

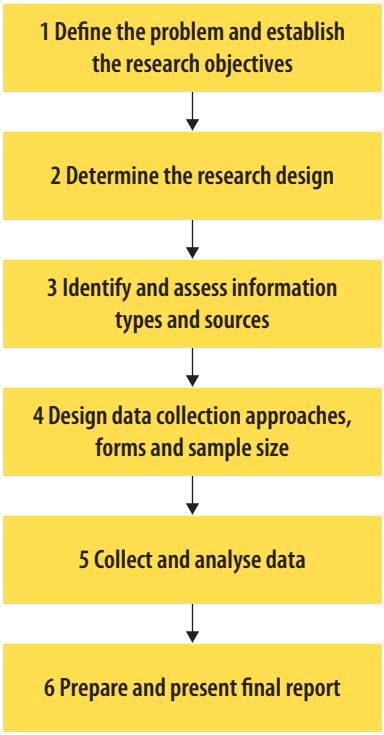

Figure 12.10 A systematic approach to market research

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A systematic approach to market research

The following six steps constitute a systematic approach to market research.

Step 1: Define the problem and establish the research objectives

Problem definition is possibly the most important step of the process. By accurately defining the problem and establishing the objectives, a business is then able to gather the relevant information to assist with decision-making. The information needed is dependent on the type of business being operated. Generally, market research objectives relate to the potential demand for a product or service, the marketing environment or a business's competition.

exploratory research collecting information in an unstructured and informal manner

descriptive research research that incorporates consumers' attitudes, intentions and behaviour

causal research research that involves finding the cause and effect of certain actions

primary data information that a business collects directly from firsthand experience and sources

secondary data information that has been gathered previously by external sources

Step 2: Determine the research design

There are three basic types of research design.

1. **Exploratory research** involves collecting information in an unstructured and informal manner. This could mean reading a magazine or article, using a particular product or service, and gaining an impression and feeling about the product or service.
2. **Descriptive research** incorporates such things as consumers' attitudes, intentions and behaviour. It can be related to the 'image' of the product or service being researched. Information can be gathered through observation of consumers' behaviour.
3. **Causal research** aims to find the cause and effect of certain actions. One variable, such as the price of a product, could be changed to study what impact this has on the volume of product sales.

Step 3: Identify and assess information types and sources

There are two basic types of information available: primary data and secondary data.

1. **Primary data** refers to information that has been gathered by the business owners or market researchers themselves, specifically to service the current research objectives.
2. **Secondary data** refers to information that has been previously collected. This information can come from internal records of the business or sources external to the business.

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Table 12.1 Primary and secondary data sources

Primary data sources	Secondary data sources
• Surveys/questionnaires – both telephone and direct mail • Interviews – door-to-door or shopping centre • Direct observation – personal or electronic • Small group discussions; e.g. focus groups • Experiments – laboratory tests, field tests • Online bulletin boards • Email blasts – mass emails to family, friends, business associates 	• Company records • Financial statements • Annual reports • Periodicals and trade/professional magazines • Internet searches • Computerised databases • Index services • Libraries • Advertising agencies • Newspapers • Magazines • *Yellow Pages* and *White Pages* • Trade associations • Government agencies. Both the federal and state governments publish data on many subjects; e.g. the Australian Bureau of Statistics (ABS) provides periodic statistics relating to Australia's population. • Private market research firms; e.g. AC Nielsen, Roy Morgan Research Centre • Radio and television stations

ACTIVITY 12.2

1 Explain the basic difference between primary and secondary classification of data.
2 Classify the following forms of data as being either primary or secondary:
   a survey
   b focus group
   c internet search
   d electoral roll
   e magazine
   f exit poll
   g direct mail-out
   h product tests
   i shopping centre interviews
   j computerised databases
   k email blasts
   l company annual report.

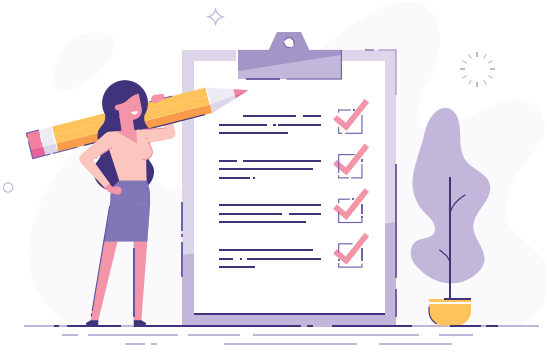

Figure 12.11 Is a survey primary or secondary data?

Step 4: Design data collection approaches, forms and sample size

It would be an impossible task for a market researcher to collect information firsthand from the entire population. It is therefore necessary to study a **sample**, which will be a small proportion of the **population** of interest or **target market**. The group may be randomly selected to provide a broad range of opinions or interests.

There are several methods of conducting primary research, such as questionnaires, observation and focus groups.

sample a proportion or subset of the total population being studied

population entire group under study as defined by the research objectives

target market the market at which a product or service is primarily aimed

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Figure 12.12 Customer observation is a primary research method.

- A **questionnaire** is the standard form of survey used to gather data. A structured questionnaire lists questions and provides pre-described answers (similar to a multiple choice format). It is regarded as a form of **quantitative research**. Answers are given by ticking or placing an 'X' in a box. Some questions will require rating the answer by indicating a number in a predetermined range; for example, '1 to 10'. Unstructured questionnaires have open-ended questions. While a questionnaire looks simple to create, care must be taken in its design to gain objective information from the respondent. It is important not to provide any ambiguous or leading questions. It is also important to trial the use of a questionnaire to make sure that it actually gathers the information required to meet previously determined objectives.
- Observation is a process that recognises and takes note of people's actions and behaviour, rather than directly asking them for information. The introduction of electronic scanning of product codes at supermarkets or using other codes, such as postcodes, has assisted enormously in determining consumer demographics and shopping habits. Businesses also use video cameras to record shopper numbers, time spent in the store, the areas of the store that attracted foot traffic and interaction between customers and salespeople.
- **Focus groups** are a popular way of collecting **qualitative research** and consumer-related information. The group size is usually between six and 12 participants and is conducted in an informal setting. A facilitator, often an experienced market researcher or even a psychologist, aims to generate group interaction in order to stimulate immediate thinking on a topic. A session may last between one and two hours, with the participants usually being paid a small fee. It is often videotaped for later review, or observed through a glass partition by interested parties.

questionnaire form of survey where questions are asked of respondents

quantitative research market research based on structured, closed questions that aim to gather responses that can be summarised in figures

focus group between six and 12 participants gathered together in an informal setting to give their opinion on a product or service

qualitative research research based on in-depth, open-ended responses that focus on emotional or motivational aspects of consumer behaviour

Figure 12.13 Focus group being observed by interested stakeholders

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- Experiments can be conducted in the field or in a laboratory. This method involves removing all variables except for the one being tested. For example, blind taste tests remove variables such as brand, packaging and price, and leave only the taste to be tested.

Step 5: Collect and analyse data

Often the data is collected by trained interviewers working for a market research company and asking a series of questions, or leaving a questionnaire for a person to complete in their own time. Many interviews are now conducted over the telephone with the interviewer reading set questions from the computer screen and entering responses directly into the computer. Television viewing habits are electronically collected through attaching black monitoring boxes (peoplemeters) to televisions and devices via wi-fi that track the programs being watched, and also which member or members of the family are viewing the programs on which devices.

Once collected, the raw data needs to be tabulated, tested and analysed to form meaningful information. Computer software, such as Statistical Package for Social Sciences (SPSS), is used by marketing professionals to tabulate and perform statistical tests, which include means, frequencies, correlations and trend analysis. There are many other software packages, such as SurveyMonkey, SurveyGizmo and QuestionPro, that businesses may use to collect and analyse data.

Step 6: Prepare and present final report

The last step in the market research process is to prepare and present the findings. These findings must be communicated to the business owner in the form of a report, which includes comments on how the data was collected. To enhance the information visually, computer graphics are usually added. Graphs and charts, such as bar or line graphs and pie charts, are invaluable communication tools to show patterns or trends at a glance. Market research companies will often make an oral and visual presentation, generally using a computer software presentation package.

Figure 12.14 Example of part of a market research analysis report

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12.5 Target market attributes

market a group of customers with alike needs and desires who may purchase products or services from sellers through the exchange of money or other things of value

mass marketing a marketing strategy that seeks to attract the attention of all market segments through the use of mass distribution and mass media

niche marketing a concentrated marketing strategy that attempts to target a small, specific market segment

market segment relatively similar (homogeneous) group of customers who are likely to respond in similar ways

market positioning a product is placed within a market with regards to its image, price and age of the target market

market segmentation an approach that is midway between mass marketing and individual marketing; it defines and subdivides a large generic market into distinct subsections of potential customers who have similar specific needs and wants

marketing mix the seven variables that are used when undertaking marketing strategies: product, price, place, promotion, people, physical evidence and process

A **market** comprises customers and potential customers with alike needs and desires who may purchase a product or service through the exchange of money or other things of value.

Four basic types of markets are recognised:

1. *consumers* – involves businesses selling mass consumer goods; for example, soft drinks, food and household products to consumers
2. *businesses* – where the purchasers are other business personnel who are often well-trained and well-informed professional buyers
3. *global* – businesses that decide to export their product
4. *not-for-profit and government markets* – organisations that are formed to provide assistance to, or infrastructure for, society.

Market dimensions

One of the first questions that need to be addressed when a business is working out its marketing strategies relates to what they anticipate will be the size of the market for their product or service. This will impact on the approach they will need to adopt. If a business markets its product or service to an entire market, this is referred to as **mass marketing**. Adopting this strategy can be costly and does not usually work well since it is unlikely that every individual customer or consumer will have the same needs. For instance, subscription TV providers such as Netflix, Stan, Amazon Prime and Foxtel Now have been mass marketing their services. By using this strategy, they are incurring high costs for mass media exposure without necessarily getting 'buy in' from consumers. Optus also uses mass marketing with the inclusion of separate pieces of marketing material into daily newspapers. It raises the question – is this the most effective way for them to market their product and service?

For marketing to be more effective, the mass market needs to be broken into segments, using the four forms of segmentation and their variables.

Once the segments have been determined, a business can review them and select its target market. Within the target market it is possible to identify whether there is a **niche market** whose needs can be more precisely met. The final step in this process is to differentiate the product or service of the business from its competitors within that **market segment**. This strategy is referred to as **market positioning**.

Market segmentation

It is rare for a business to be able to satisfy the needs and wants of everyone; therefore, **market segmentation** is carried out to improve a business's precision marketing. Not everyone likes the same drinks, food, clothes, hotels and movies. Marketers try to identify certain groups of potential customers who may have a preference towards a diverse range of products and services and **marketing mix**. A market segment should ultimately be a relatively similar (homogeneous) group of customers who are likely to respond in similar ways. Segmentation then allows management to concentrate its efforts on allocating its scarce resources more effectively, so it can achieve its business objectives. Segmentation is an approach that is midway between mass marketing and individual marketing. Consumer markets are typically segmented by the four bases or dimensions shown in Table 12.2.

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Table 12.2 Forms of segmentation and their variables

Geographic	Demographic	Psychographic	Behavioural
Where the customers live or work: • region – world or country • size of city; i.e. number of residents • suburban or rural • climate – hot, cold or temperate.	Where the market is divided according to: • age • gender • income level • education level • family size • family life cycle • occupation • nationality/race.	Where the market is divided according to: • social class – upper, middle, lower middle • personality – compulsive, gregarious, ambitious, aggressive, extroverted, introverted • lifestyle – achiever, socially aware, conservative, optimist.	Where the market is divided according to: • needs – economic, functional, physiological, psychological or social • benefits sought – quality, service, economy, speed • loyalty status • kind of shopping – convenience, comparison, speciality • purchasing frequency.

The greater the number of variables that can be identified when defining a market, the closer a business comes to developing the profile of its customers. For example, Dulux (paint and coating manufacturing company) sees its customers as people who:

- are building a new home, renovating or redecorating
- place importance on using a reputable and trusted brand
- are willing to pay a premium price for a quality product
- are looking for innovative paint ideas in both colour range and finishes (textures)
- are comfortable accessing its website for information and assistance
- purchase products through major hardware chains.

Figure 12.15
A market segment should ultimately be a relatively similar (homogeneous) group of customers who are likely to respond in similar ways, such as mothers with young children.

ACTIVITY 12.3

Construct a customer profile for two of the following products/businesses:

- Cotton On
- Subway
- Smiggle
- Uniqlo
- electric car made by Tesla Motors
- Metro Trains Melbourne.

Target market

Once they have reviewed the forms of segmentation and their variables, businesses need to select which market segment they wish to pursue. This requires the identification of their actual target market.

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generic market a market where broadly similar needs of customers are met by sellers offering a variety and often diverse range of products

product market when a consumer is looking for a particular item; for example, a particular type of drink or car

Identifying a specific target market requires a 'narrowing-down' process from a broad or **generic market** to focus on the specific type of customer. For example, the entire drinks market is seen as satisfying people's thirst; it is therefore seen as being part of the generic marketplace. When the consumer is specifically looking for a particular type of drink (such as a sports drink) that target market changes to the **product market**. Similarly, the entire car market is seen as satisfying a potential customer's need for private transport. It is when that potential customer narrows down their choice to an expensive car that Mercedes, BMW or Lexus may enter as players in a specific product market (i.e. expensive cars). The current desire by consumers for smaller and more fuel-efficient cars or SUVs has produced other specific product markets. In the future, consumers may desire an electric or driverless car, so creating another product market.

Creating or identifying a niche market within the target market of a business is a good marketing strategy because it allows the business to position its marketing efforts on a clearly defined and less competitive market. This more narrowly defined group often does not have its current needs met. The ideal niche market has the following attributes:

- the customers have a distinct set of needs
- the customer will often pay a premium to the business that satisfies their need
- the business usually has no, or few, competitors
- it permits a degree of specialisation in the product or service required
- it is generally one that will allow for profit and market growth.

Operating in a niche market can be attractive to businesses due to their reduced competition and positioning. In the airline industry in Australia, there are airlines (Jetstar and Virgin) in the domestic air travel market that advertise cheap airline tickets on some routes and particular days and times. In 2007, Tigerair Australia found its niche as a 'true' budget airline, consistently offering cheap no-frills flights to a limited number of destinations. Tigerair became popular with travellers who have a limited capacity to pay for travel. Virgin Australia perceived that Tigerair was meeting a previously unmet need, and in February 2015 the Virgin Australia Holdings acquired this budget airline, rather than establishing its own budget airline to compete for those customers.

Figure 12.16 A niche product – organic and dry-roasted coffee

Melbourne rates as one of the best cities in the world in which to drink coffee. Its roasters and baristas are very accomplished, inventive and technically capable. Its cafes often set the standard for new brewing techniques or gadgets. Selling a cup of filtered coffee can change from being a product to a niche product regarded as a speciality when the coffee beans have been grown organically and dry roasted. It creates an expectation and promise of better quality and being better for the environment. A cafe serving this niche speciality coffee would expect to charge a higher price for the product.

consumer behaviour the study of the behaviours and strategies of customers when choosing, using and disposing of products or services

Consumer behaviour

Businesses need to know about **consumer behaviour** when trying to anticipate how their customers will respond to their marketing strategies. It is therefore important for businesses to understand influences on customer purchasing decisions. If customers are individuals or household members, it is recognised that the following five factors will influence their behaviour:

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1 *cultural factors* – inherent values and beliefs are developed through parental and environmental influences, such as nationality, religion or ethnic background or even the social grouping to which people belong
2 *social factors* – people are influenced in their actions and beliefs by those with whom they associate. Associates may come from family, peers, sporting, religion or other community groups.
3 *personal factors* – these are differences due to age, stage of life (single, newly married, married with dependent children, single parent, divorced with dependent children, widowed), occupation, economic situation, lifestyle and personality
4 *psychological factors* – this incorporates the notion of what is motivating a consumer to purchase this particular product or service. Trying to work out what is in a consumer's mind before, during and after purchasing a product is a very difficult exercise.
5 *situational factors* – it is important to know *when, where* and *how* consumers make their purchases:
   — When: is there a particular time of day, week or season? For instance, we are increasingly seeing seasonal products such as Easter eggs and Christmas-related products entering stores earlier and earlier hoping to extend the buying season. No sooner have supermarkets packed away the Christmas items or put them in the mark-down bins, but hot cross buns are being stocked. Studies have shown that family food purchases are made towards the end of the week; accordingly, food advertising and specials are often provided earlier in the week to try to improve sales in the earlier days of the week. Many customers are perceived to be 'time-poor' or have time constraints imposed upon them. The introduction of telephone and internet banking has extended trading hours and assisted consumers to save time. Internet (online) shopping has also been successfully adopted by supermarket chains where customers can place their order online and either collect it or have it delivered to their homes.
   — Where: this relates to where the actual buying decision is made and where the actual purchase occurs. Has the purchase been planned or is it one that occurred due to an impulsive decision based on various marketing techniques used to influence the decision, such as music, lighting and placement of products?
   — How: this relates to behavioural issues such as the consumer's preference to buy the product as a single item or in multiple packs; for example, yoghurt, food and snack items, socks and underwear.

Figure 12.17 Influences on consumer behaviour

While marketers understand what factors can influence the purchasing decisions of consumers, it is not always easy to predict what the actual deciding factor was for buying a particular item. It could have been based on satisfying a practical need, an emotional or impulsive action, a logical (rational) or irrational (foolish) reason, or as a result of recommendations made in research reports.

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CASE STUDY
12.2

Smiggle's target market

Figure 12.18 The Smiggle logo

WHERE A SMILE MEETS A GIGGLE, IT'S THE WORLD'S GREATEST PLACE

Smiggle, a colourful, fun, fashion-forward stationery store opened in Melbourne in 2003. The concept took off and spread rapidly with 20 stores being opened. In August 2007 the Just Group fashion and apparel retailer purchased Smiggle, which then saw the international expansion of the business, first to New Zealand, followed by Singapore, the UK, Malaysia and Hong Kong. This expansion strategy is part of the business's grand plan to be the world's most exciting and famous stationery brand. The range of products it sells is ever-expanding, drawing inspiration from around the world. The products are well designed and innovative, using bold colours and quirky graphics. Smiggle's ultimate goal is 'to inspire and develop the creative spirits of its customers, by delivering original, fun and affordable stationery'. The fit-out of a Smiggle store is extremely colourful and bright.

ANALYSIS

1 Identify the target markets for this fun business.
2 Have you visited any Smiggle stores? Explain whether or not the store's colourful fit-out and friendly staff made you want to purchase one of Smiggle's products.
3 Identify which of the five factors that influence a consumer's behaviour is being addressed and satisfied by this business.

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ACTIVITY 12.4

Twice a week, ALDI adopts a 'special buys' promotional strategy, which offers customers heavily discounted general merchandise in its stores. On each visit to the store, the customer is asked whether they would like an ALDI brochure setting out the specials for the week ahead.

1 Do you or any of your family shop at ALDI? If so, identify the reasons why you or your family shop there.
2 Have you purchased any items that are listed as 'special buys'? If so, describe the factors or influences that caused you to make the purchase.
3 Discuss whether or not you believe this strategy is working to attract customers to ALDI stores.
4 Identify the characteristic of consumer behaviour that ALDI is using in this marketing strategy.

Consumer trends

Keeping up with current consumer trends is important to the financial success of a business. It is important that the marketing function supports the business by understanding current and changing consumer trends. Some examples of these trends are:

- Buying online: as of February 2019, 80.8% of people in Australia were shopping online and very soon one out of every 10 items will be purchased from ecommerce stores. By 2021, the ecommerce market penetration rate will reach 85.2%, and the number of people buying online will be 22.0 million. Though 63% of Australians still prefer desktops or laptops, online shopping using mobiles is gaining more and more popularity. 48% of people shop via mobile at least once a week.

ACTIVITY 12.5

HelloCars is a Sydney-based company that was launched in 2016 and operates without a physical showroom. HelloCars stocks more than 200 cars, and customers can inspect the cars online via a 360-degree view of the car. It offers car sellers a quick online quote. If the seller accepts the quote and the mechanical test, then the next day they are able to make an offer to purchase the car. In the 12 months ending March 2018, HelloCars had made more than 10 000 online quotes. Typically, HelloCars has found that it takes approximately three days for a customer to purchase a car through its platform.

1 Browse the website www.hellocars.com.au.
2 Discuss what you believe are the advantages and disadvantages of buying or selling a car using this online marketplace.

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Figure 12.19 Farmers' market – a popular venue to purchase fresh produce

- Buying consumables (meat, fruit and vegetables): when purchasing consumables, in-store shopping is still favoured over online grocery shopping, as customers are providing feedback that they still want to be able to inspect the products to determine their quality and value. This trend is supported by the increasing number of farmers' markets across both metropolitan and regional areas. Customers are willing to pay a 'price premium' for the satisfaction of purchasing their fruit and vegetables directly from the producer and being able to develop a personal relationship with the grower and get additional information about how the product was grown. Visiting a farmers' market also seems to be meeting a social need of consumers and provides a destination/event experience. The consumer trend of wanting to buy 'greener food' and reduce 'food miles' is also satisfied by shopping at farmers' markets.
- One-stop shopping: this trend has encouraged retailers to add related and unrelated items of merchandise to their core products. For example, many retail businesses now include a coffee shop within their store, capitalising on the trend of being part of a 'cafe society'.
- Ready-to-eat (gourmet) meals: consumers have been able to buy ready-to-heat and ready-to-eat food for the past 20 years. The current trend is that consumers – often busy professionals – are now looking to buy 'gourmet' meals, not just the normal offerings of spaghetti bolognaise. Businesses such as Marley Spoon are meeting the customers' desire to cook by supplying specific gourmet ingredients to use when preparing entrees, main courses and desserts. The important factors for businesses wanting to respond to this trend are that they meet the customers' need of being able to buy good quality, tasty food. Many restaurants now offer gourmet meals delivered to the customer using other businesses such as UberEats or Deliveroo.
- Ecommerce: electronic transactions have increased with more consumers now expecting the convenience of being able to pay by card. Electronic payment systems allow customers to pay for goods or services electronically, and include:
  - tap-and-go (contactless) payments
  - credit and debit cards
  - EFTPOS
  - online payments
  - smart phone and tablet card processing.
- Consumers have now become 24/7 in their purchasing. They look for retailers who can provide fast and convenient service at any time on any day, particularly of goods and services that will ultimately save them time in their busy lives. This has also led to an increase in internet purchasing where the consumer orders online with the goods being delivered to their designated address. Consumers are also using online services to book airline tickets or holidays.

Figure 12.20 Gourmet meals on sale in supermarkets

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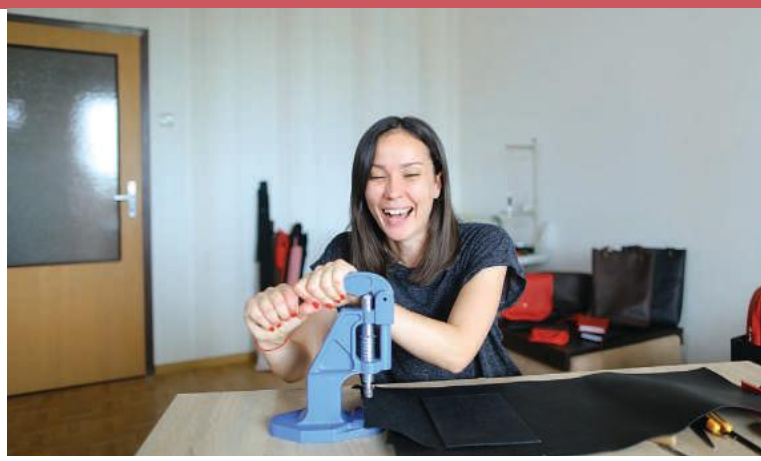

Figure 12.21 Offering personalisation of goods is a way to treat all customers as individuals.

- Many consumers are now looking to be treated as individuals in their purchasing decisions. They are tired of the mass marketing approach and want to be listened to and treated as special. Cotton On provides a personalised service where a customer's initials or names can be put on a variety of items such as: diaries, dressing gowns, slippers, handbags, hoodies, scarves, underwear, footless tights and children's clothing.
- Consumers are more conscious of their health and informed about nutrition. They are also more aware and concerned about environmental and social issues. They engage in consumption behaviour that will support their diet, fitness and ideal lifestyle. Businesses have responded to this trend by providing information on their packaging relating to nutrition, fair trade, etc.
- A growing number of consumers are questioning and wanting to be able to trust the motives of businesses from whom they are purchasing products or being provided with services. It has led to them questioning marketing campaigns, brand images and business practices. These sceptical consumers are demanding evidence of ethical labour, product and supply-chain practices to justify their purchasing decisions.
- The nostalgia factor is evident in consumers of different age groups. Older consumers are reaching back towards long-gone simpler days to replace their growing anxiety about ageing and our stressful society, while young consumers are adopting and updating or reinventing products from the past; for example, retro look radios (on the outside they have old styling, inside the latest technology).
- The emergence of a consumer group known as 'tweens' – no longer little kids, but not quite teenagers – has formed a new market. This consumer group has become more empowered and seeks products and experiences that previously appealed to teenagers. Businesses operating in the streetwear, cosmetics (beauty) and entertainment industries are beneficiaries of this new consumer group. They are, however, posing issues for traditional toy manufacturers.

Figure 12.22 Retro-looking radios combine nostalgic aesthetics and modern technology.

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Chapter summary

- Marketing is more than just selling a product; marketing influences the majority of activities undertaken in people's lives. It aims to help consumers make informed and accurate decisions relating to the purchase of a product or use of a service.
- Marketing extends to the following entities: goods, services, experiences, events and personalities.
- Marketing is an important consideration when establishing a customer base and business objectives.
- The marketing concept has developed to support the change in focus from selling a product or service to actually satisfying the needs and recognising the importance of customers.
- There are a range of external and internal factors that can affect the establishment of a customer base and brand identity of a business, such as technology, social media, customers, competitors and corporate culture, owners, and management and employees.
- Market research is undertaken to help businesses make informed decisions.
- Market research needs to be undertaken in a systematic manner, with consideration given to minimising any form of bias in the data-gathering process.
- Marketing data can be obtained from two main sources: primary and secondary.
- Common methods of obtaining primary data are telephone surveys, mail surveys, door-to-door personal interviews, shopping centre interviews, direct observation and small group discussions and experiments.
- Common methods of obtaining secondary data are company records, periodicals, computerised databases, libraries, newspapers, magazines, *Yellow Pages* and *White Pages*, government agencies and trade associations.
- Market research aids the success of businesses, but it does not guarantee it.
- The research process involves a number of steps, with problem definition being one of the most difficult steps. Systematic approach steps include the following:
  - define the problem and establish research objectives
  - determine the research design
  - identify and assess information types and sources
  - design data-collection approaches, forms and sample size
  - collect and analyse data
  - prepare and present the final report.
- Market researchers should strive to provide unbiased and honest results. The presentation of research findings using graphical representation aids both interpretation and analysis.
- Secondary data is useful in establishing market size and trends but is not as useful for providing specific data about individual business products.
- Determining the attributes of the target market is important for effective marketing.
- Segmentation requires identifying market segments based on behavioural, geographic, demographic and psychographic variables. Once the segment is determined, a decision can be made as to which segment is more favourable for a particular business to target.
- The importance of the Pareto Principle (80/20 rule) needs to be recognised, whereby 80% of sales are said to be attributed to only 20% of customers.
- An important consideration of marketing is whether to market to a mass or niche market.
- It is important to understand the influences on a consumer's purchasing behaviour and to develop a customer profile.
- For businesses to prosper, they must be aware of the current consumer trends and make sure they take these into account when marketing their products. Trends such as: buying

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online, purchasing products direct from the producer or grower, one-stop shopping and 24/7 availability, demand for ready-to-eat gourmet meals, being treated as an individual provided personalised (not mass-produced) products, catering for nostalgia and new market of tweens. There is also a trend where consumers wish to be more informed about products such as: nutritional value, impact on environment and society and whether the businesses producing the goods are ethical and socially responsible.

Chapter summary tasks

1 Define the following terms and then use each in a sentence to demonstrate your understanding:
   - **a** customer profile
   - **b** niche market
   - **c** market segment
   - **d** target market
   - **e** product market
   - **f** social media
   - **g** focus group
   - **h** primary data
   - **i** brand
   - **j** market research.

2 Describe the Pareto Principle and explain its relevance to marketing.
3 Describe the factors that influence consumer behaviour.
4 Identify three ways a fruit and vegetable shop could use market research to decide whether to add an organics section to the shop.
5 'Why undertake market research? It is a waste of time and money.' Discuss whether you agree or disagree with this comment.
6 Identify and describe three factors that can affect the customer base of a business.
7 Identify and describe three factors that can affect the brand identity of a business.
8 Distinguish between primary and secondary data.
9 Describe how the culture of a business can affect how the business develops its customer base.
10 Describe the difference in approach needed when marketing a product to a mass market or niche market.

Extension question

David owns and operates a very popular and profitable bakery in one of Melbourne's eastern suburbs. Many of his existing customers ask him whether he would be interested in baking and selling bread products that are gluten-free. David knows that to be able to make gluten-free products he would need to make major changes to his current bakery as it is important that the same machinery is not used for gluten and gluten-free products.

David has asked you to provide him with advice relating to:

- identifying what issues he needs to consider which will assist him to make a decision whether to respond to his customers' requests to bake gluten-free products
- identifying ways that David could undertake market research to determine whether there is a strong demand by his existing customer base for gluten-free products.

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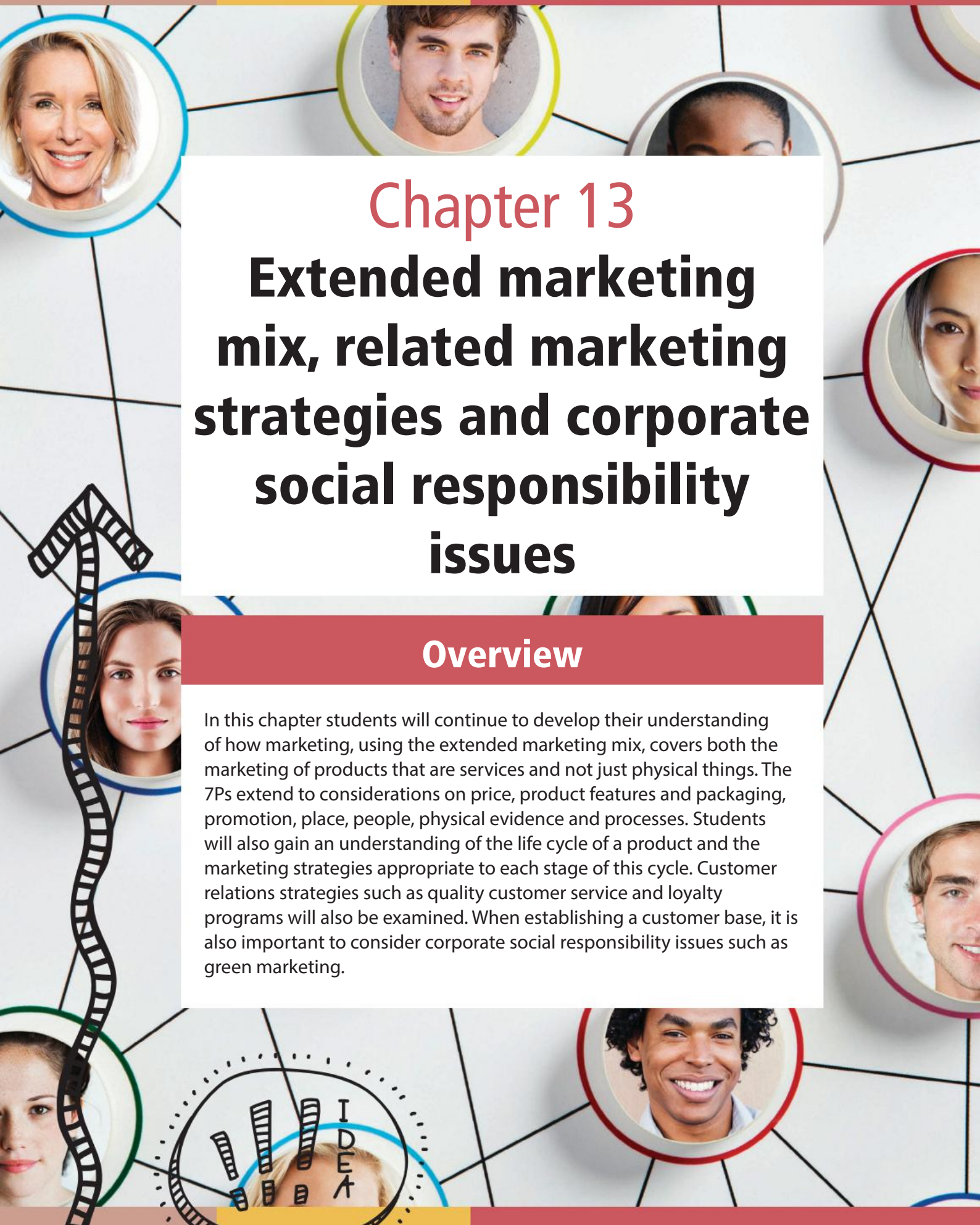

Chapter 13

Extended marketing mix, related marketing strategies and corporate social responsibility issues

Overview

In this chapter students will continue to develop their understanding of how marketing, using the extended marketing mix, covers both the marketing of products that are services and not just physical things. The 7Ps extend to considerations on price, product features and packaging, promotion, place, people, physical evidence and processes. Students will also gain an understanding of the life cycle of a product and the marketing strategies appropriate to each stage of this cycle. Customer relations strategies such as quality customer service and loyalty programs will also be examined. When establishing a customer base, it is also important to consider corporate social responsibility issues such as green marketing.

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Key terms

- advertising
- brand leader
- brand loyalty
- brand stretching
- complementary pricing
- consumer profile
- customer relationship marketing (CRM)
- direct distribution channel
- generic brand
- going rate
- green marketing
- indirect distribution channel
- informative advertising
- label
- leverage
- loyalty program
- market penetration
- market saturation
- mark-up
- maturity
- multi-channel
- penetration pricing
- personal selling
- persuasive advertising
- place
- price
- price elastic
- price inelastic
- price leadership
- product
- product development
- product differentiation
- product life cycle
- product line
- product mix
- product placement
- promotion
- psychological pricing
- publicity
- sales promotion
- skimming pricing

Key knowledge

In this chapter you will learn about:

- the 7Ps model of marketing: product, price, place, promotion, people, physical evidence and process
- product life cycle: introduction, growth, maturity, decline, extension and the relationship between each of these stages and the choice of marketing strategy
- the features and value of customer relations strategies such as providing quality customer service and establishing customer loyalty programs
- corporate social responsibility management issues with regards to establishing a customer base, such as green marketing.

(Source: VCAA Business Management Study Design, 2017–2021, p13)

What's ahead

Figure 13.1 The 7Ps of the marketing mix

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13.1 The 7Ps of marketing

P1 – Product

product a good or service in its final state after having gone through all stages of the production process

consumer profile a statistical picture of the typical consumer of a product based on demographic data; for example, income, age, gender, occupation

Product is the first component of the 7Ps of the marketing mix. A product is anything that can be offered to a market to satisfy a need or want. It can include physical goods, services, experiences, events, persons, places, properties, organisations, information and ideas. Consumer and business goods and services can be classified based on their characteristics relating to purchasing habits. The **consumer profile** will then impact the form of marketing best suited to that category of product.

Business goods

Business goods and services can also be classified according to their characteristics, ensuring that the appropriate marketing strategies can be applied. These may include:

- raw materials (e.g. minerals and agricultural products) and manufactured materials and parts (e.g component parts)
- capital items, such as buildings, equipment, computers and office equipment
- supplies, such as paint, petroleum products, paper and cleaning materials
- services, such as engineering, surveying, maintenance, accounting and legal.

Consumer goods

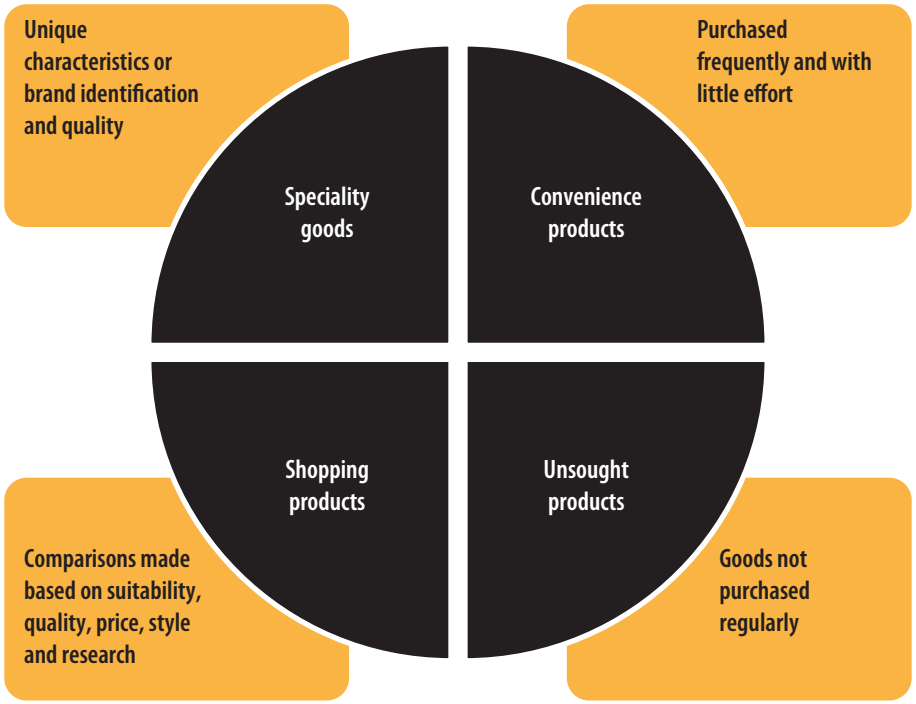

Figure 13.2 Consumer products classification system

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Table 13.1 Types of consumer goods, their classification and impact on marketing strategies

Product classification	Groups	Marketing strategies
Convenience goods	• Staples – items bought on a regular basis; e.g. newspapers, bread, milk, toothpaste, shampoo, food items • Impulse – items bought with no planning; e.g. chocolate bar, chewing gum, magazines • Emergency – items purchased when the need is urgent and price is not important; e.g. umbrella during a rainstorm, shopping bags	• Strategies that allow for wide exposure of the product; e.g. television advertisements • Prominent display such as checkout counters; e.g. colourful displays • Prominent display near checkout counters; e.g. product display positioning
Shopping goods	Examples: clothes, shoes, furniture, household appliances, new and used cars	Broad range of strategies required to cater for varying purchasing styles; salespeople need to have good product knowledge and selling techniques
Speciality goods	Examples: new cars (luxury), photographic equipment, computers	Limited production coupled with exclusive distribution rights means that marketing strategies can be directed at specific targets
Unsought goods	Examples: smoke detectors, life insurance, encyclopaedias, prepaid funerals, financial planning	Marketing needs to be specific and advise of benefits of products/services; personal selling and direct marketing are important for product promotion

ACTIVITY 13.1

Classify each of the following consumer products according to its classification and group. Explain why you have chosen this category:

- jewellery
- sunglasses
- fashion clothing
- drone
- sports shoes
- bedroom furniture
- car insurance
- toothpaste
- muesli bar
- car.

Developing the product

It is very important for businesses to keep their product range appealing to the marketplace. There are a number of important factors that contribute to the success of a product. Commitment on the manufacturer's part to continuously develop a unique and superior product is one key to success. Manufacturers also need to consider changes in consumer tastes, new competitors and technological advances. Failure can occur due to the market segment being too small, poor choice of marketing strategies, changes in consumer tastes or forecasting errors.

There are five stages involved in **product development**; that is, in getting a new product developed and out to the market.

product development the design and development of new or existing products

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Stages in the new product development process

Stage 1: Idea development

Ideas can be generated from input from both staff and customers or by carrying out market research. A business will then be able to find out what needs are not currently being met, or how the current product could be modified, enhanced (innovated) or extended. A competitor's product could be analysed to see how to improve on the concept. Product ideas may also come from perceptions of current consumer trends, as outlined in Chapter 12.

Stage 2: Idea screening

Business owners need to consider how attractive these ideas are to their business and how well they fit with the business objectives and profile. Consideration should also be given to the current product range as to whether the new idea will totally change the range or become an extension of a current range.

Stage 3: Idea evaluation

Idea evaluation involves the testing of the concept with market analysis to determine demand and gain the reactions of customers, identifying target markets, working out the cost of producing the product and forecasting sales and profits.

Stage 4: Developing the product

The actual product now needs to be produced and market-tested, and marketing strategies need to be determined. Alterations may still be made to the final product, depending on feedback from market testing.

Stage 5: Commercialisation of the product

Once developed, the product enters the marketplace through a product launch and its accompanying marketing campaign. The success of the product is judged against the forecasts made during the idea evaluation stage.

Figure 13.3 Product development will be a collaborative process involving many sides of a business.

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13.2 Product life cycle

Business success would be guaranteed if it were possible to determine the exact time to launch a new product or update an existing product. What is known, however, is that all products go through a life cycle. An awareness of this can help businesses gain an advantage over their competitors. The **product life cycle** is divided into four stages, as described here.

product life cycle the stages through which all products pass: launch (introduction), growth, maturity, decline or extension

Stage 1: Introduction

This stage commences with the launch of the product into the marketplace, after its product development and testing stages. Sales at this stage are low (increasing at a slow pace), profits are non-existent or very small, and competition is scarce.

Stage 2: Growth

Due to effective promotion of the product and acceptance by consumers, sales will be growing fast, with profits rising, then flattening out and starting to fall over a period of time. At this point, competitors may have now entered the market.

Stage 3: Maturity or saturation

The level of sales has stabilised and competition for the product is strong. Profit can start to decline. The initial consumer demand for the product has been satisfied and the product as yet does not need to be replaced. Prior to launching a brand new product, extension strategies may be introduced to extend the old product's **maturity** stage; for example, a re-launch that involves new packaging and advertising of the product.

maturity the stage of the product life cycle where sales peak (saturation point); mature products either decline or are extended to lengthen their life cycle

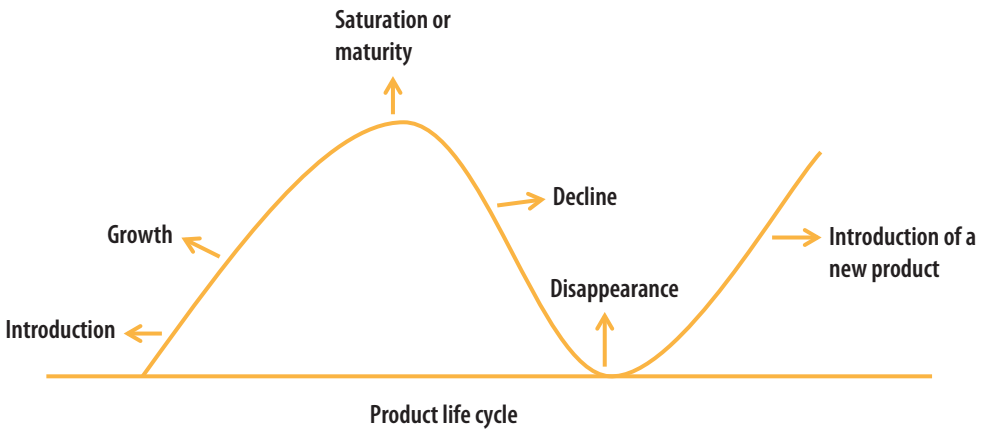

Figure 13.4 The product life cycle

Stage 4: Decline or extension

This stage involves a steady decline in sales as newer competitors' products are more popular. When the product becomes unprofitable or a new product is ready, the original product will be withdrawn from the market. An extension strategy, such as exporting, may be adopted in the maturity stage as a way to boost sales.

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The marketing strategies of a product need to change during the various stages of a product's life cycle as customers' attitudes to the product will change. In addition, the target market may need to change and there may be an increase in competition for the product. Table 13.2 sets out the relationship between the marketing mix and the four phases of the life cycle of a product.

Table 13.2 Product life cycle relationship to the first 4Ps of the marketing mix

Product life cycle phases	Product	Price	Place	Promotion
Introduction	New model or product	**Market penetration** pricing (low) or skimming policy (high)	Limited number of outlets, with possibility of expansion	• **Informative advertising** to make consumers aware of product, its price and features • Free samples, trial periods • Trade incentive/s to stock the product
Growth	Product improvements need to be planned to maintain appeal to customers	If **penetration pricing** policy is a success, prices may now be increased	Increased number of outlets	• Reinforcement and **persuasive advertising** to encourage consumers to repeat purchase • Sales promotions to encourage repeat purchases and establish and maintain **brand loyalty**
Maturity or **market saturation**	Extension strategies needed; e.g. new models, colour range, packaging	Competitive pricing	Large number of outlets, with possibility of new and different types of outlets	Importance of brand image, with advertising emphasising the difference between your product and that of your competitor
Decline	Sell off existing stock ready for withdrawal from product range and market	Discount or lowering of pricing	Reduce number of outlets to those that are profitable	• No active promotion or advertising • Possibly price reduction information

market penetration a pricing strategy that aims to set low prices initially to gain high market share quickly

informative advertising advertising that gives consumers factual information about a product rather than creating a product image

penetration pricing a pricing strategy where the product's price is set lower than a competitor's price; also used when introducing a new product to the market

persuasive advertising attempts to create an emotionally positive feeling about a product's image to encourage consumers to buy it

brand loyalty when consumers continue to purchase the same product, even though rival products may exist

market saturation occurs when most consumers already own the product and the market is not growing; any sales that occur are replacement sales

ACTIVITY 13.2

1 Suggest two reasons why an understanding of the product life cycle is so important to the success and profitability of a business.

2 Identify what stage in the product life cycle the following products or services have currently reached:
- vinyl records
- automated (driverless) cars
- hybrid cars
- drones
- carbonated drinks
- snowboards
- energy drinks
- digital cameras
- smart phones.

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What is the product mix?

Many businesses offer more than one product for sale. The **product mix** is the full set of all products being sold by a business. The mix has two main elements or dimensions:

- breadth – measured by the number of product lines carried
- depth – determined by the variety of sizes, colours and models offered within each product line.

A **product line** is a broad group of products intended for basically similar uses and have reasonably similar physical characteristics. For instance, in an electrical retail store the product mix would include items such as refrigerators, freezers, washing machines, dryers, microwaves and dishwashers, referred to as 'white goods'. An example of one product line would be refrigerators. Within that product category, its breadth can be determined by the number of different brands a store is selling and the depth by the number of different models of that particular product that are available.

product mix a full set of all products being sold by a business

product line a broad group of products that are intended for similar uses and have similar physical features

The role of branding

A brand is the distinguishing name, term, symbol or design that is used to identify one manufacturer's product and differentiate it from another manufacturer's product. Branding is very influential in marketing, creating either a positive or negative image in the mind of the consumer. Products are developed and advertised to make them appear different to others on the market (**product differentiation**).

The business with the largest share of the market is known as the market leader (or **brand leader**). It has been estimated that a successful brand is a powerful asset to a business and may account for between 50% and 70% of the total value of a business.

What is it that makes a brand connect with the consumer? Is it emotion, market leadership, high quality or being judged as value for money? Over the past 19 years, the Reader's Digest Trusted Brands survey has researched which Australian brands have the best customer reputation.

product differentiation products are developed and advertised to make them appear different from others on the market

brand leader the brand in the market with the highest market share

ACTIVITY 13.3

Most trusted brands

Visit the Trusted Brands Australia website and answer the following questions.

1 Select five of the most trusted brands and describe the features that you believe each of these brands possesses to make it 'most trusted'. For example, in 2018 Cadbury Dairy Milk chocolate was voted Australia's No. 1 confectionery brand and has been voted Most Trusted Confectionery Brand in 13 of the previous 14 years. Cadbury's Dairy Milk chocolate has consistently retained its smooth and creamy taste with its equivalent of a glass and a half of full-cream milk in every 200-gram block and has remained a family favourite. On its packaging it now includes reference to its sustainable sourcing of cocoa, assuring customers that it not only tastes good, but purchasing it does good also.
2 Describe what you believe makes a brand connect with the consumer.

Figure 13.5 A brand is a powerful business asset that is essentially a maker's mark.

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Importance of brand

A brand can convey a range of meanings: attributes, benefits, values, culture, personality and type of user. Taking the example of luxury cars such as Mercedes-Benz, BMW and Rolls-Royce, it is possible to analyse these brand meanings:

- attributes of the product – all three cars suggest an expensive, well-built, well-engineered, long-lasting, high-prestige automobile
- benefits – both functional and social status. They will last for a long time and can make some people feel important and admired for owning and driving one of these products.
- values – these cars say something about the manufacturer's values relating to high performance, safety and prestige

Figure 13.6 Luxury brands – Mercedes-Benz, BMW and Rolls-Royce

- culture – these brands may represent a certain culture of the business such as efficiency, precision and high quality
- personality – all three brands project a certain and different personality. Mercedes-Benz – safe and conservative motoring, BMW – high status and interested in on-road performance, Rolls-Royce – conservative and establishment.
- type of user – who would we expect to see behind the wheel of a Mercedes-Benz, BMW or Rolls-Royce?

leverage using (something) to maximum advantage

brand stretching using an established brand name in order to introduce unrelated products

The importance of branding is recognised by all luxury car manufacturers. These manufacturers know the value of cashing in on their highly regarded brand. They **leverage** this to market and sell branded clothing, key chains or other trinkets. These branded goods provide a profitable product line for such premium, low-volume car producers. Their growing non-car product lines underscore the power of their brands, but also the harsh realities of the car business: selling baseball caps and luggage can be more profitable than selling cars. This practice is known as **brand stretching** and occurs where a central logo is used as an umbrella for a range of products.

Chemist Warehouse, established in 2000, is a privately owned Australian company operating a chain of retail pharmacies. This business is heavily reliant on the marketing strategy of brand recognition as 'Australia's cheapest chemist' to ensure its success. This dependence on its brand recognition and loyalty to ensure that it gets a very large number of customers through the door or purchasing online follows on from the company spending $100 million annually on marketing, while working on a 10% profit margin rather than the 35% profit margin of other chemists.

Figure 13.7 Chemist Warehouse

Another example of brand distinguishing a product is in the very large and competitive paint industry. The brand Dulux, with its motto (created in the 1970s) 'Worth

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doing, worth Dulux', conveys the image of quality attached to any paint product from its range. Not only is Dulux the winner of the most trusted paint brand (Reader's Digest Trusted Brands), the company features an English sheepdog as part of its brand recognition. The Dulux dog is seen as a powerful trademarked symbol of the Dulux brand for consumers. Research confirms that the inclusion of the Dulux dog in any promotional material increases the memorability and branding for the consumer.

ACTIVITY 13.4

1 Identify two luxury brands (other than cars) where the business is 'cashing in' on the brand name to gain an additional revenue stream; for example, Harrods department store in London.
2 List at least five products where the brand name has become accepted as the 'common name' for the product; for example, Speedo (bathers).
3 Select two different products and describe the range of meanings attached to those products in terms of attributes, values, culture, personality and types of user.

Businesses that adopt a brand ownership strategy must ensure the strategy adequately promotes the brand, while also maintaining its quality. It is possible to register a brand name to protect its use. Over time, some brand names have become accepted in our common language as the generic name for a type of product. For example, plastic cling wrap is commonly referred to as 'gladwrap', a felt-tip pen as a 'texta', and a portable cooler as an 'esky'. This kind of product recognition is a marketing advantage.

Figure 13.8 In Australia a portable cooler is known as an 'esky', even when the item is made by a different manufacturer. This is great product recognition for the actual Esky brand.

Businesses also now want to monopolise the colour they use in their brands. This has become an increasingly contested issue, with Red Bull winning a court case in 2002 against a soft drink distributor whose can used the same red, blue and silver combination with the same 'diagonal thrust' as the Red Bull can. In January 2006, Clark Rubber won an injunction against Oasis Foam and Rubber, which had painted its stores with blue and red on a yellow background, similar to the Clark Rubber colour scheme. In more recent times, BP wanted to register the colour 'green' under the *Trade Marks Act 1995* (Cth), which can then protect its brand. This was opposed by Woolworths, which also uses this colour in its branding. Meanwhile, Cadbury and Darrell Lea fought a five-year legal battle in Australia's Federal Court over the right to use the colour purple in packaging and advertising. Cadbury wanted to gain sole rights to this colour. Cadbury was told by the Federal Court that it does not 'own' the colour purple for all its products, and its attempt to sue Darrell Lea was rejected.

A success story in the power of debranding resulted from the Australian Government's requirement that from January 2012 all cigarettes be sold in plain packaging, which have been designed to be plain, a standard colour and font, with a large, graphic health warning. The Australian Bureau of Statistics (ABS) reported that in the first year of the ban, tobacco sales fell by 3.4% in 2013 from 2012. There are now more than 20 countries around the world at various stages of implementing, progressing or investigating plain packaging laws.

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ACTIVITY 13.5

Identify the colour/s you associate with the following brands:

- John West
- National Australia Bank
- Toyota
- David Jones
- Bakers Delight
- Woolworths
- Bunnings
- Australia Post
- Metro Trains.

product placement a method used to gain prominence of a product in the consumer's mind; for example, in television, movies or the internet

An advertiser wants its product to be in front of people's eyes, wherever those eyes might be. **Product placement** has become very popular in television programs and movies. When you are next watching television or at the movies, take some time to count how many products are strategically placed in the show to subconsciously catch your eye. You may also want to count how many times an individual product appears or is mentioned during a television show that the business has sponsored.

The internet has become part of the branding strategy of many businesses. The website for a business becomes a brand portal offering site visitors more than just straight product information. It offers opportunities to participate in activities such as games, puzzles, message boards, live chat, email, surveys and ecommerce. It aims to gain commitment from visitors to the website by building a virtual community around that brand of product.

For small business operators, deciding to stock branded products is a sound strategy as these products carry their own consumer recognition and brand loyalty. This will cut down on the amount of marketing a business will need to undertake.

generic brand a brand that attributes its identity to the retailer rather than the manufacturer

Some large supermarkets offer products that have **generic** or private label brands which attach specifically to that supermarket chain, rather than the various manufacturers of the product. These brands are produced by a variety of unacknowledged manufacturers, packaged plainly and therefore more cheaply. They do not receive a lot of promotion. These savings are then passed on to the consumer by way of lower prices for the product. In comparison, ALDI has its own 'brands', though not what consumers traditionally refer to as 'home brands'. A close look at the ALDI range of products will reveal that its brands use the same colour palette as the well-known brands stocked by its competitors.

The choice of the right packaging

The packaging of a product is very important and should not be overlooked. It has a multitude of purposes, including:

- acting as an advertisement, attracting attention and new customers
- building image, brand recognition and positioning the product in the marketplace
- differentiating the product from that of its competitors
- protecting the product – primary wrapper, secondary and transportation packaging
- tamper-proofing the product
- providing consumer information – ingredients, manufacturer and country of origin.

label placed on a product to inform the customer/consumer with information such as manufacturer, ingredients and use-by date

One of the most important considerations when designing packaging is colour. For example, consumers associate certain colours with certain feelings and products: white (purity) with milk; red (warmth, passion and sensuality) with Coca-Cola; blue (professionalism) with IBM computers; purple (luxury) with Cadbury chocolates.

Labels can be used to provide information about the product, the manufacturer and its trademark or the retailer. When a business is designing labels for its products, it is imperative it ensures that it complies with the *Competition and Consumer Act 2010*, which specifies that businesses cannot provide customers with false, misleading or deceptive information. Labels can be attached directly to the product or form part of the packaging.

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Packaging, while very important from a marketing sense, has also come under greater consumer scrutiny and criticism, mainly due to environmental issues. The use of reusable packaging such as glass or recycled cardboard has helped overcome some of this criticism. Customers also choose products based on the convenience of the packaging. For example, Heinz moved from selling glass bottles of tomato sauce to also selling plastic, squeezable containers. White Wings flour is now available in a screw-top plastic jar as well as a paper packet. Producers should also think about portion sizes when designing their packaging. Not all households are large and therefore individual pre-packaged portions of items may lead to more sales.

ACTIVITY 13.6

Select four products and analyse their packaging based on the following criteria:

a design – use of colour, placement of logo or business name
b consumer information; for example, ingredients, name of manufacturer, country of origin
c level of packaging – primary or secondary
d brand recognition
e environmental friendliness.

CASE STUDY 13.1 *Go Natural's strategic branding*

Go Natural is a leading healthy snack brand owned and operated by David and Kate Worth as a family business for the past 25 years. The aim of their business is to keep its heart in Australia and their approach is to focus on food that tastes great; that is, good food, real food and whole food.

David and Kate pride themselves on understanding the processes behind growing food and its provenance. For example, the macadamias used in their snacks are grown in northern NSW and the honey is collected by beekeepers in Victoria's Grampians. They believe that

CONTINUED ITEM

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Figure 13.9 Go Natural is a successful Australian healthy snack brand.

natural wholefoods can be both delicious and nutritious. Their passion is to share their brand 'Go Natural' and to create innovative, healthy products that people genuinely love to eat.

As a business they conceive, develop, commercialise and market 'better for you' food products. They aim to maintain category leadership and have adopted a multi-segment approach whereby they manufacture products catering for differing eating occasions and different demographics. While their products are distributed and sold Australia-wide, they also export to 20 countries with the current focus on key Asian markets including China, Singapore, Malaysia and Indonesia.

Go Natural aims to use minimal processing of its ingredients so the products retain their natural goodness and flavour. Their packaging is designed to be very open so that customers can see the product through the wrapper.

Go Natural has recognised that its strength lies in its brand and is aware that it needs to adopt a multi-segment strategy as its products range across different segments of healthy snacking; for example, protein, energy, children and permissible indulgence. Implementing effective marketing strategies is therefore very important to gain acceptance and trust in the brand. Gaining acceptance of the products by the main supermarkets was important to the ongoing success of the business. Safeway/Woolworths was the first to accept followed by Coles. Being accepted by these large chains drove its level of manufacturing output to increase, also directly impacting on its distribution strategies.

While all businesses face challenges, one important challenge for Go Natural is health trends where customers are focused on products with reduced fat or sugar or gluten free or the star-rating displayed on the packaging of the product.

A business opportunity for Go Natural would be to brand stretch by increasing its current product range to include organic offerings such as natural liquorice and muesli bars or different product lines such as drinks, breakfast spreads and cereals. Visit the website www.gonatural.com.au to see what new products the business is now offering.

(Source: Author interview with David Worth [Go Natural])

ANALYSIS

1 Identify two current consumer trends and describe how Go Natural has responded to these trends.
2 Describe what you believe would be the reasoning behind Go Natural deciding to have packaging that was clear, allowing the ingredients of the bars to be visible.
3 Identify which segment of the market Go Natural recognise as its target market. Explain why the business believes it needs to adopt a multi-segment strategy when marketing its products.
4 Explain the importance of gaining acceptance by the two major supermarkets to stock its products had to the overall success of the business.
5 Describe the concept of 'brand stretching' and provide examples of how Go Natural plans to undertake this strategy.

CASE STUDY 13.1a

'No refund' signs and consumer rights

Please see the Interactive Textbook to access this activity.

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P2 – Price

Price is the second component of the 7Ps of the marketing mix. The **price** is the amount of money paid by customers for a product or service. It is the customer who will ultimately determine whether the business-set price is correct. Pricing levels greatly influence the revenue and profit made by a business, helping to determine its financial success or failure.

price the amount for which something is sold

Correct pricing decisions are therefore some of the most important issues facing marketing managers. Businesses often apply different pricing methods to their portfolio of products, depending on costs of production, stage in product life cycle and competitive conditions within the market.

Pricing a product for the market is dependent upon a range of factors. When a business determines its pricing strategy, it must ensure that it covers the base price for the product, then takes into account the range of price adjustment strategies available. Outlined below are various factors that must be considered when determining the price of a product or service.

There are three main ways that the pricing of a product or service is determined.

Table 13.3 The methods of determining price

Method of determining price	Explanation
Cost-based or cost-plus	This method enables the business to recover the total costs (both fixed and variable) associated with actually getting the product to the point of being ready for the marketplace. It requires the business to calculate its break-even point. Costs are normally calculated on a 'cost-per-unit' basis. A standard percentage **mark-up** (representing the desired profit margin) is then added to the unit cost to arrive at the sale price.
Competition-based	Customers normally compare prices and quality between items being offered by a business and that of its competition. To be competitive in the marketplace, it is therefore very important to price products in a similar price range to competitors. This is referred to as establishing the **going rate**. While price is important, businesses need also to focus on other aspects of the business, such as customer service and **loyalty programs** to entice customers. If a business wants to be the market leader, it will have to adopt a **price leadership** strategy, thus setting the prices for other competitors in that industry.
Marketing strategy	The pricing strategy differs based on whether a business is introducing a new product, or its product or service is already established in the marketplace. When introducing a new product, a business may adopt one of the following strategies: • penetration pricing is where the price is set lower than that of competitors or the normal price for such a product. Its purpose is to get customers to try the product and then to create a long-term relationship with those customers. It is hoped that these customers will still remain when prices increase to the level of normal competitive pricing for that product. Other forms of penetration pricing are introductory price discounts ('two for the price of one') and sampling. • **skimming pricing** is used for products that are of high quality and have an 'image' attached to them. The market is usually small and not seen as having potential to grow in size. The price charged is high relative to competitors and is skimming off the 'cream' of the market.

mark-up pricing determined by adding gross profit to the direct cost per unit; usually expressed as a percentage

going rate setting a price for a product or service using the prevailing market price as a basis

loyalty program a rewards program offered by a business to customers who frequently make purchases. It may give a customer advanced access to new products, special sales coupons or free merchandise.

price leadership a business that through its dominant market position is able to set prices that other businesses adopt

skimming pricing a strategy where high prices are set to ensure high profits before marketing advantage is lost

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If the product or service is established in the market, there are a range of pricing strategies that may be used, namely:

- identifying one product as a loss leader where the price set on this product is set low in order to attract customers to buy other products in the range that have a higher profit margin
- adopting **psychological pricing** – used by manufacturers and retailers to make a price seem to be lower than it actually is. The price of $1999 appears lower than $2001; similarly, $0.99 instead of $1.01. If you visit a Chemist Warehouse store, you will observe that this pricing strategy is used throughout the store with the intention of leading the customer to believe the price is lower than it actually is. In reality, the price will be rounded up at the checkout. Consumers also assume that some products, because of their image and quality, are going to be expensive. While the cost of producing perfume and cosmetics is not all that high, a large proportion of the cost is actually associated with the packaging to make the product look exclusive.
- using **complementary pricing** – where the price is set low on one item and high on another item that would normally go together; for example, suit, shirt and tie, coat and scarf.

psychological pricing pricing strategy whereby the price is set in accordance with the value consumers place on the product

complementary pricing where the price is set low on one item and high on another item that would normally go together

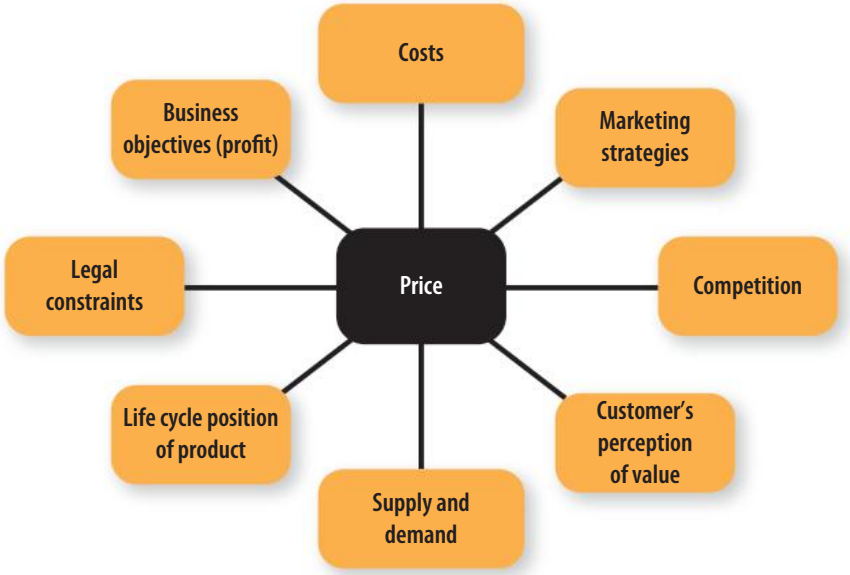

Figure 13.10 Factors that determine price of a product or service

There are other factors that can affect the pricing of a product or service. Some products, such as fresh fruit and vegetables, are highly dependent on the level of supply, either directly from the growers or the wholesale market due to seasonal factors. When the marketplace is oversupplied with a product, the price will usually fall in the hope of attracting consumers to buy additional quantities. Just think of the price comparison between strawberries, mangoes and watermelons in summer and winter.

Demand is slightly more complicated in its relationship to price. Some products may have a price increase with little or no impact on the demand for the product. These products are referred to as being **price inelastic**, and generally tend to be essential items such as milk, bread and eggs. Products that have a large drop-off in demand due to a price increase are referred to as being **price elastic**, and generally tend to be non-essential items, such as movie tickets, leisure travel and restaurant prices.

The government may periodically regulate or control the maximum prices for certain products. It is often those items considered to be staples, such as milk, bread, eggs and petrol. The government also regulates prices through the provisions of the *Competition and Consumer Act 2010*, and in some instances prohibits certain pricing practices, such as:

- price fixing, when suppliers formally arrange with competitor suppliers to fix the same price for a product

price inelastic a fall or rise in price of a product does not impact on the demand for that product

price elastic the degree to which demand for a good or service varies with its price

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- resale price maintenance, which prohibits product suppliers specifying a minimum price below which retailers must not resell or advertise their goods or services
- misuse of market power, when a supplier, having a substantial degree of market power, tries to eliminate or damage a competitor, prevent a person entering the market or deter a competitor from undertaking competitive practices.

Figure 13.11 Bread, milk and eggs can all be considered price inelastic.

P3 – Place

Place is the third component of the 7Ps of the marketing mix. It is very important that businesses place their product correctly so that it is accessible to the end user (consumer) when and where they want it. **Place** therefore involves making decisions to ensure that the right quantity of a product is in the right location, at the right time. It also means ways of displaying products to consumer groups. This could be in a shop window or online.

Distribution channels are used to provide the link between the manufacturer and the customer. There are two main types of distribution channels: direct and indirect.

place encompasses the distribution channels used to market products to customers; one of the 7Ps of the marketing mix

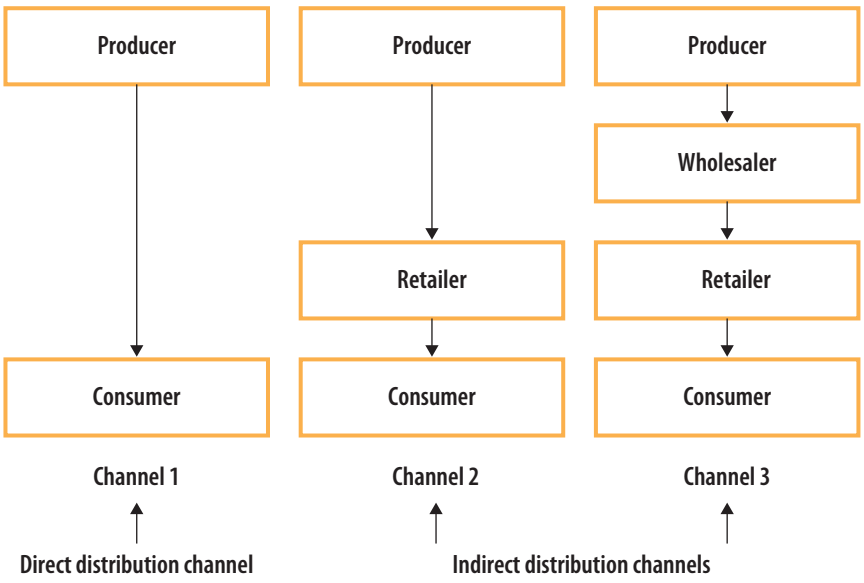

Figure 13.12 Direct and indirect distribution channels

Direct distribution channel

A **direct distribution channel** enables the manufacturer or producer to sell their product directly to the customer. This method usually requires the business to invest in facilities and staff to sell its product; however, it allows it complete control of the marketing function. The internet has added to the popularity of this distribution channel, especially for services such as insurance and banking.

direct distribution channel a manufacturer sells the product directly to the customer

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Indirect distribution channel

indirect distribution channel a manufacturer sells their product to a wholesaler and/or retailer (intermediary) who then sells it to the customer

multi-channel a retailer sells products both online and in 'bricks and mortar' stores

Traditionally, an **indirect distribution channel** involves the use of a retail outlet, where products are stored and displayed. It is a popular distribution channel for occasions when consumers want to purchase an assortment of items, the value of purchasing transactions is low and the market is fragmented and dispersed. The online department store is now an established business model. A very successful example is Kogan.com, recognised as Australia's premier online shopping destination, running a 24-hour, seven-days-a-week operation offering TVs, phones, tablets, computers, audio, homewares, appliances, travel and pantry items. Other types of distribution channels occur where a retailer adopts a '**multi-channel**' approach by selling its products both online and in 'bricks-and-mortar' stores or uses the 'click-and-collect' model to assist its time-poor customers. Adopting these distribution models can give the retailer the opportunity to adopt different pricing strategies.

Often businesses will have a combination of both direct and indirect channels, as they have their own retail outlet where they employ their own sales staff as well as placing the product for sale through distributors. Industrial products are more likely to be sold directly with fewer intermediaries than consumer goods.

Logistics covers decisions relating to transportation, warehousing and storage of goods. Having an efficient logistics operation can provide a business with a strong competitive advantage.

Table 13.4 Direct distribution to the customer

Advantages of direct distribution	Disadvantages of direct distribution
• Cuts out the profit margins of the retail intermediary • Pricing and marketing of the product/service are under the full control of the manufacturer/producer • Takes advantage of increased popularity of online purchasing. Can be regularly updated. • Able to provide 24/7 access	• Manufacturer/producer needs to warehouse the stock, adding to storage costs • Product is not on display in a retail outlet for the consumer to browse and make comparisons with other products • If selling online, need to ensure web presence is appealing and up to date • May need to provide after-hours support for online purchasers

Table 13.5 Indirect distribution to the customer

Advantages of indirect distribution	Disadvantages of indirect distribution
• Manufacturer/producer has passed on the cost of holding and storing stock to a retailer • Manufacturer/producer is given more freedom to focus on producing a product rather than also having to concentrate on selling the product • Retailer can create an online presence to complement physical store • Online retailer can provide 24/7 access not available with physical store	• Profit margin is shared with the retailer or intermediary • Customers can view a wider range of items from different sources and make price comparisons • Marketing decisions relating to price are now out of the control of the manufacturer/producer and are made by the retailer • If selling through online store, retailer needs to ensure web presence is appealing and up to date

ACTIVITY 13.7

1 Visit the online department store websites of Kogan and Amazon Australia and describe how they undertake the distribution of the products they sell.
2 Use the internet to investigate which major retail stores have established an online store. Explain why you believe these businesses may have adopted this strategy.

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P4 – Promotion

Promotion is the fourth component of the 7Ps of the marketing mix and the most public aspect of marketing. **Promotion** involves the business communicating with its actual or potential customers by informing them about the business's products or services while also convincing them of that product's ability to satisfy their individual needs or wants.

promotion the use of advertising, branding, sales promotion and public relations to inform and persuade consumers; one of the 7Ps of the marketing mix

For promotion to be effective, either short-term or long-term objectives must be established. A short-term objective may be to promote an end-of-season sale, while a long-term objective may be to change the whole image of the business. Other examples of some promotional objectives include:

- raising consumer awareness of a new or existing product
- reminding consumers of the existence of a product or service
- promoting distinctive features or superior quality of a product or service over those of its competitors
- creating and reinforcing brand image or personality
- correcting misleading reports about a product or service or reassuring the public after a crisis or accident relating to the product.

Once the promotional objectives have been set, it is time to decide what will be the appropriate promotional mix. This refers to the combination of promotional techniques that will be used to sell the particular product or service, or range of products or services.

Promotional techniques

Advertising

Advertising is a powerful medium of mass communication that is designed to:

advertising informing potential buyers about a product

- *inform* by giving information to potential customers about the technical details, product use, key features, price and where the product may be purchased and if it is doing any social good. It is important to use this form of advertising when introducing new products. Toilet paper is a common household product, however when three social entrepreneurs learnt that 2.3 billion people across the world (i.e. approximately 40% of the global population) don't have access to a toilet and that around 289 000 children under five die every year from diarrhoeal diseases caused by poor water and sanitation, they decided to create their social enterprise 'Who Gives a Crap'. Part of their advertising message is to inform customers that 50% of their profits is donated to build toilets in areas of need.
- *compare and persuade* by creating a distinct image or brand identity for the product. An advertisement can be used to persuade consumers to buy a product and not a competitor's, when there is really little difference between the products. It is the role of the marketer to build up the

Figure 13.13 'Who Gives a Crap' – informs and appeals to customers social conscience.

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image of quality and difference between the products in the mind of the consumer. Larger, established brands use this strategy to try to get consumers to switch. For example, ALDI often runs comparative advertisements on its products, to highlight the price difference between well-known brands stocked by its competitors and its 'product of Australia' homebrand. One such advertisement was based around its Confidence branded toilet rolls where ALDI was attempting to gain a slice of the market worth $2 billion, currently dominated by three brands (Sorbent, Kleenex and Quilton). Market research had shown that an important criterion for choosing this essential product is 'softness'. ALDI not only made a price comparison in its advertisement but ensured that on the packaging on its Confidence toilet paper the word 'soft' was included.

- *remind and reinforce* – when products are entrenched in the market, advertising is undertaken to remind consumers of the product's presence and reinforce what the product has to offer to consumers, so that a switch in preference is not made to the competition's product.

Figure 13.14 ALDI uses packaging that reminds the customer of more well-known big brands.

Forms of advertising media

After choosing the style of advertisement to be used, it is then the role of the marketer to select the most appropriate media for the advertisement that will best target the particular market segment they want to attract. For example, it would be a waste of money to advertise leather jackets in a magazine about vegan lifestyles. Set out below are the most common forms of media used by marketers.

- Newspapers allow for large amounts of detailed information to be provided in advertisements, which can vary greatly in size, from full-page to very small. Small businesses would be more attracted to placing a small advertisement in a local newspaper, as a full-page colour advertisement in the *Herald Sun* could cost in excess of $50 000, including GST, for Monday to Friday, with a higher price for Saturday. As newspapers generally run special-interest sections, it is possible to aim the marketing at particular market segments; for example, the travel section in a Saturday newspaper will have numerous promotions, special offers and advertisements for local and overseas holidays. Newspaper publishers, while still offering a print version of their newspapers, also operate multi-media platforms that extend to desktop, mobile and tablet coverage.
- Television is a very expensive medium that can provide high impact, as it relies on a combination of visual, movement, sound and special effects to communicate the message. It lends itself best to simple messages delivered in 30-second time frames. Products can be

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demonstrated as well. With the popularity of channel surfing using remote controls, time shifting using a digital video recorder and streaming television shows, potential audiences can easily miss or skip over the advertisement.

- Radio has a wide reach and the ability to target market segments, particularly those based on age, music styles and areas of interest. As radios are often in the background when people are working, studying or driving, it means that attention can in fact be at a low level.
- Magazines are appealing due to the high quality of their print and colour. They are ideal for marketing fashion items, food and anything associated with glamour. Magazines are usually read in a leisurely manner and passed on to multiple readers, so they extend the longevity of the advertisement's time frame.
- The internet is regarded as the fastest-developing advertising medium and has the advantage of providing businesses with the opportunity to advertise their products to both local and global markets. It is anticipated that the annual growth rate of businesses using this advertising medium will be in excess of 11% per annum for the next couple of years as Australians change their purchasing habits (source: *Zenith's Advertising Expenditure Forecasts*). This medium provides customers with easy access to details of products and prices and the ability to make comparisons. It is still in the hands of the consumer whether they make the purchase online or go into a bricks-and-mortar store.
- Social media platforms such as Instagram, Pinterest, Snapchat, Facebook, Twitter, LinkedIn and YouTube are being adopted by Australian businesses to promote their products. Often these social media platforms are being used in conjunction with traditional advertising mediums. A quick check on the internet will provide many examples of how Instagram has resulted in successfully marketing a product or service – why not have a browse!
- Direct mail is the most personal and selective of all advertising media. Lists of names and addresses can be purchased, which have already undergone sorting based on various demographic or target segmenting characteristics. Costs can arise due to printing and postage fees, but there is less waste circulation.
- Outdoor advertising occurs using a wide range of techniques, such as billboards, neon signs, bus and tram shelters, railway stations, backs of taxis and sides of buses. It can reach a large percentage of the population, but is only appropriate for very simple or reminder messages.
- The *Yellow Pages* is available both in print and electronic format. It is a low-cost medium used by smaller businesses.

ACTIVITY 13.8

Construct a chart and provide an example of an advertisement based on each of the nine advertising styles listed above.

Table 13.6 Advantages and disadvantages of advertising

Advantages of advertising	Disadvantages of advertising
• Reaches a broad or mass market • Acts to persuade if creative techniques are used • Able to target market segments through directed media (e.g. teenage girls through *Girlfriend* magazine) • Able to create powerful brand image and product recognition	• Expensive and difficult to gauge effect • Impersonal • Inflexible or not as compelling as a salesperson • Consumer is able to tune out

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ACTIVITY 13.9

In 2018 Tourism Australia created a bold and high-profile execution of an advertisement *Dundee: The Son of a Legend Returns Home*, aiming to attract a generation of American visitors to Australia. The 60-second advertisement was revealed at an American Super Bowl game with the aim of reaching more than 100 million people. To gain the greatest exposure, the advertisement appeared in the second ad break into the first half of the game near to the half time break.

Currently 780 000 US visitors come to Australia each year and contribute around $3.7 billion to the economy. Tourism Australia aims to raise that contribution to $6 billion per year by 2020. As part of this campaign, Tourism Australia worked with more than 20 commercial partners, such as Qantas, American Airlines, Australian Wines, Channel 7, Google, Facebook, Expedia, Twitter, Travelzoo and NBC. For the campaign to be effective, Tourism Australia worked with Qantas to develop a strong promotional offer, ensuring that as soon as the advertisement was aired in America, flight deals to Australia were made available.

Access the full trailer clip on YouTube by searching for the 'Tourism Australia Dundee ad 2018'. Then, locate YouTube advertisements previously run to attract visitors to Australia.

1. Identify the objectives Tourism Australia set out to achieve with this marketing campaign.
2. List the Australian cast members who played roles in this advertisement (fake movie trailer). Describe why they were chosen to play their role.
3. Describe how this advertisement differs from previous Tourism Australia promotions.
4. Explain why it would be necessary to ensure that Tourism Australia worked with other commercial partners.
5. Select three of the commercial partners identified above and describe what strategies they would need to adopt in support of the campaign.

Direct marketing/selling

If a business wishes to develop a closer relationship with its customer (target market), direct marketing is a way to do this. The marketing tools used are direct mail, directed catalogues, mail-outs, phone calls, personal visits or emails. Technology has seen the expansion of direct selling into the area of telemarketing, where sales staff are employed to sell products over the telephone, instead of face to face. Telemarketing saves a business money and time by not requiring salespeople to travel or sell on a door-to-door basis with no guarantee of a sale. Using the telephone, sales personnel work through a far larger portion of the target market in a smaller time, arranging both payment and delivery details at the same time. It can also be cost-efficient, as all sales staff are located at one central call centre and do not need to be provided with transport. As many sales staff earn commission on the value of sales received, this form of promotional payment acts as a motivator to increase their sales performance.

Table 13.7 Advantages and disadvantages of direct marketing/selling

Advantages of direct marketing/selling	Disadvantages of direct marketing/selling
• Allows for one-to-one personalised communication with targeted market • Increases opportunity for generating customer loyalty and higher frequency • Flexible	• Can be seen as invasion of privacy, as customer questions where/how you gained their personal details • Negative image of direct mail and unwanted phone calls (particularly at meal times) • Relatively expensive due to high costs of making direct contact rather than the broad approach of advertising

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Sales promotion

sales promotion use of incentives to encourage increased sales; for example, free gifts, competitions, 'buy one, get one free'

The **sales promotion** technique is used to entice a customer into purchasing a product in the belief that they are gaining some economic advantage. The incentives to purchase may be immediate; for example, a product being offered as a bonus pack or free samples attached to the regular product. Alternatively, the incentive may be delayed, where a customer needs to send in a coupon or save up points in order to gain a reward. The promotional objective must be clearly defined by the business as to whether it wants a short-term increase in sales or a long-term relationship with the customer.

For instance, a marketing campaign can offer discounted accommodation packages to entice travellers to stay at a new resort opening in a highly competitive marketplace or to increase occupancy rates in off-peak periods. Using this marketing strategy has two outcomes: namely, a higher occupancy rate (i.e. more guests) while in overall financial terms it may not be judged as successful. This is due to the costs the hotel bears to ensure all its facilities are fully operational while only gaining a smaller revenue increase, due to the heavily discounted marketing offer.

Table 13.8 Advantages and disadvantages of sales promotion

Advantages of sales promotion	Disadvantages of sales promotion
• Provides additional support (reinforcement) to an advertising campaign • Offers short-term incentives to increase sales, without long-term pricing implications • Provides opportunity for immediate feedback on effectiveness of the technique	• A technique that can be easily copied and improved upon by competitors • Short-term solution to product promotion, but does not generally lead to long-term improvement in product sales

Figure 13.15 This advertisement uses the sales promotion technique to promote a quality accommodation package at a bargain price.

Sales promotion techniques are used on both consumers and those in the trade (retailers). The economic advantage for the retail outlet may come in the form of buying allowances, cooperative advertising and point-of-sale material, trade shows and training to motivate staff to improve sales performance.

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Personal selling

personal selling product is sold by a salesperson, preferably trained

Personal selling can be the largest single operating expense of a business. To make this expense cost-effective, it is therefore important that sales personnel are adequately trained in their product knowledge and interpersonal skills. The days of the stereotypical 'loud mouth salesman' are hopefully gone, replaced with a professionally trained problem-solver who has something to contribute to the business and its customers. A salesperson should be someone customers can trust for accurate product advice and ethical behaviour. This helps form the basis of relationship marketing.

Table 13.9 Advantages and disadvantages of personal selling

Advantages of personal selling	Disadvantages of personal selling
• In person (customer is actually dealing with a salesperson who has product knowledge) • Immediate answers to questions posed by customer • Ability to ask and answer questions • Immediate feedback – not left to wonder what the answer will be; can gain a response even by body language or facial expression	• Business needs to make sure sales staff are trained and adequate staffing levels are maintained to satisfy needs of customers • Largest single operating expense of a business and costly on a per-customer basis • Unless a large sales force is used, it may only be possible to reach a limited number of customers

Internet marketing (website)

The website of a business is often the customer's first experience of the business, so it is important to make a good impression. This promotion technique involves all online marketing activities used to promote and sell the goods and services of one business to another business (B2B) or a business selling to the consumer market (B2C). It is important that the web address of the business is included in other forms of promotional activities and communication such as advertisements, sales brochures, product specification sheets, letterheads, business cards and even delivery and service vehicles.

When adopting this form of promotion, there are some considerations that need to be analysed by the business.

- Do the goods or services have online promotional potential, and how can that potential be used? For example, goods or services that require a firsthand experience or demonstration to appreciate their benefits would be more difficult to sell online. Similarly, if the product is currently widely available from a retail outlet, such as grocery items, there must be some additional incentive to using this promotional strategy as a purchasing method.
- What type of website does it need – one that, while simple and easy for customers to use, adequately reflects its corporate brand and image?
- How does it get customers to visit its website? Promotional strategies will only be successful if sufficient visitors are attracted to the website.
- How should the goods or service be advertised on the internet? Should banner advertising be used to draw customers to the site? (Banners are the headline advertisements seen on the top of popular websites.)
- Can it be registered through a search engine so that customer product or service enquiries are directed to the website?
- Can it get referrals by using links to other websites?

Figure 13.16 The website of a business is often the customer's first experience of the business.

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ACTIVITY 13.10

Visit four of the following websites and answer the questions below.

- David Jones
- Nike
- Qantas
- Collingwood Football Club or any AFL club of your choice
- Northern Territory
- Metro Trains.

1 Identify the aim of the website.
2 Deduce the gender and age of the product or service's target market.
3 Identify and describe strategies used on the site to gain further commitment and brand loyalty.
4 Estimate how long you spent browsing the site. Would you visit it again?

Mobile marketing

As there are now more mobile phones than people in Australia, it is hardly surprising that the mobile phone is becoming a means to market products and services. With the advent of smart phones and other sophisticated handsets, some businesses are now making use of the location-based services (GPS function) on phones for target marketing to people in a geographic area.

Publicity and public relations

Publicity is a 'free' form of mass communication that is different from advertising, which attracts a cost. The role of a publicist is to attract favourable attention to the business and what it offers without having to pay media costs. The common tools used by publicists are press releases, product launches, special events, lobbying and sponsorships. Public relations activities involve communication aimed at developing a favourable corporate and product or service image. The communication can take the forms of advertising and/or publicity and acts to support other marketing strategies.

publicity a 'free' form of mass communication with the aim of attracting favourable attention to a business

Table 13.10 Advantages and disadvantages of publicity and public relations

Advantages of publicity and public relations	Disadvantages of publicity and public relations
• Low cost, as the business generates the communication • High credibility • Allows the business to build a positive brand image	• Difficult to be in total control of the publicity a business receives • Can be negative as well as positive

ACTIVITY 13.11

For the products and services listed below, identify which form(s) of promotional technique you recommend would be best to market that product or service. Justify your choice.

- Victorian coastal holiday resort
- Pharmacy
- University or TAFE
- Babysitting service
- Solar heating
- Community bank
- Plumber
- Gymnasium/fitness centre
- Financial planner
- VCE tutoring service

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Figure 13.17 Bunnings prides itself on employing qualified tradespeople as its sales staff.

P5 – People

Every person in a business who has contact with a customer makes an impression. Often customers find it difficult to separate the product or service being offered from the staff member who provides it. Staff therefore can have a profound effect – positive or negative – on the level of customer satisfaction.

Staff must be appropriately trained, motivated, have the right attitude and be suited to their role. If a customer is happy with their treatment they become a powerful advocate for the business and its brand. In addition to pre-sales support and advice, if a business can provide the same manner of service post-sale, this can often become more important to a customer than the price paid for the product. Global retailer GAP is a business which places great importance on ensuring their customer service people are trained in providing a favourable 'customer experience' with the expectation this will encourage customers to have the best purchasing experience and become loyal customers to that particular brand. Staff at GAP are trained to apply the acronym GAPACT, which stands for Greet the customer; Approach to enquire what they are looking for; Product information should be accessible to customers; Add-ons – try to enhance the sale with additional items; Close the sale; and then Thank the customer.

ACTIVITY 13.12

Apple computer stores use the acronym APPLE to reinforce Apple's five steps of service to be used by its sales staff that it refers to as its specialists.

1 Using the internet, investigate and identify what the letters in this acronym stand for.
2 Discuss whether you believe customers would feel comfortable with their customer experience being so directed.

Figure 13.18 Dulux is a business that believes in the 'people' approach to marketing.

An Australian business that recognises the importance of well-trained staff marketing and selling its products is the Dulux Group. To support its excellent brand image, it has established a training academy where its qualified and experienced trainers provide courses on the Dulux Group range of products to the retailers of its products. The courses are designed with both theory and practical components and are held at different levels; for example, induction, intermediate, advanced and refresher. The aim is that trainees will progress through these levels and use this knowledge to provide better customer service and sales support at their own retail outlet.

The Cotton On Group is another business that believes that 'its people' are at the heart of everything it does. This extremely successful Australian company (established in 1991) in 2018 had more than 22 000 team members in 1500 stores in 18 countries. Its seven brands cover products such as: menswear, womenswear and accessories. Its aim is to deliver value fashion and quality basics designed to exceed its customers' expectations. To ensure its people are properly trained with retail industry knowledge and provided career opportunities, the Group provides education through its educational platform called COG Uni. The courses delivered are regarded as world class and cover both personal and professional development qualifications for employees.

Figure 13.19 Cotton On logo

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P6 – Physical evidence

Physical evidence can take a variety of forms.

- It can refer to the evidence that shows a service was performed. This acts to remind or reassure the consumer that the service took place, regardless of whether it was a positive or negative experience. There are physical elements to almost all services, even if the service that a customer pays for is not a physical thing. A customer pays for a haircut, an intangible thing, and gets a new hairdo at the end of the service. Not only does the hair salon keep contact details for the client, it also records what treatment was provided; for example, foils and colour of dye. In addition, the salon would be expected to provide a pleasant waiting area, reading materials, access to coffee and tea for its customers. An insurance company would provide its customers with some form of printed advertising material and then follow up with more formal printed material, such as a quote.
- The physical environment in which the consumer experiences the service; for example, when flying this would be the type of aircraft, its ambient conditions, seating layout and any directional signs. Ambient conditions relate to temperature, smell, sound, colour, music and noise and these can impact both positively and negatively on consumers as they experience the service. Marketers need to match the ambience to the service being delivered; for example, bakery smells wafting through a supermarket, relaxing and calming music in a health spa, loud music and bright lights at a pop concert.
- The signs and symbols of the business that supports its image and identity; for example, the building, office or shop where the business is located and how it is furnished. Is it prestigious, purely functional or minimalistic? Other areas where the physical evidence is apparent is in the brochures, packaging, web pages, signage, business cards and paperwork (e.g. invoices, tickets). When you go to an AFL match you will observe numerous examples of physical evidence; for example, your tickets with the team's logo printed on them, players wearing their team colours and clothing. The MCG itself has its own physical presence and atmosphere.

Figure 13.20 The MCG – an iconic stadium

ACTIVITY 13.13

Marketing your school

Each year your school will undertake a marketing campaign to attract student enrolments for the following or subsequent years.

1 Identify the ways that your school markets itself to the community.
2 Walk around your school and note down the physical evidence that relates to the marketing of the school. Compare your observations with other class members.
3 Propose some improvements that would better market your school to the community.

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P7 – Process

Customer satisfaction is becoming increasingly important to marketing success. The process through which a customer finds out about a business, researches its products, chooses and purchases the product, the actual delivery of the product or service, and the behaviour of those involved in the delivery process are all factors crucial to customer satisfaction.

First impressions are always important to consumers – was it gained offline by coming into a shop or office, or online via the website? Either way, a business must strive to make the impression 'good'. The processes within the business should be designed for the customer's benefit; this means:

- keeping customers fully informed either personally or via electronic media
- keeping wait times to a minimum, either face-to-face or via the business's website
- staff being knowledgeable, courteous and helpful
- providing efficient customer service.

13.3 Features and value of customer relations strategies

customer relationship marketing (CRM) a business process which uses marketing strategies and activities to develop relationships with clients, gain customer loyalty and bring value to the brand

Every business needs to 'acquire, retain and grow' relationships with its target customers and market. For a business to achieve this, it must adopt strategies and activities that work on developing relationships with its clients, gaining customer loyalty and bringing value to its brand. This is referred to as **customer relationship marketing (CRM)**.

When selling any product, knowing who your buyer is (i.e. your target market) is imperative if you intend to be successful. For example, if you have a meat business you would probably not target a marketing campaign to a vegetarian society.

Figure 13.21 Know who your target market is.

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CASE STUDY
13.2

Retail industry – how it has changed

The retail industry in Australia has been affected by the growth of online retailing, which is providing consumers with the ability to comparison shop on their mobile phone while standing in the 'bricks-and-mortar' store. Historically, long-established retailer Myer was regarded as a middle-class retail outlet offering well-regarded brands, with its stores located in desirable shopping centres. Myer has, however, struggled for identity and business with the emergence of large numbers of well-positioned local and global brands that can be purchased either in-store or online.

At the lower end of the retail market fast-fashion brands such as H&M and Zara have created strong identities, easily recognisable brands appealing to their target market of younger consumers. Appealing to satisfy the needs of consumers within this narrow market segment has resulted in their growth in brand loyalty and improved sales.

ANALYSIS

1 Describe the concept of customer relationship marketing.
2 Propose a range of marketing strategies that a retail brand such as Myer could adopt to re-position itself in the market to ensure its ongoing success.

Quality service

Providing excellent customer service gives value to a business while also acting as a way of differentiating that business from its competitors. We all have our favourite shops and places to eat – but why do we keep going back to them? Is it because of quality customer service or something else? The quality of customer service of the business can be judged by:

- the actions of the employees; for example, how they deal with customers, whether they have good product knowledge
- providing prompt service to customers both pre- and post-sale

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- being responsive, accessible, available and willing to help customers whenever they have a problem
- establishing a policy for dealing with customer complaints or return of goods.

Providing good-quality customer service can bring many benefits to a business, namely:

- reducing marketing and in particular paid advertising costs due to favourable 'word-of-mouth' advertising
- stronger customer loyalty
- gaining a competitive advantage
- staff gaining pride in and satisfaction with their work.

Figure 13.22 Good customer relations are invaluable.

Customer loyalty programs

The use of loyalty programs is extensive and can take the form of earning points, getting special offers, freebies and discounts. Using loyalty programs, particularly in retail, gives customers an incentive to keep coming back to that store.

In recent years, there has been ongoing discussion as to the relative worth of these programs, as they can be very expensive to operate. This has not stopped their use by large retailers such as Woolworths, whose Woolworths Rewards program costs approximately $500 million annually to run. Businesses can gain a lot of information about consumers using loyalty cards. Every time the card is used, the transaction is recorded against the consumer's account. Over time the business is able to create a profile of the consumer's habits: what and when they buy, how they spend and how they pay. Retailers use this information as a way of getting to know the 'real you' as a consumer so they may promote their goods and services in a way of most interest to that consumer. This strategy is referred to as target marketing.

Woolworths also sees great worth in adopting the innovative practice of using 'big data'. While it already collects and uses data about its customers from its loyalty program Woolworths Rewards, it wants to be able to better analyse the shopping habits not only of its own customers but all shoppers. One interesting result that has already been identified by Woolworths when it combined its accident data from its insurance policies with data from its loyalty scheme found that customers who eat rice frequently, fill up their petrol in the evening and drink spirits had poorer insurance risks compared to customer who drink milk frequently and eat lots of red meat. To assist Woolworths adopt this innovative practice of using 'big data' in May 2013, it bought for $20 million a 50% stake in data analytics firm Quantium, Australia's oldest and largest data business. This acquisition was aimed at assisting Woolworths to boost its customer analytics capabilities and to tailor its pricing and promotions strategies.

Figure 13.23 Customer rewards cards offer different things depending on the business.

Loyalty reward schemes are big business for the airlines, such as Virgin and Qantas. In 2017 Virgin Australia's Velocity program brought in a profit of $142.8 million, being the most profitable segment of the business. The Frequent Flyer program for Qantas in 2017 brought in profits of $369 million, representing a greater profit than is derived from its international flights. Velocity currently has more than 8 million members while Qantas Frequent Flyer has 11.8 million members.

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While large businesses gain the benefit of accessing 'big data' from loyalty reward schemes, many small businesses use customer loyalty programs as a method of boosting their revenue through the support of repeat customers. Research has shown that retaining customers is less costly than acquiring new ones. The program provides the business with a way of saying thank you to its customers who then often work as unpaid advertisers for the business due to their 'word-of-mouth' comments. A small coffee shop can use its loyalty program and quality customer service as a way of competing with the big-brand coffee chains.

ACTIVITY 13.14

Conduct research with your class members to determine the following:

1. How many students in your class have customer loyalty cards?
2. Which shops/business are they for?
3. Have they gained any benefits/rewards from these cards?

Corporate social responsibility issues to consider when establishing a customer base

So far in this book, we have looked at corporate social responsibility (CSR) issues in terms of business planning (Chapter 9), and later we will consider how CSR issues affect staffing (Chapter 18). Here we will look at CSR issues in terms of marketing a business.

CSR is an important way to increase the competitive advantage of a business. For its customers, CSR can raise brand awareness and build trust, which are two very important factors when wanting to establish a customer base. A positive approach to social responsibility improves the public image of a business as well as its relationship with its customers.

Figure 13.24 Going green can be profitable for a business.

Differentiating a product or service from a competitor is one strategy used by businesses when seeking to establish their customer bases. The strategy of sourcing raw materials from sustainable sources is one way a business can be judged as having strong ethics and being socially responsible in its business practices. The unique attributes of sourcing raw materials from sustainable sources is often valued by customers who are then willing to pay a premium price for the product. By raising the price of the product, the business hopes to offset the extra costs involved in producing and offering the product.

Green marketing encompasses a range of business activities, from changes to the production process, changes to the product, using sustainable packaging and modifying advertising and marketing of products that are seen as more environmentally friendly and sustainable than others.

green marketing the marketing of products that are presumed to be environmentally preferable to others

Ways for businesses to gain green marketing opportunities for their products include:

- using recycled products in the product production process
- using green energy; for example wind or geo-thermal
- decreasing the level of waste their business generates in energy usage and materials
- adopting eco-friendly methods such as sustainable and organic agriculture
- reducing transportation by buying and selling locally
- reducing packaging on products
- making products that are reusable and recyclable.

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Businesses are increasingly using environmental claims as they realise these can be a powerful marketing tool while also being a way to differentiate themselves and their products from their competitors. Environmental claims, such as energy efficiency, can be an important factor for consumers when making decisions about products such as whitegoods (refrigerators, freezers, washing machines and dishwashers). Environmental claims have broad relevance across a range of products, from nappies, toilet paper, cleaning agents and major household appliances.

Claims commonly made by businesses when marketing their products are:

- this product is environmentally sustainable
- made from recycled materials
- energy and water efficient product
- no animal testing used
- does not affect the natural environment
- carbon neutral.

The Australian Competition and Consumer Commission (ACCC) has published a checklist to help businesses and marketers making environmental claims on products or advertising these products, so they do not contravene Australian Consumer Law (ACL). Businesses found guilty of misleading or deceiving consumers in any way can attract serious penalties of up to $1 million for companies and up to $220 000 for individuals as well as injunctions, adverse publicity orders, corrective advertising orders, community service orders and disqualification orders.

The ACCC states that when making environmental claims on products, businesses should:

- Avoid using terms like 'safe' and 'friendly' and unqualified pictures or graphics.
- Spell out exactly what is beneficial about a product in plain language that consumers can understand.
- Link the environment benefit to a specific part of the product or its production process, such as extraction, transportation, manufacture, use, packaging or disposal.
- Make sure claims made about the product can be substantiated; e.g. what scientific authority could be used to justify the claim?
- Explain how the product's characteristic is beneficial to the environment; e.g. phosphate-free product is less damaging in river systems because phosphate promotes algal growth, which can clog up rivers.
- Avoid giving the impression that the product is completely environmentally benign if it is not.
- Use the claim only in an appropriate context or setting; e.g. do not claim a product is not tested on animals if it is a product that would never be tested on animals anyway.

(Source: Based on ACCC, 2011, *Green Marketing and the Australian Consumer Law*)

Figure 13.25 Businesses found guilty of misleading consumers may face serious penalties.

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ACTIVITY 13.15

You be the judge

Read the statements below and suggest what additional information the marketers should provide to ensure that these claims are not misleading to the consumer.

- A company has advertised its energy as 'green' with no indication of the percentage of energy it has obtained from renewable sources.
- A business is claiming its products are 'carbon-neutral'.
- This product is 'environmentally safe'.
- A can of tuna has a picture of a dolphin as a symbol to mean the tuna has been fished in a manner that does not harm dolphins.
- Producers placing a picture of a honey bee on its product label and claiming the contents to be 'pure honey produced by Victorian honey bees'.

Chapter summary

- The marketing mix recognises 7Ps – product, price, place, promotion, people, physical evidence and process.
- Products can be classified as business or consumer items (convenience, shopping, speciality or unsought).
- Products go through a five-stage development process.
- Products experience a product life cycle (introduction, growth, maturity, decline/extension) and marketing strategies differ throughout the life cycle of the product.
- A brand acts to identify and differentiate one manufacturer's product from another manufacturer's product.
- Packaging of a product has a multitude of purposes with labels providing important information.
- Price and its level greatly influence the revenue and profit made by a business.
- There are a variety of methods used to set prices: cost-based, competition-based, mark-up and marketing strategies such as penetration and skimming.
- Place involves decisions that relate to having the right quantity of product in the right location at the right time. Distribution channels can be direct or indirect.
- Promotion is how the business communicates or connects with its customers.
- There a variety of promotional techniques, including:
  - advertising using media such as: newspapers, television, radio, magazines, internet, social media, direct mail, outdoor advertising and *Yellow Pages*
  - direct marketing/selling
  - sales promotion
  - personal selling
  - internet (websites)
  - mobile marketing
  - publicity and public relations.

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- People are often the first point of contact to make an impression. Staff must be trained, motivated and suited to their role.
- Physical evidence can demonstrate that a service was provided or create an environment where the consumer experiences a service. It also covers signs and symbols that support image and identity.
- Process covers how a customer finds out about a product, researches that product, chooses and then makes the purchase. It is also how the product is delivered and the behaviour of those involved in the delivery process.
- Customer service is fundamental to acquiring, retaining and growing the target market of the business. Providing quality service and loyalty programs form an important part of this.
- Corporate social responsibility provides a business with a way to increase its competitive advantage.
- Green marketing involves the marketing of products that claim to be more environmentally sustainable than others. Businesses must ensure that they can substantiate environmental claims or they will face serious penalties.

Chapter summary tasks

1 Define the following terms and then use each in a sentence to demonstrate your understanding:
- **a** brand
- **b** retail
- **c** distribution
- **d** personal selling
- **e** psychological pricing
- **f** product line
- **g** bricks-and-mortar store
- **h** product placement
- **i** penetration pricing
- **j** green marketing.

2 Suggest a pricing policy that would you recommend the following businesses adopt:
- **a** a school cafeteria
- **b** a ladies clothing (fashion) boutique at the start of the winter season
- **c** a ladies clothing (fashion) boutique at the end of the winter season
- **d** an organic food store in a local shopping strip
- **e** a local hardware store located near a store of a very large hardware chain.

3 Direct-to-customer and factory outlets have become a very popular shopping alternative for many customers. From the point of view of both the manufacturer and the customer, explain why they are successful.

4 Identify and explain which promotional techniques would be the most appropriate for the following products and services. Provide more than one technique for each product or service:
- **a** organically produced soft drink
- **b** hair care products
- **c** vinyl records
- **d** weight loss meals
- **e** cars – new and pre-loved

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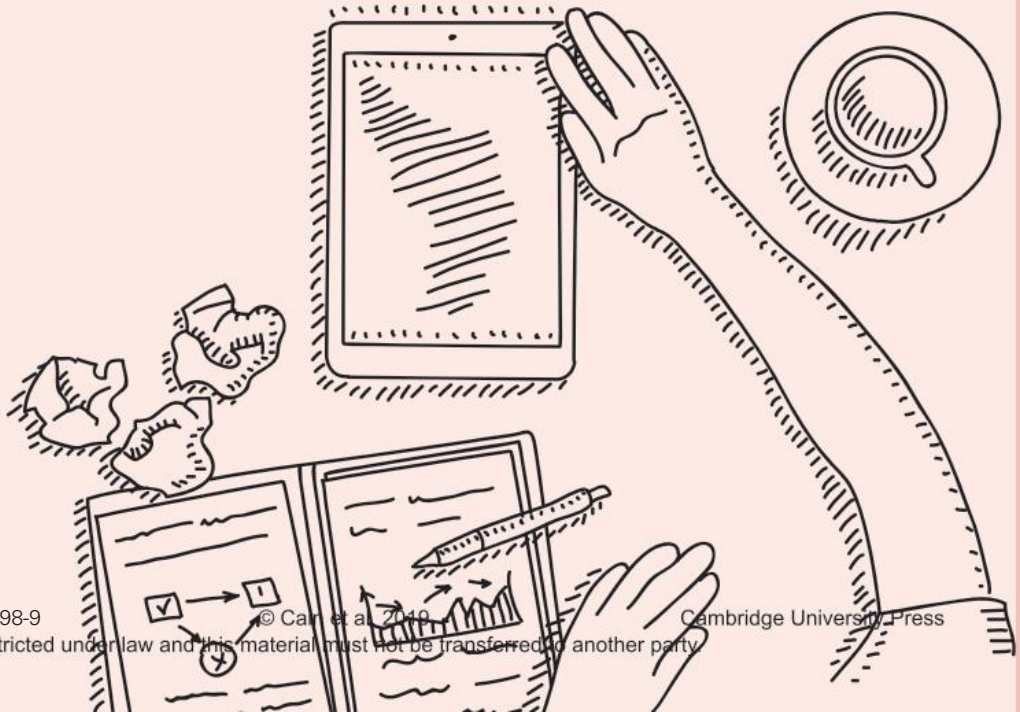
f house paint and timber finish products
g gardening products
h sporting equipment
i legal services
j a restaurant.

5 Identify the kind of physical evidence of marketing you would expect to receive when attending a pop concert.

Extension questions

1 Select one product that would be classified as a staple convenience good (i.e. purchased frequently and without much effort), such as toothpaste, a bottle of water or a snack bar.
2 Select one product that would be classified as a shopping good (i.e. a comparison is made between goods based on certain criteria), such as furniture for your bedroom, household appliances, sporting or musical equipment.
3 Analyse the purchase of both the above products, based on which of the following factors were important when making the purchasing decision.
- Product – where did it fit in the product life cycle?
- Packaging – attractive, appealing to the eye, amount of information it contained about the product.
- Price – what pricing policy do you believe was adopted for this product? Was it on a mark-down table, how did it compare to the price of a competitor's product, etc.?
- Promotion – what techniques were used to attract you to the product?
- People – were the salespeople good at their job and did they convince you to buy the product?
- Physical evidence – will you receive a keepsake from buying this product?
- Process – was the purchasing and after-sales service good?
- Green – were environmental attributes a factor in clinching the deal?

4 The technology company, Apple, uses price skimming (i.e. high prices) as a marketing strategy when it releases new products. Identify what characteristics or attributes Apple believes its products possess to allow it to adopt this pricing strategy.



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Chapter 14
Public relations

Overview

In a business environment where legal action against businesses is increasing, many businesses are turning their attention to how they can protect one of their most valuable assets: their business reputation. While unfavourable judgements can be challenged in a court of law, public opinion is more difficult to change – the reputation of a business can be permanently tarnished by negative perceptions. It is important that a business has public relations strategies to create and maintain a positive image and that this is managed at the strategic level. Furthermore, businesses need to ensure that planned crisis management strategies are in place to protect the business's reputation. There are significant implications if a business fails to do so.

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Key terms

- crisis
- crisis management
- media release
- product recall
- public
- public relations
- sponsorship

Key knowledge

In this chapter you will learn about:

- an overview of public relations and its relationship to business objectives
- public relations strategies such as planned and crisis public relations, the importance of maintaining a positive relationship with the customer base and the implications if this relationship is not maintained.

(Source: VCAA Business Management Study Design, 2017–2021, p13)

What's ahead

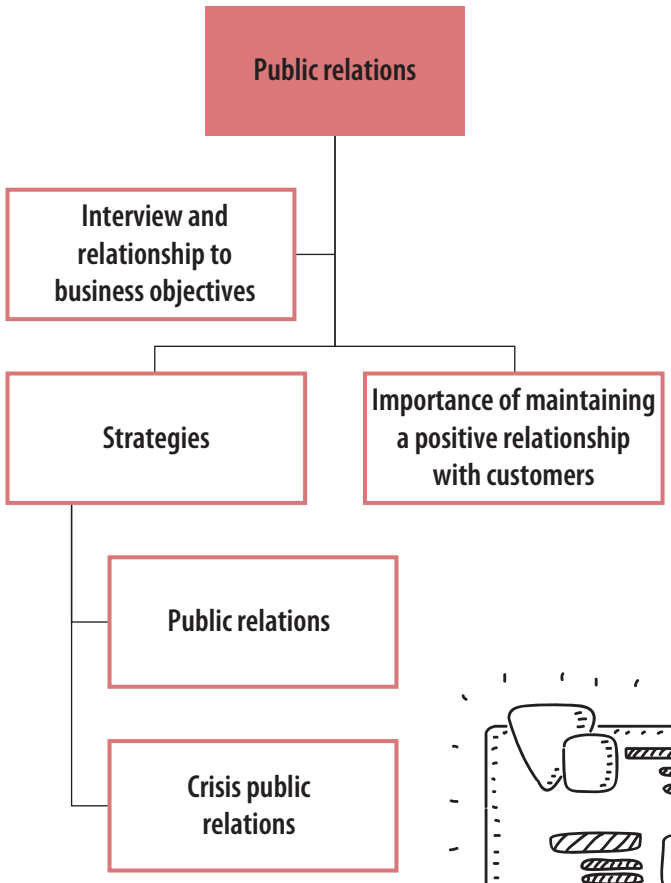

Figure 14.1 Public relations and its role in business

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14.1 Public relations and its relationship to business objectives

public relations the way in which a business creates a positive image and maintains a strong relationship with customers through its interactions with the public and the media

The role of **public relations** is vital – businesses that develop effective networks and public relations strategies will often find their exposure to the public increased, usually at little cost to the business itself. Businesses can build a reputation by pursuing free media publicity through events, community involvement and social and other media. Some businesses also engage in charitable activities to convey a positive image. A large proportion of media stories develop from public relations leads, so businesses need to tap into this resource to enhance their profile, which can flow into increased sales and market share.

Figure 14.2 It is important for businesses to maintain a good public reputation in the media.

What is public relations?

There are several definitions of public relations, including:

- public relations is the practice of promoting goodwill among the public to present a favourable image
- public relations is primarily concerned with the image of the business portrayed to the public
- the British-based Chartered Institute of Public Relations has defined public relations as 'a deliberate, planned and sustained effort to establish a relationship between a business and its public'.

While public relations is parallel to the marketing function and shares its communication techniques, it has a different role for the business. Both functions aim to increase the reputation and recognition of the business in the public arena. Public relations, however, is usually not product specific. Public relations is generally a long-term investment in building a company's reputation and goodwill, but it may also occur as a result of strategies developed by the business to be implemented in the event of a crisis.

Public relations and business objectives

It is important for any business, regardless of its size, to have a business plan and some strategic or long-term objectives. The long-term objectives of the business are likely to include increased market share, growth, and perhaps diversification of products and the customer base. A planned public relations strategy should be used to increase public recognition of the business and prepare public opinion to accept the business brand and its product range.

Well-planned public relations campaigns will contribute to the achievement of business objectives such as:

- increasing the customer base
- increasing demand for products or services
- gaining a competitive edge
- enhancing credibility
- creating goodwill within the community.

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A major aspect of the role performed by a public relations professional is to increase the goodwill of the business in the community and also contribute to maintaining and building customer relationships.

A business needs to ensure it is clear about who its 'public' and customers are if it is to be successful. It can be said that 'image is everything' and it is important that this image is carefully created and maintained. Successful businesses and their owners/managers will usually have a strong public relations strategy.

Public relations aims to present positive information and to reduce the negative by using an assortment of strategies. These strategies ensure that the messages and images the business wishes to present to the public are implemented in line with its wide-ranging business goals.

The goals of public relations may be defined as:

- developing relationships with the community
- providing information to the public
- managing issues and crises
- gaining free publicity
- promoting the business.

When a business sets its public relations objectives, they should ensure that they are:

- clear – employees may not be aware of what they have to achieve if the objectives are confusing
- realistic – objectives should be achievable but should also challenge or extend the employees
- forward looking – building on the past, and taking the reality of the present into consideration, the objectives should be about what is to be achieved in the future
- actionable – everyone should contribute to the achievement of the objectives; they must be the responsibility of the whole team or department
- communicated – objectives need to be shared with everyone in the team and the business
- agreed – if everyone in the team or business agrees on the objectives, they are more likely to be achieved.

(Source: Claire Walker, Firefly Communications website, 'Writing great PR objectives', https://fireflycomms.com/2015/08/27/writing-great-pr-objectives/)

Figure 14.3 Public relations can contribute to business objectives.

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CASE STUDY
14.1

How can a business develop positive media relations?

A GUIDE TO MEDIA RELATIONS

An important skill for businesses wanting to raise their profile through the media is to learn how to deal with journalists. If you can establish a good process for managing media relations you will have a better chance of gaining media coverage. This process can also help you build a relationship with journalists, which may lead to ongoing media opportunities.

Some good practices to adopt are as follows:

1. Treat every journalist with respect.
2. Respect deadlines: Journalists work to very strict deadlines and need to make sure their story is finished in time for publishing.
3. Provide newsworthy stories: Make sure your news is relevant and newsworthy before sending it to a journalist.
4. Know the publication's target audience.
5. Be available: If a journalist wants to interview you or someone else in your business, it's important to try your best to be available.
6. Be ethical: If you lie to a journalist or make claims that can't be substantiated, a journalist may catch you out.

(Source: Catriona Pollard, CP Communications website, 'A guide to media relations')

ANALYSIS

1. Explain why it is important for businesses to follow the advice outlined in the article.
2. Explain why it is important for a business to monitor and maintain its reputation online and offline.
3. Describe how public relations links to the objectives of a business.

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14.2 Public relations strategies

It is crucial that all businesses, regardless of size, have policies and strategies in place to maintain positive relationships with their customers. The '**public**' of one business will be different from that of another. It is important that the business is clear about who its public is to ensure that it has the correct strategies in place and continues to develop relationships with existing and potential customers. When the federal or state governments bring in new laws or regulations, these will impact on all people, and therefore 'the public' of the business may also be affected.

public the internal or external stakeholders potentially affected by the actions of a business

ACTIVITY 14.1

List the 'public' for each of the following businesses:

a a coffee shop
b Melbourne Storm
c a local secondary school
d a hospital.

Figure 14.4
It is crucial that all businesses have policies in place to maintain positive customer relationships.

The public may be internal or external stakeholders:

- the internal public may include employees, shareholders and management
- the external public might include the local community, suppliers, competitors, customers and all tiers of government.

The public of a large retail store will be different from that of a small cabinet-making business. Public relations strategies must be targeted at the correct groups and in the most appropriate form, taking into account the business objectives and goals.

The public relations strategies of a business should include maintaining positive relationships with customers because losing a customer is one of the worst things that could happen to a business and may reflect on its reputation. It is harder for small businesses to gain the same level of publicity as large businesses, so it is important for them to understand their customers and market. As part of a public relations strategy it is also vital that a business is honest, ethical and realistic about the services or products that it provides.

Businesses must ensure that they have developed and implemented public relations strategies that can support them through a planned or unplanned crisis situation. Ideally, a business should not ever have to deal with a crisis that is unexpected because it should have policies and action plans in place to avoid such a situation.

For numerous reasons, publicity is more effective than advertising. Benefits include:

- cost-effectiveness – even if publicity is not free, commonly the only expenses are mailings and calls to the media
- greater longevity than advertising – articles, whether good or bad, are remembered for far longer than advertisements
- a greater reach in terms of audience, because in a global world, news travels far and wide, whereas advertising is mainly limited to a local audience
- greater credibility with media and the public than advertising, as readers trust that a third-party feature – be it a newspaper or television report – means the business must be worthwhile in some way.

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Public relations in planned business situations

Taking advantage of planned public relations situations means that a business can make the most of opportunities that it has control over by being clear about how publicity can be positive and increase its exposure with the public. There are many ways a business can communicate with its public. These involve the use of a range of media including television, radio, newspapers, company publications and the internet and social media.

Public relations communications sometimes attempt to persuade the public or change public opinion. For public relations to be effective, it is necessary to match the strategies and techniques to the situation and choose the most appropriate channels. Many businesses and associations employ a public relations consultant, and larger businesses may have a public relations manager or a whole department to oversee these strategies.

Figure 14.5 Publicity is often more effective than advertising. Richard Branson successfully uses publicity in all of his businesses.

Public relations can also be integrated into advertising and marketing activities in a number of ways and it is important to ensure that the following areas are covered.

- Public relations has to lead a product launch of a new product or service.
- The message is still important in public relations.
- Public relations-led activities need to encompass a range of audiences or stakeholders.
- Public relations is not always aimed at the customer or buyer.
- It may be necessary to include some extra information or research beyond product information.
- The brand manager and senior managers may need to attend media events and launches.
- Public relations needs to be ongoing and the business must work on continually building relationships with the media.

There are a number of methods or strategies a business can use for planned public relations activities. Some of these are outlined below.

Free publicity

media release an item of news prepared for and distributed to the media

This could include issuing a **media release**, informing the general public about a specific event or function. If the media runs a story, it allows the business to receive free publicity and lifts its profile. The opening of a new real estate agency in the local area may include a paid advertisement together with a story in the local community paper or magazine highlighting the new business and an employee profile.

Develop relationships with the community

To develop positive relationships with the wider community, a business may hold a public information session so that people can see what is happening within the business. For example, a local gym may open to allow people to tour the facilities. Many retirement villages open their village so that prospective residents can see what the village offers. A factory may open its site to allay any fears about its impact on the environment.

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Public information

Public information includes data and activities designed to benefit the public. The major freeways around Melbourne have information about the time it will take to get to the city or major arterial roads and what the traffic conditions are like. This provides both a service to motorists and also some positive publicity for the business.

Media releases

A media release is used by a business to inform the media of a new product release, or a major announcement or change. Public relations officers will release a statement to try to influence the media to write about the business or its product favourably, which in turn provides free publicity about the business in addition to getting its specific message out. Social media is becoming increasingly important for all businesses as a quick and effective way to contact customers and the public in general.

Brochures, pamphlets and newsletters

Although there is some cost involved, a newsletter or brochure provides a relatively inexpensive means of communicating with the public and other stakeholders. A newsletter may profile a staff member, or discuss changes in the business and upcoming events. A brochure distributed to the public may highlight a new product or service being offered.

Open days and tours

If a business opens its doors to the public, it presents an opportunity to improve or reinforce its image. An open day allows the public to see the business in action. In some circumstances, it may provide or strengthen an understanding of what the business does. Schools, TAFEs and universities have tours and open days to allow prospective students and their families to see them in operation.

Seminars and conferences

Conferences may be used to train staff and also inform customers and potential customers about the business. Information can be presented visually, participants have the chance to ask questions and usually only interested parties will attend. In communication and marketing terms, conferences and seminars allow businesses to disseminate information quickly to a wide audience.

Figure 14.6 There are a number of methods or strategies a business can use for planned public relations, and presenting the desired image to the world is very important.

Figure 14.7 A newsletter or brochure provides a relatively inexpensive means of communicating.

Figure 14.8 Conferences may be used to train staff, teach new information and also to inform customers and potential customers about an organisation.

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Figure 14.9
A common strategy in creating positive public relations is sponsorship.

Sponsorship

A common strategy in creating positive public relations is **sponsorship**. The act of sponsoring creates an awareness and positive image of the business. The business may provide financial support in return for naming rights and merchandising. Common forms of sponsorship include:

- sporting events, such as the Australian Tennis Open or the AFL Grand Final
- the arts, such as Opera Australia or the Australian Ballet
- charities, such as Target T-shirts raising money for breast cancer research.

New technologies open up new communication channels – this means that businesses are in a changing environment when it comes to public relations. Listed below are some key trends in public relations.

- Senior management teams regard public relations as a growing priority and focus on controlling their brand and any content that goes out.
- Less importance is attached to press or media articles. There are other, more-effective methods to gain publicity, such as social media and superior images.
- The online reputation of a business is of the utmost importance – a business cannot afford to have an online presence that is not appropriate or contains misinformation.
- Policies and processes need to be in place and implemented by well-trained staff to avoid negative experiences.
- Businesses are constantly looking at different methods and ways to promote their products and services in a positive light.
- An essential strategy is to target individuals of 'noteworthy clout' (followers). Through these individuals a business can gain access to and promote its messages to contacts that they previously had no access to on social media.

sponsorship an arrangement where a business provides financial support to a team, charity or event in return for naming rights, merchandising or promoting the image for the organisation

ACTIVITY 14.2

1 List five sporting events, charities or campaigns supported by a business.
2 For each one, describe a possible benefit of the sponsorship.
3 Analyse why businesses use social media as a form of public relations.

Crisis management in public relations

While public relations techniques form an integral part of the strategies of a business, there are times when it may have to move quickly to manage a crisis. A **crisis** is an unfavourable set of circumstances or a difficult situation that places immediate public attention on a business. Crises are often caused by issues such as accidents, equipment failure or **product recalls**. Crises are particularly prone to media scrutiny as they generally have a strong human element to them. It is important for a business to act swiftly and to make careful plans regarding what information is revealed to the public and how, in a process that is often called **crisis management**.

If a business is not able to manage a crisis in a quick, well-coordinated and honest way, then it is likely that the reputation of the business will be tarnished and it could have long-lasting implications for the business and its relationships with customers.

crisis an unfavourable situation or set of circumstances that puts an immediate focus on the business

product recall when a defective product is sourced and either rectified or replaced after it has been sold by the manufacturer

crisis management a technique used to manage an unplanned (crisis) situation

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Importance of a crisis management plan

A crisis is often considered to be a threat to the operations of a business. An explosion could cripple production, a defective product can lead to a product recall, and poor service or quality (which can spread quickly via social media) can all have a serious negative impact on a business.

A crisis is never good for a business. The risks to public safety, financial losses and reputational damage can see businesses completely destroyed, and in some cases have legal proceedings brought against them. Effective crisis management is essential to minimise the impacts of a crisis on a business, its customers and the wider public. When dealing with a crisis, the options a business has are to:

- prevent the crisis from happening in the first place
- resolve the crisis and address any issues before it escalates
- see the crisis as an ultimately positive experience and seek new opportunities.

An effective crisis management plan considers these three options and has steps to guide the business through each of them.

Preventing a crisis is easily the best way of dealing with potential problems. Businesses should analyse their operations and products regularly in order to identify any potential risks. Once identified, strategies should be developed that will minimise these risks, or avoid them altogether.

If crisis prevention fails, it is important the business does everything it can to minimise the impact of the crisis. Keeping employees informed is also essential – this will reduce stress and allow them to handle any extra pressure better.

The highest priority of a business affected by a crisis is public safety. Once this has been addressed, focus can be placed on minimising financial and reputational damage. A business that raises an issue before the media does will likely control the situation better.

The crisis management plan of any business should:

- have names of key contacts, outline individuals' responsibilities and include relevant forms
- identify a team representing different sections of the business; for example, finance and human resources
- identify the spokesperson who becomes the 'face' of the business for the duration of the crisis to ensure consistency in the message being sent to the public
- be detailed enough to act as a reference or a guide and enable the business to respond in a timely manner
- list strategies that can be used; for example, an apology, compensation to victims if relevant, reminder of previous good works and praise to those who assisted during the crisis.

Once the crisis has been addressed, the business has an opportunity to learn and develop. Assessing how and why the crisis occurred will help the business develop better plans and procedures. It might also be an opportunity to address deeper structural issues and improve the business more generally.

Figure 14.10 There are many examples of businesses having dealt with a public relations crisis in a positive way, and examples of others that have not.

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Not all businesses deal effectively with public relations crises. The way in which Volkswagen handled its issue of engine emission manipulations in 2015 not only evoked fears that the crisis might have an impact on the German economy (i.e. a huge financial impact), but also potentially caused long-term brand damage as the company lost the trust of its customers. Volkswagen had promoted its cars in the United States on the basis of low emissions, but the US Environmental Protection Agency discovered that many of the cars had software allowing them to detect testing and adjust the recordings to get better readings. This breach of consumer trust through false advertising damaged Volkswagen's reputation worldwide.

CASE STUDY **14.2**

Coles and its plastic bag backflip crisis

ARTICLE ONE

Why plastic bag bans triggered such a huge reaction

Woolworths and Coles' bans on plastic bags have been applauded by environmental groups, but were reportedly met with abuse and assault and claims of profiteering ...

This reaction is due to supermarkets breaching their 'psychological contract' with customers. When both major supermarkets appeared to back flip in the face of irate customers it only compounded the problem.

Unlike written legal contracts, psychological contracts are a set of 'unwritten rules' or 'expectations' exchanged between the parties in a transaction. This can be between an employee and employer, or a customer and a retailer.

These understandings are often tacit or implicit. They tend to be invisible, assumed, unspoken, informal or at best only partially vocalised.

...

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Supermarkets justified phasing out lightweight plastic bags with the idea of a corporate social responsibility strategy. Customers might have been glad to forgo single-use plastic bans to support a greener future, but this is where the problem occurred.

Shoppers began to realise that supermarkets were saving money (by no longer giving away bags for nothing), while they themselves incurred a cost (paying 15 cents or more, depending on the type of re-usable bag).

...

A couple of other factors have compounded the perceived breach of contract.

Unlike smaller states and territories (South Australia, Tasmania, Northern Territory and the ACT) where state legislation has banned single-use plastic bags by all retailers, this was a retailer-imposed national ban.

...

By simply backflipping soon after implementing the policy, the supermarkets also prompted shoppers to question their intentions and integrity.

While shoppers may have at first accepted the rationale for the ban, extended free bag periods sent the message that the supermarkets are not that serious about banning plastic bags for environmental reasons.

...

Customers still walk in to supermarkets today and see many varieties of food wrapped in plastic, and they themselves place loose fruit and vegetables into plastic bags.

...

Consumers may understand the procurement and logistics costs of the replacement plastic bag options will be higher – because the bags are thicker and heavier, and it takes extra time to pack different-sized bag options.

...

Shoppers will be more accepting of change if they can comprehend how their small sacrifice (say 15 cents) is helping the environment ...

(Source: Extract from Gary Mortimer and Rebekah Russell-Bennett, 'Why plastic bag bans triggered such a huge reaction', *The Conversation*, 16 July 2018. Full article available online.)

ARTICLE TWO

Why Coles' plastic bag backflip leaves us worse off than before

One month after removing free lightweight plastic bags from checkouts, Australian supermarket giant Coles has decided to offer thicker reusable plastics bags for free, indefinitely. This unprecedented move is in response to strong backlash by customers who are struggling to switch to reusable bags.

We know that offering free lightweight plastic bags causes excessive plastic use. We also know that banning lightweight bags can increase the use of heavier plastic bags (such as bin liners). Coles' decision brings out the worst of both worlds: giving out heavier plastic bags for free.

CONTINUED ITEM

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Free vs. fee

Consumers respond to price changes: if prices go up, demand falls. Increasing the use of reusable bags by introducing a small fee has generally been successful around the world.

...

Switching to reusable bags without an added cost means that they are conceptually very similar to the old single-use bags (but with more plastic content). This replacement will not help people to kick their old single-use habits. In fact, they may develop a new habit of using the reusable bags as single-use products. If consumers continue their old habits, this could lead to even more plastic going to landfill and entering the environment.

Alternative solutions

Coles is in a difficult situation. Not only has this decision divided shoppers, but if they decide to charge for these bags in the future, they are likely to experience another round of backlash as consumers experience another bout of loss aversion – but this time the loss will be associated with a higher quality product.

...

Coles also has a responsibility to take alternative measures to reduce plastic use ...

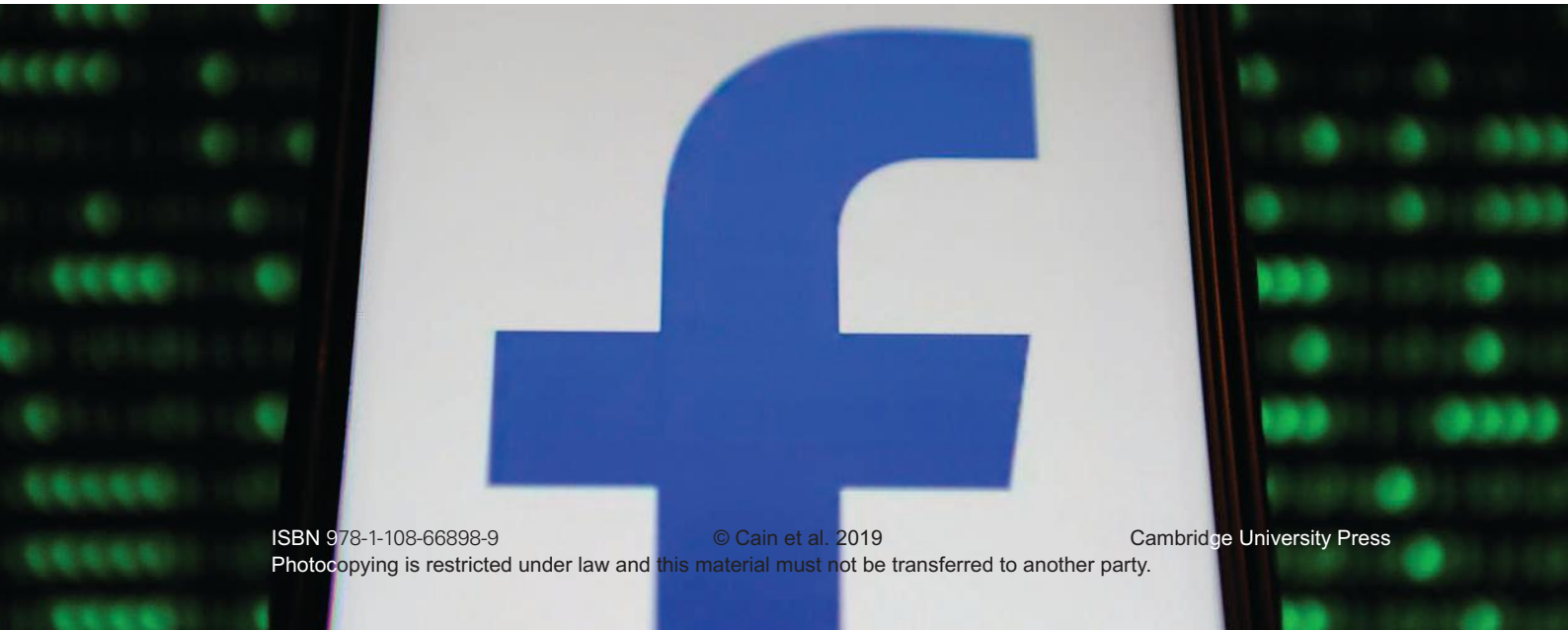
(Source: Extract from Kim Borg and Edwin Ip, 'Why Coles' plastic bag backflip leaves us worse off than before', *The Conversation*, 1 August 2018. Full article available online.)

ANALYSIS

Using the information from articles one and two, answer the following questions.

1 Explain how the banning and then the reintroduction of plastic bags at Coles has created problems.
2 Describe Coles and Woolworths' new dilemma.
3 Outline how this situation has become a public relations issue for the major supermarkets.

Figure 14.11 Businesses are in a changing environment when it comes to public relations, and using social media channels such as Facebook are an important element of that.



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14.3 Maintaining a positive relationship with customers and possible implications

As outlined previously, a business needs to ensure that it takes into account public relations when looking at the success and objectives of the business. Public relations strategies should be planned and it is important for a business to know how to deal with a crisis. If this is not done properly then the business may find it difficult to maintain a positive relationship with customers and the public in general and will find that its reputation can be irreparably damaged. Surprisingly, a number of large businesses still have issues that impact on their business. Virgin Australia, following practices in the United States, announced it would publicly honour all military personnel on their flights. One day later this was overturned. It is believed that Virgin misread the culture in Australia and chose the wrong cause to support. Essentially it attempted to import an American practice, as Virgin Atlantic does, but did not understand that Australians would find it over the top and embarrassing.

Another international business that was impacted by its actions and the resulting poor publicity was British Airways, which is discussed in case study 14.3.

CASE STUDY 14.3

British Airways and crisis management

BA MELTDOWN: CRISIS RESEARCHER CAUGHT IN THE CHAOS REPORTS ON A MASSIVE AIRLINE FAILURE

For an academic who has spent more than 30 years researching organisational crises, it was something of an odd experience to be in the middle of the British Airways IT foul-up

CONTINUED ITEM

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on Saturday May 27. And it provided a textbook example of how organisational systems need backup and effective communications if chaos is to be avoided when they fail.

I started my journey in the morning in Copenhagen, with no reported issues from the airline, and the first mention of a problem came close to the end of the flight as the pilot announced that we were being delayed on the way into Heathrow. This was explained as being a result of thunderstorms taking place in the south east of England.

After more than 20 minutes of circling over the North Sea, we were told the delays were a result of congestion due to the storm. On landing, however, passengers were told that there had been a lightning strike which had resulted in a catastrophic failure of the communications system at Heathrow. The pilot said he could not contact BA ground staff to find out which gate to head for.

So, the aircraft sat on the taxiway until contact could be made. Some 40 minutes passed as the pilots seemed to try all means possible – including mobile phones and email – to establish contact. The pilot then announced that we had been given a gate, but that there would be a further delay as it wasn't possible to communicate with the ground staff to ensure that there would be buses available to move passengers. This was the first indication that passengers on the plane had that the problem wasn't a temporary loss of communications.

Having cleared customs and moved to the BA lounge to wait for my connecting flight to Glasgow, it was clear that Terminal 5 was in a state of chaos. Few BA flights had left as scheduled and the lounges and open access areas were teeming with passengers. BA staff in the lounges were not able to provide any further information and rumours were flying around among passengers that rather than a storm, the IT system may have been brought down by a ransomware attack – much like the one which had caused huge problems for the UK's National Health Service earlier in May.

...

TECHNICAL FLAWS

Either way, if these issues were the root causes of the company's IT outage then it would have implied that the company's surge or virus protection processes were somewhat inadequate to deal with the problem and that there was no effective backup. The speculation swept through the lounge, and the lack of communication to passengers was starting to show the company in a bad light.

At about 2.30pm rumours spread that media outlets were stating that no BA planes were going to be leaving Heathrow and Gatwick before six o'clock that evening: cue a flood of passengers to the lounge desks trying to find out what was happening. BA staff were adamant that this wasn't an official BA statement and a public announcement was made in the lounge that it was a false news report. However, this narrative of events was not to last. Just 20 minutes later, it was announced that all BA flights before 6pm were cancelled. It looked like reporters were getting the correct information before customers or even staff; British Airways internal communications were looking shaky. At this point some passengers, who had been starved of information, resorted to asking the lounge catering staff for information. They didn't work for BA, but they were the only people in the lounge at that point who weren't passengers.

STAFF ABSENT

Eventually, passengers were told to go to collect their baggage and exit the airport. Again, an absence of staff left confused passengers with no way to seek clarification. Again, the catering staff seemed to be the ones that passengers approached.

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Figure 14.12 A brand name is worth nothing beyond the quality of its reputation.

Almost inevitably there were large queues for baggage collection and there was still a lack of clear information from the small number of BA staff present. The most insightful information came from two pilots who were also stranded, and who were working tirelessly to help passengers. But where were other staff? There also did not appear to be any managers in attendance to deal with the ongoing issues.

After waiting in a queue for about 30 minutes, passengers were herded into the domestic baggage claim area where, despite previously being told that their bags would be available, they were not. Instead, passengers had to search out a form, fill it in, and get in line once again. The person giving out the forms was at the front of the queue, leaving those at the back of the queue in the dark. Some passengers were given different forms to complete as the company seem to have run out of the appropriate forms at the desk.

After waiting in line for another half hour, a member of BA staff stated that passengers could fill in the form on-line and that they didn't have to wait in the queue. Of course, the web-site was down at this point. When asked for clarity, the rather confused looking members of staff were forced to say that they had no additional information. Passengers were seemingly left to their own devices to make their way home – there was no advice from the staff other than to keep receipts for any costs that were incurred.

…

Many passengers left Terminal 5 with no bags, no material support from the company, and no idea when their bags might be returned. It wasn't long before some passengers were heard to rename the company Bags Anywhere.

By any measure, this incident has been a public relations fiasco for British Airways. The company's apparent fall from grace – from that period where it could bullishly advertise itself as 'the world's favourite airline' to its performance on Saturday – is stark.

The managerial behaviour shown by BA on the day was typical of organisations in crises: the lack of effective communication; the growth in conflicting information and rumour; an absence of any apparent contingency plan on the ground; and a sense of confusion among staff. These are all elements that are often displayed in the early stages of a crisis event.

CONTINUED ITEM

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The fact that social media and other web-sites were the main source of information for passengers simply highlighted the poor practices of communication on the ground. It was certainly not clear from a passenger's perspective who had taken ownership of this event. There was no obvious central source of information and passengers had to queue for what limited information was available.

EMBEDDED ERRORS

This was not, however, the first IT failure that the company had experienced. Media were quick to point to previous problems, hardening the perception that BA was a company in crisis. This particular failure was not an isolated event. It served as a graphic representation of the potential for disruption that seems to have been embedded within the strategic decisions taken around the design, testing, and implementation of the new system, the development and testing of contingency plans, and the provision of an effective communications policy for use in such events.

...

Figure 14.13 It is important for any business to know how to manage a crisis

What lessons does the BA incident offer other organisations? Firstly, if an operating system or process is central to performance and reputation, then the organisation needs to ensure that it has considered how it will function if it fails catastrophically. Managerial assumptions about the nature of risk are important factors in shaping their willingness to consider the worst case scenario and to prepare effective contingency plans. Lightning strikes or computer hackers are not unknown, or even particularly surprising, dangers.

Secondly, it highlights the importance of having an effective communication strategy in which staff at the sharp end of the operation are kept fully informed as to what the company is doing to contain the crisis. Organisations should not be providing information to the media while failing to inform local staff about the situation – or worst still, providing alternative accounts of the problem. There is also a need to ensure that there is sufficient information provided to customers who are directly affected by the event.

Thirdly, there need to be additional resources provided to deal with the demands of a crisis. Not only do staff need the right tools to respond effectively, but they themselves need to be robustly trained to cope when it comes to the crunch. Customers and service users need to be told the correct information and provided with the appropriate documents that are needed to process claims ...

(Source: Extract from Denis Fischbacher-Smith, 'BA meltdown: crisis researcher caught in the chaos reports on a massive airline failure', *The Conversation*, 30 May 2017. Full article available online.)

ANALYSIS

1 Briefly outline what occurred when the IT system failed.
2 Discuss how this situation could be seen as a crisis management issue.
3 Propose a strategy British Airways could have put in place when this situation arose.

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Chapter summary

- Public relations is aimed at presenting a favourable image.
- Public relations is vital for all businesses, regardless of size.
- Many news stories arise from public relations leads.
- Public relations and its relationship to business objectives is important and should be integrated at the strategic level.
- Well-planned public relations campaigns contribute to:
  - increased customer base
  - increased demand for products and services
  - gaining a competitive edge
  - enhanced credibility
  - creating goodwill.
- Public relations objectives should be forward-looking, realistic, attainable, clear, agreed and communicated.
- Managing the reputation of the business is important.
- Different businesses have different 'publics'.
- Businesses generally develop strategies for planned public relations situations.
- There are a number of strategies for planned public relations, including:
  - free publicity
  - developing relationships with community
  - public information
  - sponsorship
  - media releases
  - brochures, newsletters and pamphlets
  - open days and tours
  - seminars and conferences.
- Public relations is becoming more important and businesses need to manage online messages and reputations.
- Businesses need to determine how to manage a public relations crisis.
- There are three ways to approach a crisis situation: prevent it, quickly address the issue and/or seek ways to turn the event into an opportunity for the business.
- A crisis can impact on all aspects of a business, including:
  - public safety
  - financial loss
  - loss of reputation.
- The role of management is significant in a public relations crisis.

Chapter summary tasks

1 Define the term 'public relations'.
2 Explain why public relations is important for a business.
3 Explain how public relations links to the objectives of a business.
4 Describe the role of a public relations professional.
5 Describe what this statement means: 'Public relations aims to maximise good news and minimise bad news.'

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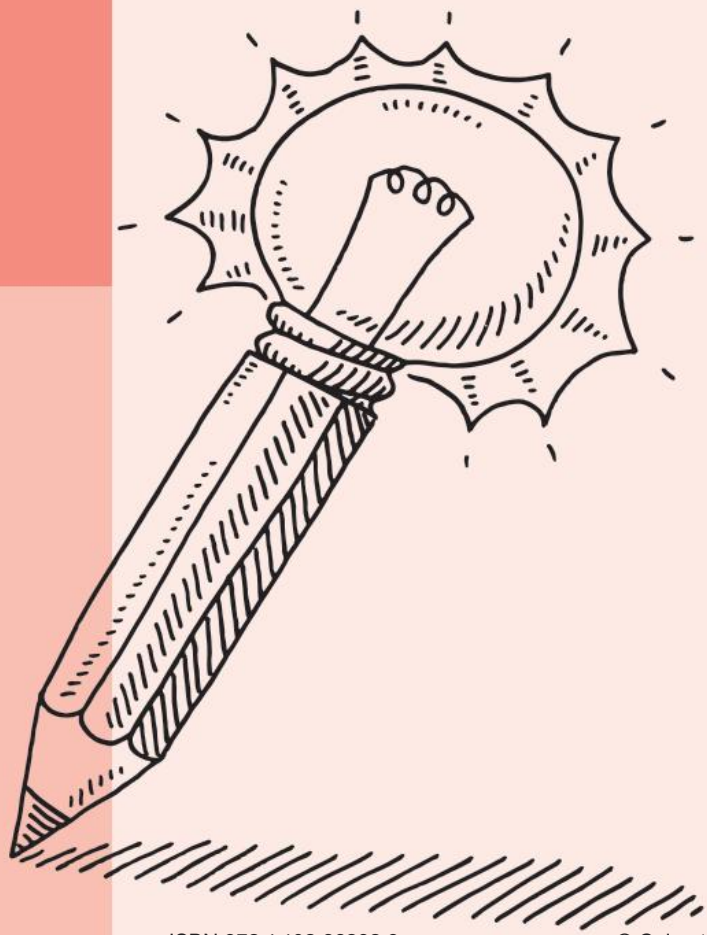
6 Describe the 'public' of a plumbing supplies business.
7 Discuss the importance of public relations and its link to customer relationships.
8 Explain why a crisis management plan is important for all businesses.
9 Outline three ways a crisis can impact on a business.
10 Discuss the impact of a significant public relations issue, such as that of Coles' backflip on banning plastic bags or the British Airways' IT fiasco, on a business.

Extension question

Richard Branson, founder of the Virgin business empire, once stated that: 'Publicity is absolutely critical. A good public relations story is infinitely more effective than a front page ad.' Evaluate and discuss this statement.



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Part 3
Area of Study 3
STAFFING A BUSINESS

VIDEO SUPPORT
Assessment advice for this Area of Study is available in the Interactive Textbook

Outcome 3

On completion of this unit the student should be able to discuss the staffing needs for a business and evaluate the benefits and limitations of management strategies in this area from both an employer and an employee perspective.

To achieve this outcome the student will draw on key knowledge (listed at the start of each chapter) and key skills outlined in Area of Study 3.

Key skills

- define, describe and apply relevant business management concepts and terms
- acquire, record, interpret and share business information and ideas
- research and analyse case studies and contemporary examples of business management applicable to establishing staff in a business
- apply business management knowledge to practical and/or simulated business situations
- evaluate the costs and benefits of various strategies for staffing a business
- propose and justify the staffing strategies chosen for practical and/or simulated business situations.

(Source: VCAA Business Management Study Design, 2017–2021, p14)

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Chapter 15
Staffing a business

Overview

Staff are one of the business's greatest assets and they must be considered when establishing a business. It is important for businesses to undertake workforce planning so they can determine the number and quality of the staff they require to assist in the achievement of business objectives. Technology is playing an increasingly important role for businesses. While providing an opportunity for increases in productivity, it has also had the effect of changing the nature of many jobs.

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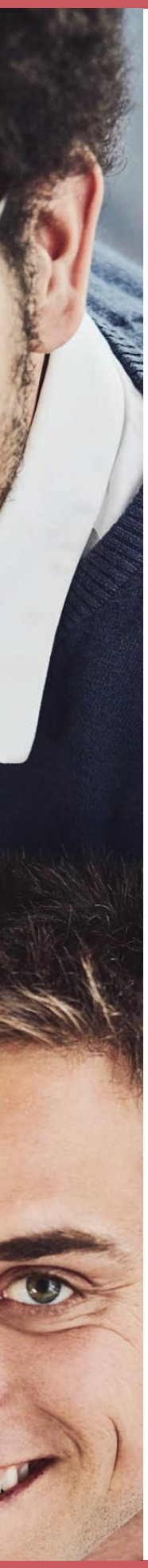

Key terms

- automation
- diversity
- employee
- human resource management (HRM)
- management by objectives (MBO)
- robotics
- SMART
- staff
- stakeholder

Key knowledge

In this chapter you will learn about:

- the relationship between the performance of staff and achieving business objectives
- identification of the staffing needs of the business such as the knowledge, skills and ideas staff can contribute to the business
- the effects that developments in technology may have on staffing needs.

(Source: VCAA Business Management Study Design, 2017–2021, p14)

What's ahead

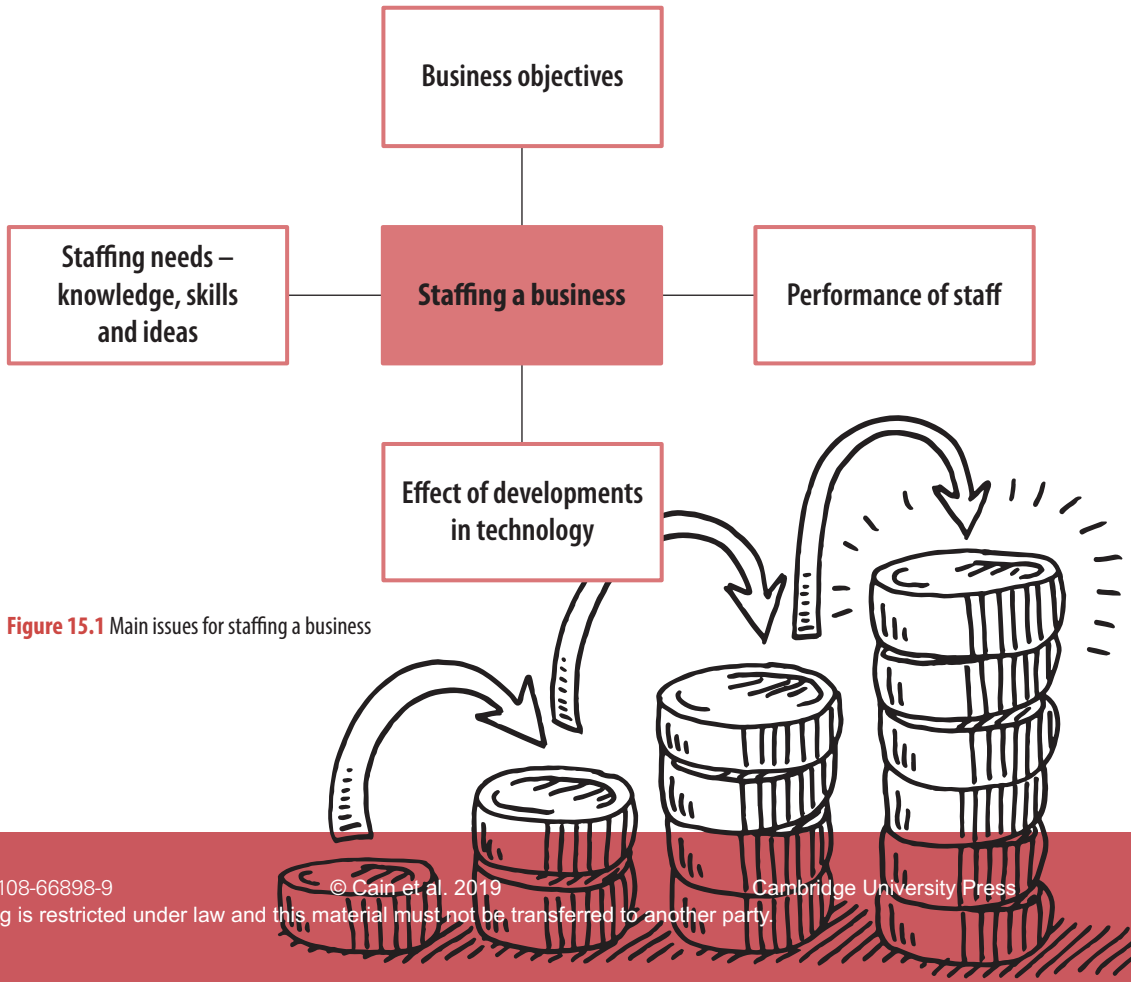

Figure 15.1 Main issues for staffing a business

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15.1 Relationship between the performance of staff and achieving business objectives

staff a group of persons, as employees, charged with carrying out the work of a business

employee a person working for another person or a business for wages or a salary

No matter their size, most businesses will recognise that their success can be attributed to having properly managed their **staff**; this group is also referred to as **employees**. This involves balancing the objectives of the business with the goals and aspirations of its employees. A business will usually set goals and objectives which relate to its survival, gaining and growing market share, and being profitable. The staff of any business is one of its most important assets and plays a vital role in ensuring the business prospers; they are an essential input in the production process for either manufacturing a product or providing a service. Staff also provide the day-to-day management of the business's operations. If a business has a positive relationship with its employees, they will assist in the growth and success of that business.

Figure 15.2 Staff – an important asset to any business

stakeholder an individual or a group that has a direct or vested interest in the activities of a business

Business objectives are the outcomes that a business sets out that it wants to achieve. Business plans are then created, strategies determined and actions undertaken to achieve these objectives. The business objectives and plans must take into account the requirements of various **stakeholders** of the business. Stakeholders are those individuals or groups that are affected by and have a vested interest in how the business is run and what it achieves. While every business has a range of stakeholders, one stakeholder vital to the success of the business is its employees. It is therefore important that effective relationships are created between management and employees.

Employees are the biggest line item expense (cost) for any business as well as being its most valuable asset. For a business to achieve its objectives of being productive and profitable, it is imperative that its staff are performing to their full potential. Numerous studies have shown that when a business sets and closely ties the goals or objectives of an individual employee to the objectives of the business and the strategies it needs to undertake, the performance of both the staff member and the business improve.

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When establishing the individual objectives or goals for a staff member, it is important to ensure that these are established using the **SMART** principle and that the manager and staff member meet periodically to ensure outcomes are on track. Regular feedback provides opportunities for clarification of expectations, adjusting the level of difficulty of the goal and gaining recognition. When the objectives are being set, the following criteria must be addressed:

- the objectives being set are **specific (S)** to the tasks being carried out by the job holder
- the objectives and their outcomes are **measurable (M)**
- the objectives, while challenging, are **achievable/attainable (A)** by the job holder
- the objectives are understood and accepted by the job holder as **relevant (R)**
- the objectives are **time-bound (T)**; that is, they have a time frame in which they are to be achieved.

The individual staff member's objectives should then link to those of their team, department and the business as a whole. This approach, when adopted business-wide, is referred to as **management by objectives (MBO)** and was developed by Peter Drucker in 1954. Adopting this management system requires managers and their subordinates at every level within the business to set objectives relevant to their area of responsibility, and their performance (outcomes) to measure against these. MBO provides a way to focus the efforts of all members of the business to achieving both their personal objectives as well as those of the business. It creates a very close relationship between the way staff are being managed and the achievement of business objectives.

SMART objectives or goals which are specific, measurable, attainable or achievable, relevant or realistic and timely or time-bound

management by objectives (MBO) a process of setting goals, using the SMART principle, which relate to an employee's key areas of responsibility. It creates a sense of direction and provides a measure for assessing the work performance of the employee.

Figure 15.3 Team members working together to meet their objectives

Staff members who have a clear understanding of their individual objectives and how they relate to the business become more engaged with their work as they feel they are making a direct contribution to its success. As staff members feel a greater sense of ownership in what the business is trying to achieve, they will then often make suggestions or share ideas with their manager on ways to improve processes that will result in productivity gains.

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15.2 Identification of staffing needs of the business

'Getting the right people in the right place at the right time with the right skills.'

This quote links directly to the concept of workplace planning. A business, regardless of its size, needs to undertake the planning process to ensure it has the right people, with the right skills, at the right time. This methodical process documents the directions in which the business is going and helps the business owner or management to make human resource (people) decisions to meet the current and future needs of the business. Any business, to operate effectively and efficiently, needs to have an adequate supply of competent and motivated people who are available to perform the duties and tasks required to meet the objectives of that business.

In a small business, the owner will be responsible for ensuring that the business is properly staffed. As the size of the business grows, more formal **human resource management (HRM)** policies, procedures and practices will be adopted. These will include recruitment and selection procedures, written occupational health and safety (OH&S) guidelines, and performance management and evaluation practices.

human resource management (HRM) the methods of managing the human element of a business (employees), encompassing a wide range of responsibilities, which are implemented to ensure a good working relationship between employees and the business and therefore increase efficiency

Figure 15.4 Most larger businesses will have formal HRM processes in place to ensure the best chance of hiring the right person.

The replacement cost associated with hiring the wrong person can be huge. These costs relate to advertising, interviews, reference checking and induction of the new employee. Added to this is the time taken to perform these tasks – it all adds up to being an expensive and time-consuming exercise.

For micro or small businesses, the decision to employ staff is a major one. Many are very cautious about hiring staff as they believe these employees may not have the same commitment to the business and its objectives as the owner does. For many small to medium businesses, as they continue to grow, employing more staff is a necessity and it is therefore vital that the 'right' person is employed. Larger businesses, however, are better placed as they usually have a human resource management department. This department is staffed by personnel who are responsible for ensuring the business is properly staffed.

Identifying the staffing needs of a business requires management to undertake planning. They need to determine the knowledge and skills required by a person to fulfil the role they wish to fill. When undertaking this planning, they need to be aware of:

- the growing demand or emphasis by employees of having flexibility in their working arrangements; for example, flexible working hours, part-time or job-share arrangements and work–life balance

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- changes in skills and education expectations – with more people seeking tertiary qualifications, obtaining workers skilled in trades may be more difficult
- generational change – awareness of the differences between the four generations, namely baby boomers, generation X, generation Y (millennials) and generation Z (iGeneration) and their approach to work
- **diversity** in the workplace – having employees from a wide range of ethnic backgrounds, physical abilities, gender, sexual orientation and religious beliefs.

diversity the inclusion of people from different backgrounds, including race, ethnicity, religion, sex, gender, socioeconomic status and age

Businesses should also recognise that new and existing staff can contribute ideas and bring a fresh outlook to the way a business is operating. Employees, either through their experience at another business or through their training, may be able to provide insight into a better or more effective way of performing a task. When a long-term employee leaves, either because they have retired or resigned, their vacancy is useful because it allows a new employee to introduce their own fresh ideas and insights. The contributions of long-term employees to a business are very valuable, but their leaving also provides an opportunity to bring in new perspectives.

Another benefit of bringing in new talent is that it can help to stimulate new thinking and creativity, which may act to challenge the way processes are currently undertaken at a business. Once the employee has been inducted, trained and is fully integrated into their new position, they should be encouraged to make suggestions on ways to improve processes. For instance, if the business was reliant on print media for its advertising, a younger tech-savvy employee may be able to suggest ways to introduce social media and social networking as a form of advertising and communication. Internet-based businesses, such as Google and Facebook, have acknowledged that the success of many of their projects can be attributed to the creativity and innovation of their employees.

Figure 15.5 Creative and innovative ideas from employees have helped this business to prosper.

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CASE STUDY
15.1

Woolworths and mature-age workers

WORKPLACE DIVERSITY STRATEGY

The nature of Australia's workforce is changing, with a greater emphasis on flexibility, part time work and people in career transition. We have developed a range of recruitment programs and partnerships to help attract and retain a more diverse range of potential employees. These include:

MATURE-AGE WORKERS

Mature-age workers are one of the largest underutilised groups in Australia. For every new Generation Y person entering the labour market today, there are seven workers over the age of 45 available. According to the Australian Bureau of Statistics, 85% of all new employment growth between now and 2016 will occur in the 40 plus age group. In recognition of this, we are working on a number of initiatives to build up our capability to successfully attract and recruit in this age group. These include:

- Recruitment advertising targeting the mature age market.
- 'Mature-age friendly' job application process that takes into account lack of access/ experience with internet usage.
- Introduction of a formal Woolworths' alumni program.

(Source: 'Diversity and equal opportunity', Woolworths Corporate Responsibility Report 2008)

ANALYSIS

1 Describe how diversity has become an important consideration for Woolworths when undertaking its workplace planning.
2 Discuss the advantages and disadvantages that Woolworths would face by actively seeking to employ an increased number of more mature workers.

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15.3 Developments in technology

Many businesses have felt the effect of developments in technology on their staffing needs. With the wide acceptance of automation, **robotics** and artificial intelligence, this has meant that some jobs have been transformed. On the positive side, ongoing technological innovation has created job opportunities and new industries. Using technology in a business can lead to an increase in productivity, while also reducing the cost of labour. Technology has allowed many small businesses to compete more effectively with their larger competitors as they are able to respond to change faster than a larger business. Machines or **automation**, however, are not good at creative work, problem solving or interpersonal skills needed by advisers, people holding leadership roles, working in teams and sales. High emotional intelligence (EQ) quotients are also becoming more in demand in these areas of business.

robotics the study, design, construction and operation of technology relating to robots and automated technology

automation the use of automated technology to fulfil functions or processes rather than humans

One area that requires the job holder to be creative as well as organised is event management. Creativity, good communication and multi-tasking are essential skills for this job. Event managers would also find it to their advantage to use some information technology applications to assist them to record and store data, keep records of expenses, design invitations and presentations, attract clients through their website and communicate with them via email.

Advances in technology have made communication a lot easier and faster. Previously, if a business wanted to communicate in writing with another business or a person, the manager would need to dictate a letter to a typist or secretary, who would then type the letter and send it through the post. Today, information technology makes communication a far easier and quicker process. Communication via email does not require the writer to have secretarial skills. It also means that the response to the email can be very quick. In many businesses the role of a secretary has been made redundant and replaced with an employee performing a broader role as a personal assistant to a manager.

Technology has also provided businesses with the opportunity to create flexible workplaces. An employee with a laptop computer, tablet or mobile phone with internet connection does not need to be at their workplace to transact business. This saves the business the cost of providing a separate office space for that employee because they can use any desk available at the workplace. In the retail environment, the use of barcodes that are scanned to record sale of stock has resulted in many cashiers losing their job or being freed up to perform other duties. Businesses now have the ability to automate certain functions previously undertaken by an employee. For instance, bookkeeping tasks were once done manually, but these tasks can now be handled using applications such as Xero and MYOB. These computer packages also generate financial reports, which previously would have required an employee with more knowledge to prepare.

Figure 15.6 An event planning business is unlikely to be automated.

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CASE STUDY
15.2

Technology and the creation of new jobs

NEW TECHNOLOGIES MUST CREATE JOBS NOT DESTROY THEM

Every industrial revolution – even as it brings disruptions – ultimately delivers more jobs, opportunity and progress, connecting people even more closely to the world around them. The invention of the steam engine reduced the need for raw human strength, canal systems and horses, as well as the blacksmiths who cared for them, but it sparked a new era of manufacturing, railways and shipping that created the arteries of the modern, global economy.

The advent of diesel, the internal combustion engine and electricity caused societal disruptions as workers moved from farms to cities, yet these innovations brought us Ford's Model T, refrigeration, mechanised agriculture, and an age of mass production that produced a new global middle class.

The rise of automation, personal computing and information technology eliminated jobs like telephone operators and typists, and required fewer manufacturing workers, secretaries, travel agents and telemarketers, but also ushered in the Internet Age, which transformed the global economy.

Today, in the Fourth Industrial Revolution, the relationship between technology and social progress is once again being tested.

The convergence of social, mobile, data science, the Internet of Things (IoT) and artificial intelligence (AI) is accelerating the pace of change at an unprecedented rate. We should be optimistic about the endless possibilities that this new era will bring, but we should also prepare for how a revolution like this will impact us all – as individuals and as societies.

On the one hand, today's technologies will create new jobs, including in emergent areas such as crowdsourcing, autonomous vehicles and the sharing economy. This continues a trend of workforce transformation. According to the McKinsey Global Institute, one third of jobs created in the US over the past 25 years – such as IT development and systems management – did not exist, or barely existed, a quarter of a century ago. In the coming years, companies like Salesforce that leverage technologies such as AI and IoT to create new business solutions will create millions of jobs.

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On the other hand, increased automation could eliminate jobs in manufacturing, transport, retail, healthcare and administration. Looking ahead, the World Economic Forum finds that approximately 35% of the skills demanded for jobs across industries will change by 2020. Most children entering primary school today will work in occupations that don't even exist yet.

Business leaders have a responsibility to ensure that the jobs and opportunities created by these technologies – now and in the future – are accessible to all. First and foremost, this requires providing greater access to the education and skills training needed for the jobs of the future.

(Source: Keith Block, 'New technologies must create jobs not destroy them', World Economic Forum)

Figure 15.7 Industrial change in technology – steam engine to driverless cars

ANALYSIS

1 Identify the major industrial changes that have occurred.
2 Identify the jobs which have been eliminated with the rise of automation, personal computing and information technology.
3 Locate which age is identified as transforming the global economy.
4 Describe the Fourth Industrial Revolution, explain why it is accelerating the pace of change and identify which jobs is it creating.
5 Describe the role identified for business leaders to prepare job holders of the future.
6 As a community, our consumption habits have changed from only purchasing basic items to now purchasing more luxury items. Identify five jobs that have been created or where the size of the workforce in that sector has increased due to these changes in consumption habits.

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ACTIVITY 15.1

1 Select five occupations/jobs in the list below. Identify which forms of technology have replaced or altered tasks forming part of those jobs:

- bookkeepers
- shop assistants
- newspaper reporters
- telemarketers
- travel agents
- medical personnel (e.g. doctors, nurses)
- builders
- musicians
- automotive mechanics
- pilots
- teachers
- TV reporters
- authors
- taxi drivers.

2 Identify which jobs have been replaced with these six examples of technology.

a Automated teller machine

b Self-serve checkout at supermarket

c Self-check-in at airport

d Myki system

e Driverless vehicles at mining sites

f e-TAG on motor vehicle

3 Discuss whether the technological developments referred to in questions 1 and 2 have had a positive or negative effect on the job and the tasks of the job holder.

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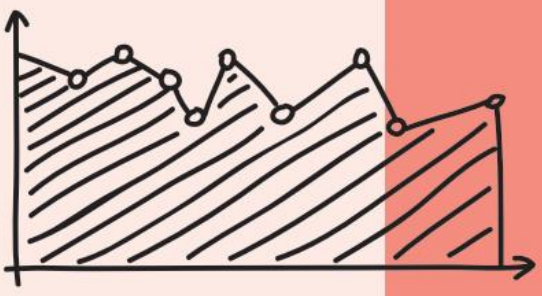
Chapter summary

- Staff are one of the most important assets of a business.
- Business success comes from balancing the objectives of the business with the goals and aspirations of its staff (employees).
- Staff are stakeholders in the business.
- The SMART principle is used to establish objectives for staff that align with the objectives of the business.
- Workforce planning is a process that aims to get the right people with the right skills, in the right place, at the right time.
- Human resource management is the management of a wide range of responsibilities that relate to the functioning of employees within a business.
- Businesses need to factor in the following considerations when making staffing decisions:
  - growing demand for flexibility in working arrangements
  - changes in skills and education expectations
  - generational change – there are four generations with different expectations currently in the workplace
  - diversity in the workplace.
- Employees can contribute fresh ideas and insights to improve the business.
- Technology has directly impacted on the staffing needs of businesses.
- Technology has caused some jobs to be removed while leading to the job content of others being enhanced.
- Technology has also led to the creation of some new jobs.

Chapter summary tasks



1 Define the following terms and use them in a sentence to demonstrate your understanding of the term:
   - employee
   - SMART
   - technology
   - business objectives.
2 Describe the factors that a business needs to consider when determining its staffing needs.
3 The current workforce is composed of four generations of workers. Identify the four generations and describe what qualities each of these generations can bring to a business.
4 'Businesses should embrace diversity in their workplace.' Explain what is meant by this statement and provide examples of ways a business can incorporate diversity into its workplace.

Extension question

'If a business does not adopt technology, it will find it very difficult to be competitive.'
Separate the class into two groups to discuss this statement. One group is to take the negative side of the discussion, the other the positive side. Following the group work, each group is to nominate a spokesperson to present their discussion points to the entire class.

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Chapter 16
Recruitment and selection of staff

Overview

In this chapter students will gain an understanding of the processes undertaken by a business in relation to the recruitment and selection of staff. These activities form part of the establishment phase of the employment relationship between a business and its employee (staff member).

For the prospective employee, the advertisement placed in the media is the commencement of the relationship. For the business, the phase commenced prior to that, when it undertook its workforce planning (outlined in the previous chapter). It is important that the business takes great care in ensuring the right person is ultimately selected, because to make the wrong choice could be extremely costly.

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Key terms

- application
- application form
- aptitude test
- capabilities
- career advancement
- casual
- employment contract
- equal employment opportunity (EEO)
- external recruitment
- fixed-term contract
- internal recruitment
- interview
- intranet
- job
- job analysis
- job board
- job description
- job design
- job enlargement
- job enrichment
- job rotation
- job specification
- permanent full-time
- permanent part-time
- promotion
- quality circle
- recruitment
- selection
- social media
- team
- transfer
- word-of-mouth

Key knowledge

In this chapter you will learn about:

- job analysis and its relationship to job design and related documentation, job descriptions and job specifications
- recruitment methods and the advantages and disadvantages of each method:
  - internal such as intranet and word-of-mouth
  - external such as websites, online recruitment agencies and social media
- selection methods such as interview, psychological testing, work testing, online selection, and the advantages and disadvantages of each
- employment arrangements such as full time, part time, contractual and casual.

(Source: VCAA Business Management Study Design, 2017–2021, p14)

What's ahead

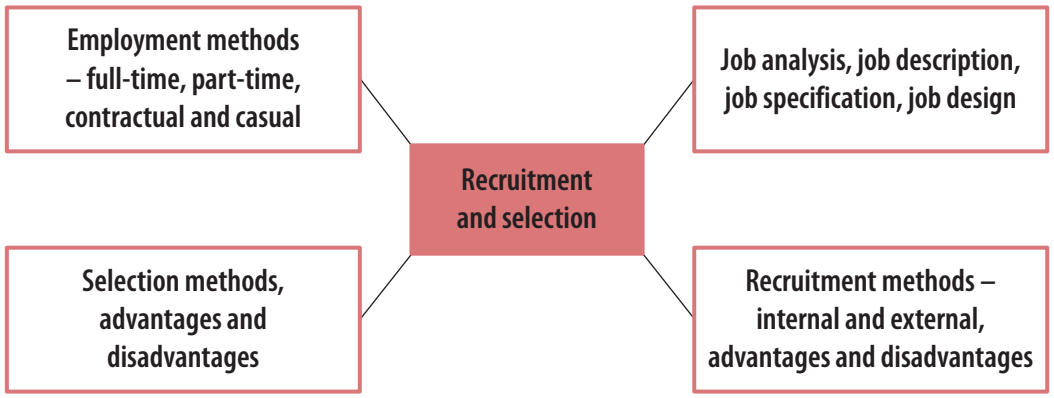

Figure 16.1 Staff recruitment and selection considerations

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16.1 Job analysis

job analysis a detailed examination of a certain job, including an analysis of the specific duties and requirements of the job and their relative importance

job a collection of tasks and duties that an employee performs

Job analysis is the systematic process of looking at a particular **job** to find out exactly what it entails, and what kind of skills and experience people should have to do the job effectively. Job analysis generates the source material for preparing the job description and job specification.

Methods used to conduct job analysis

Table 16.1 Job analysis methods

	Method	Explanation
1	Interview the present job holder	While time-consuming, it is probably the most widely used information collection method.
2	Questionnaires	The current job holder completes a detailed/structured questionnaire describing their job. The questionnaire can be written with both closed and open questions to allow for additional input from the job holder. This method allows for information on a large number of jobs to be collected within a short period of time.
3	Observation	The current job holder could be observed, or a video made of them performing their job.
4	Log books and daily work diaries of activities completed by the job holder	This method is particularly useful for analysing professional or senior management positions where observation and questioning would not give a true indication of the job.
5	Supervisory reports	Details are provided by the supervisor of the job holder to give their perception of what the job entails. Reports can act to verify information gained from the job holder and provide additional information as to the expectations of the task.

When undertaking a job analysis, it is recommended that the steps set out in Figure 16.2 are followed as job analysis generates the source material for preparing the job description and job specification.

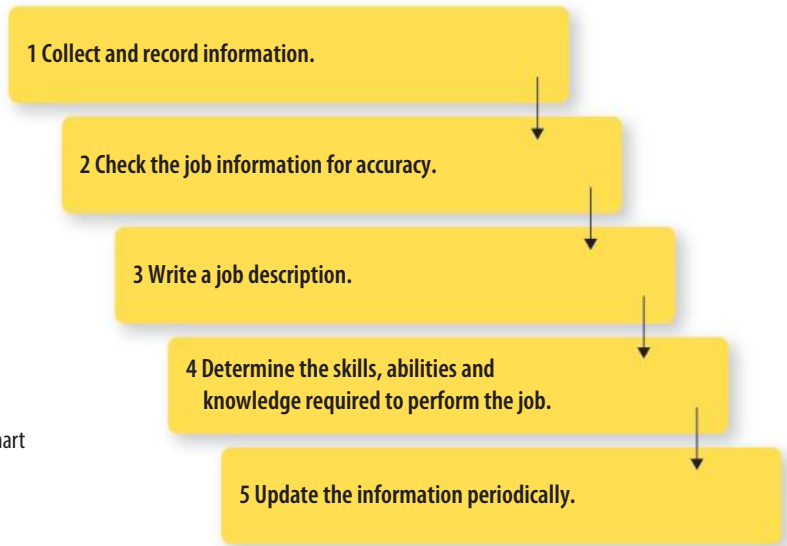

Figure 16.2 Flowchart of steps involved in conducting a job analysis

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A **job description** is a written statement of tasks performed, how they are done and why they are done. Typically, it describes job title, job summary, responsibilities, duties and activities, relationships, where the position fits into the business, accountability, special circumstances and states key performance indicators.

After writing the job description, a **job specification** is created which identifies the experience, qualifications, skills, abilities, knowledge and personal qualities or requirements needed for the job. These could include requirements such as a current driver's licence, forklift licence or ability to speak a foreign language. Regular updating of both job descriptions and job specifications is essential, as jobs constantly change due to the introduction of technology, new procedures or creation of a new job.

job description
a written overview of a particular position, including details such as the position title, duties and responsibilities, and its position in the overall organisation

job specification
detailed listing of the personal skills and characteristics required to perform a particular job

ACTIVITY 16.1

Read the example job description and job/person specification below and answer the questions that follow.

James & James, Solicitors

James & James is an Australian commercial law firm resourced by 90 partners and more than 700 staff in offices across Melbourne, Sydney, Brisbane, Canberra and Perth. James & James' success has been driven by the energetic vision of the firm and our commitment to building strong, lasting relationships with our clients.

Position: Marketing Assistant

Location: Melbourne

Reports to: Marketing Manager

Position status: Full time

The Marketing Assistant is responsible for providing efficient marketing services to the firm on a national level.

Key responsibilities:

- Proposals and capability statements: assist with the content creation, preparation and submission of proposals and capability statements.
- Website: provide daily maintenance and when required for updating of the James & James website.
- Branding: maintain the consistency of James & James branding on all internal and external documentation and communication.
- Client communications: assist with the creation and publication of all communications including newsletters and email campaigns.
- Social media: assist in the creation of content for all James & James social media channels including Twitter, LinkedIn and Instagram, and monitor and report on all firm social media campaigns.
- Business development: assist in the planning and implementation of marketing strategies for national practice areas and individual team members.
- Events: assist in all aspects of event coordination including scheduling, invitation production, site procurement, and catering.
- Customer relationship management: daily maintenance of the firm's client relationship database.
- Sponsorships: organise and assist with all sponsorship opportunities being pursued by James & James.

Job/Person specification:

- A tertiary qualification in marketing or communications, or equivalent experience in a marketing/communications role.
- Attention to detail and impressive communication skills (both written and oral).
- Great initiative and excellent work ethic.
- Efficient time management skills.
- A capacity for multi-tasking and an ability to work under pressure when required.
- Ability to work in a team environment as well as independently.
- The ability to maintain strong relationships with both internal stakeholders and external service providers.
- Ability to demonstrate initiative and utilise creative thinking to provide innovative solutions to the firm's needs.
- Knowledge and experience with using programs such as Photoshop, InDesign and Canva is highly preferred.

CONTINUED ITEM

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1 Do you think this is an entry level position (i.e. for someone who has not worked in marketing previously) or a position that would be more suitable to someone with a couple of years' experience working in either a marketing or communications role? Justify your opinion with reasons.
2 Identify where this position is located. Is the job holder expected to travel around to the other offices of James & James or would they be able to complete all their tasks using technology applications?
3 Explain why it is important for the job holder to have the qualifications, specific knowledge and skills required for this position. Link your comments to the major responsibilities outlined in the job description.
4 Having created the job description and job specification for the role of Marketing Assistant, James & James would now like to recruit for this position. Construct a job advertisement for this position.

Both the job description and specification are used for recruitment purposes, particularly when designing job advertisements. They can also form background material for designing interview questions, assigning work, appraising employees, and for general planning purposes within a work area.

job design grouping together of tasks for a particular job, which should incorporate variety and challenge for the job holder

job enlargement increasing the size or level of difficulty of a particular position by merging various tasks and responsibilities at a similar level

job enrichment making a job more challenging so workers are required to use their full capabilities and gain personal growth

job rotation workers are moved between different jobs to increase variety of work and to create a more flexible workforce

team a group of employees with different tasks and skills working together on a common project, service or goal

quality circle a group of workers who meet regularly to discuss quality and production. Any proposed changes to production methods are then put forward to management.

Job design

The purpose of job analysis is to look at and analyse the current jobs being performed at a workplace. It can be used as input into designing a job. **Job design** involves ensuring that the job an employee is undertaking contains an appropriate degree of variety and challenge for the job holder, while also building in an opportunity for personal development in the role. Additional motivation and job satisfaction can be provided to the job holder by widening the job scope, referred to as **job enlargement**. This involves making the job bigger or more challenging by combining various operations at a similar level (horizontal). Another way to increase the challenge of the job is to vertically expand the job by increasing its depth of content as well as the degree of control the job holder has over their work. This is referred to as **job enrichment**.

Job rotation is a method that can be used to reduce boredom for a job holder while exposing them to more than one task. This acts to increase the skills of that employee and create a more flexible workforce. While not necessarily motivating the employee, it does make them a more valuable team member.

Figure 16.3 Jobs are often designed to be part of a team.

Designing jobs to be part of a **team** is a growing practice in business. It provides the opportunity for the job holder to be part of a network of jobs and feel part of a collaborative approach to achieving the business objectives, while also providing social interaction between team members. Creating **quality circles**/teams provides an excellent method for encouraging participation of all employees to accept challenging tasks and responsibilities. These teams of workers meet regularly to discuss quality and production issues and propose changes that can then be put forward to management.

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16.2 Recruitment

Recruitment involves identifying, locating and attracting a pool of qualified applicants. More importantly, it needs to attract the 'right' potential candidates to the 'right' openings within a business. From this pool, those who most closely match the job specification should be selected for an interview.

recruitment the process of locating and hiring the most suitable applicants for a position

Recruitment is a two-way process; it involves information being given by the business and received from the applicant. Effective communication is therefore very important.

The recruitment process begins with:

- identifying human resource requirements
- determining where the qualified pool of applicants can be found (recruitment sources)
- choosing a specific means of attracting potential employees to the business (recruitment methods).

Identifying human resource requirements

It is the role of the person in the business responsible for human resources to ensure that the people recruited and ultimately selected have the unique skills and attributes required by the business to assist in achieving its business objectives. The strategies and culture of the business also determine whether the focus is on technical skills and formal qualifications, or personality, the ability to 'fit in' and the potential for personal and career development.

For example, Macpac (formerly called Ray's Outdoors), an Australian chain of retail stores selling camping, hiking and kayaking equipment and outdoor clothing and footwear, would be looking for applicants who are passionate about adventurous, outdoor-related activities and lifestyles and possibly have retail experience. In contrast, the major banks and finance companies would place more emphasis on an applicant having strong banking and finance skills and formal qualifications in business or economics.

While smaller-sized businesses often do not have a formal recruitment policy they should still try to approach recruiting of staff in a consistent manner. Larger-sized businesses usually have a formal recruitment policy that provides the framework for a consistent approach to recruitment throughout the business. It will cover items such as:

- formalised recruitment and selection procedures; for example, use of job descriptions and job specifications to generate advertisements, where to advertise, creating a short list against established selection criteria, composition of interview panel and question types, testing procedures, reference checks, advising successful and unsuccessful applicants, negotiating terms and conditions of employment
- ensuring legal compliance relating to **equal employment opportunity (EEO)** and anti-discrimination in advertising jobs and interviewing applicants
- a positive approach to recruitment of people with disabilities, minority groups, women, older workers, and Aboriginal and Torres Strait Islander peoples
- recruitment methods – whether there is a preference to search first for applicants internally and then use external methods.

equal employment opportunity (EEO) the practice of making sure that all applicants have an equal and fair chance to secure a position regardless of their age, race, sex, ethnicity or physical or mental disability

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internal recruitment the process of assessing and selecting existing staff at a business who would be qualified and appropriate to perform a vacant role

external recruitment the assessment of the current available pool of job candidates, other than existing staff, to ascertain if any are sufficiently skilled or qualified to fill and perform existing job vacancies

career advancement moving from a junior-level position to a more senior-level position in a business

transfer a sideways movement of employees within the same level, from one job to another

promotion the advancement in rank or position of an employee within a business related to their previous position or job tasks

intranet the internal or private network of a business based on internet technology

word-of-mouth an oral or written recommendation by someone

application the processes involved in applying for an advertised position, usually completed through a letter or form

Recruitment methods

Businesses, human resources managers and other staffing professionals can use a variety of recruitment methods (internal or external) to assess and select personnel who would be qualified to fill and perform a job vacancy within a business.

Internal recruitment

As part of their recruitment policy, many businesses require that an open invitation is given to all current employees to apply for job vacancies (**internal recruitment**) before entering into the **external recruitment** process. This allows individuals within the business the opportunity for **career advancement** by either **transferring** or being **promoted**. One internal method is using the **intranet** of the business to publish and accept applications for the vacant position. A direct approach (**word-of-mouth**) or recommendation can also be made to an employee by a member of the human resources department or the employee's manager or supervisor. This will often occur when an employee has been recognised as having career advancement potential. A job description and job specification should be made available to potential applicants for them to judge whether they possess the necessary knowledge, skills and abilities, formal qualifications and personal requirements.

Internal applicants are then requested to submit a formal letter of **application**. The submission of a resumé (curriculum vitae) is not always requested because the business is already familiar with the accomplishments of the employee.

Table 16.2 outlines some of the advantages and disadvantages of recruiting internally.

Table 16.2 Advantages and disadvantages of internal recruitment

Advantages	Disadvantages
Quicker adjustment to the position; no induction needed	Employees may be promoted beyond competency level
Incentive for employees to gain career progression	No new ideas introduced, could stifle creativity and innovation
Acts as a motivator and morale booster for employees of the business	Rivalry, infighting and negative impact on morale for unsuccessful applicants
Business knows the applicant, applicant knows the business and its objectives, corporate culture, policies and procedures	Any poor work habits will remain and bureaucracy encouraged
Cheaper, as no external recruitment agencies need to be paid	If the successful internal applicant's position needs to be filled, it may create the need to select from an external candidate

External recruitment

A variety of methods can be used to locate and attract external candidates. Most businesses would choose a couple of methods to reach the largest pool of potential applicants. Table 16.3 illustrates the various advantages and disadvantages associated with recruiting externally.

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Table 16.3 Advantages and disadvantages of external recruitment

Advantages	Disadvantages
Larger pool of applicants to choose from	Attracting/selecting new employee is time-consuming and more difficult
New insights, skills and abilities brought into the business	Induction process takes longer
Costs can be lower, as business does not have to fill two positions	Limits career advancement of existing employees and may lead to feelings of resentment
New approach to work, issues and problems	Greater element of risk, as new employee is an 'unknown' person
	Costly form of recruitment

The use of technology has brought big changes to the way that businesses now recruit new employees. In the past, a business that had job openings would place an advertisement in a local, state or national newspaper. For instance, the *Saturday Age* (Careers section) contained the most employment advertisements for jobs located in Melbourne and Victoria. The *Australian* was the choice of newspaper for jobs in other parts of Australia. If a business still wants to use this form of written media, then more senior positions will be advertised, using block advertisements, in the front section of the papers. Other positions will be found in the employment section, which is categorised by job type; for example, education, health, sales.

Figure 16.4 Larger businesses usually have a formal recruitment policy and procedures.

For an advertisement to be effective, it should contain an attention-grabbing headline and details that inform the potential applicant about the position (i.e. job title, salary, location, key roles, duties) and any relevant personal details, such as qualifications, knowledge, skills and abilities, required to perform the job. Finally, contact details and the application closing date need to be included. A small business may also choose to advertise by sticking a 'help wanted' sign on the door of their business. Some employers still use these methods; however, more are turning to a multifaceted approach to recruiting applicants such as online job boards, social networking sites and websites.

Websites

Many businesses have created a careers section on their own website where applicants can go to search online for current job vacancies. Using their corporate website gives the applicant an opportunity to carry out research into that business to see what the business actually does, the products it makes and/or sells or services it provides, and what are its mission, vision and the values it holds.

Using a website to publish a job advertisement is considerably cheaper since online recruiting is not bound by traditional print advertising's line or word costs. Also, the advertisements tend to be more detailed and comprehensive. After reading the advertisement, applicants are requested to submit their letter of application and resumé online. This allows for immediate acknowledgement of receipt of the application.

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ACTIVITY 16.2

Go to the employment/careers pages of these business websites and answer the following questions:

- Sussan
- Intrepid Travel
- ALDI.

1 Investigate the careers/employment section and identify any current job vacancies.
2 Outline the procedure that applicants need to follow to apply for these positions.
3 How would you rate the career pages websites of these businesses? Explain what you like or dislike about these pages and whether the information provided is useful.

Online recruitment agencies

There are many online recruitment agencies operating in Australia, both in capital cities and regional areas, and specialising in certain employment sectors. Traditionally, a recruitment agency worked on behalf of an employer to find job applicants. In more recent times, these agencies have developed their own databases of people seeking employment so they may match these to job vacancies as they arise. The agency will ask the prospective job seeker to create a profile on its website, attend an interview or to come into its office to undertake an aptitude test.

ACTIVITY 16.3

Go to the website of each of the well-known Australian job websites below:

- LinkedIn
- Seek
- Adecco
- JobSearch
- OneShift
- APS Jobs
- CareerOne.

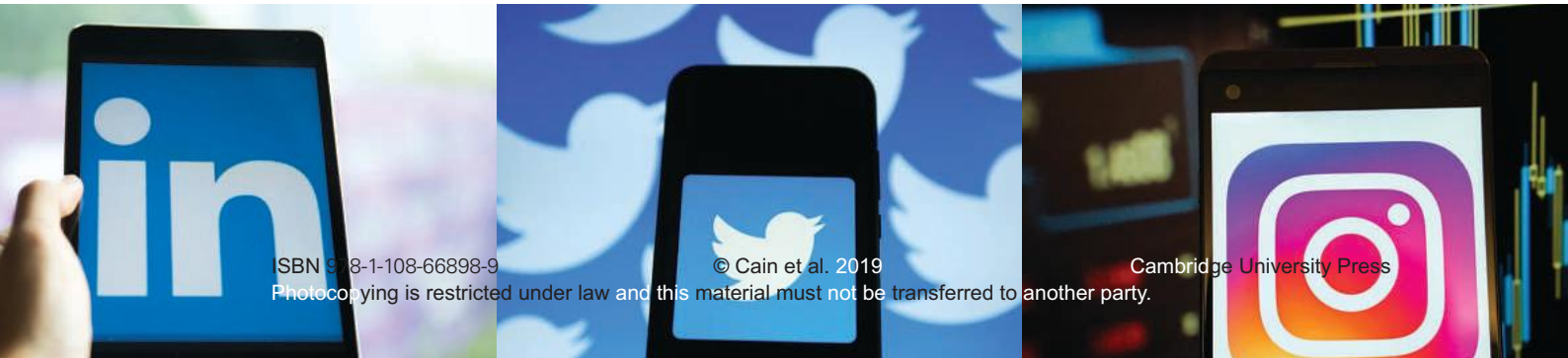
1 Identify the types of jobs being advertised on the seven websites – are they covering jobs in a range of industries or are they specialising in one industry?
2 Select three of the websites and summarise the details of one job vacancy on each site.
3 Explain how the website OneShift differs from the other websites in the jobs it lists.

Social media

social media online platforms and websites that people can use to connect with others, share content or network

The use of **social media** as a recruitment method has been rapidly expanding over the past decade. Businesses are increasingly using social networking sites such as LinkedIn, Facebook and Twitter to advertise job openings. Businesses of all sizes have Facebook and Twitter pages where applicants can find information about the business, any current job vacancies (job postings) and stories about what it is like to work for the business.

Figure 16.5 Popular social media sites – LinkedIn, Twitter and Instagram



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The most popular network for recruiting professionals is LinkedIn Talent Solutions, which has members from more than 130 different industries. Businesses can advertise jobs on LinkedIn as well as create career pages to attract and engage talented candidates. The network also enables businesses to easily gain access to candidates and find out about their career history, skills and qualifications. An employer can ask for an employee referral for a particular position vacancy. LinkedIn provides a way of staying in touch with former, valued and trusted employees whom a business may want to attract back in future times or rely upon for a referral. Using the key word search facility allows a business to search for people with the required qualifications and experience who they can then contact directly to see if they are interested in a vacant position with their business.

Job board is another form of social media being used by businesses to post vacant positions. These are websites where businesses pay a fee to the job board to list their job on the site and will often accept job applications directly from the job board. Seek is one of the largest job board providers in Australia. Other more specialised or niche-oriented boards focus on a particular industry, such as information technology, education or healthcare jobs.

job board websites where businesses pay a fee to the job board to list their job on the site and will often accept job applications directly from the job board

There are also a number of other methods that can be used when attracting applicants for a job, as outlined in Table 16.4.

Table 16.4 Job recruitment methods

Method	Explanation
Referrals of candidates from one of the current employees at the business	Can act to streamline the recruitment process as the employee referring the candidate has inside knowledge of the business and knows the type of person needed for the job. Applicant can hand their resumé to someone inside the business who can pass it on directly to the person responsible for conducting the recruitment.
Walk-in applications (unsolicited)	A prospective candidate makes a direct approach to a business on the off-chance that there may be a position vacant. The applicant has nothing to lose by adopting this method and may actually gain a job by being resourceful.
Government employment agencies	Often used by people who are unemployed and need assistance to find a job placement. People are required to be 'work ready' as part of their eligibility requirements for unemployment benefits. The jobs offered are mostly clerical, sales, technical and manual positions.
Career fairs held by universities or TAFEs	Provide opportunity for direct recruitment by businesses of graduates.

Figure 16.6 Prospective job applicants waiting to be interviewed

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CASE STUDY
16.1

Ski resort seeking seasonal workers

Mt Hotham Skiing Company (MHSC) is the largest operator at Hotham Alpine Resort and seeks exciting, innovative and dynamic individuals each year to join our team working at the top of the Victorian Alps. Owned by Merlin Entertainments Group, the company is responsible for the ski field operations including snow grooming, snowmaking, lifts, snow sports, school, tickets, guest services, retail, equipment hire, day spas, property, maintenance, reservations, events, marketing, Hotham Airport and more.

While previous snow experience is desirable it is not essential for many positions. Join our team, make friends and enjoy all that the great Alpine snowfields have to offer!

Vacancies exist for:

- Administration/Reception
- Day Care and Indoor Attendants
- Day Spa Staff (Beauty and Massage Therapist)
- Experienced Boot Fitter
- Events
- Hotel Receptionist
- Housekeeper and Commercial Cleaners
- Human Resources Assistant
- Instructor Positions – experienced Ski and Snowboard (Australian Residents or current work visa holders)
- Instructor Positions – Skills Clinic (Australian Residents or current work visa holders)
- Lift Attendant
- Porter/Snow Clearer
- Qualified Cook/Chef (including Head Chef)
- Rental Hire Attendant
- Reservations Manager (Permanent ongoing year round position)
- Retail Sales Staff

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- Snow Groomers (must be experienced)
- Snowmaking
- Ticket Seller/Ticket Checker

(Source: Mount Hotham website, Employment 'Mount Hotham Skiing Company')

ANALYSIS

1 From the list of job vacancies above, select one of the jobs and design an online job advertisement.
2 Identify which social media site and/or website you think would be the best to use to attract the greatest number of applicants to the job you have chosen. Justify your choices.

16.3 Selection of applicants

Within the **selection** process, a range of methods are used to ensure the best applicant is found. The actual order of using these selection devices may differ depending on the particular business. All steps in the selection process perform an important role when trying to select the right person for the job position that a business wants to fill.

selection process undertaken by a business to decide whether to make a job offer to a candidate

Receipt of application

It is not only polite, but good business practice to acknowledge any application made by a job candidate. This can take the form of a telephone call or a simple letter of acknowledgement. It should be noted that this practice is not as common as it used to be due to increased reliance by businesses on online applications.

Some businesses require an **application form** to be completed. This is a valuable screening tool, as it seeks information the business sees as important. Care needs to be taken when preparing application forms to ensure they do not breach equal employment opportunity provisions. Questions relating to marital status, ethnic origin, age (unless a minimum requirement is necessary for the position, such as bar work) should not be included.

application form a document that covers basic information about a potential employee, such as qualifications, experience and job-related data

Initial screening

This step eliminates applicants who do not possess the skills and expertise required for the position. By reading through the cover letters, resumés and application forms (if required), a short list of applicants to be interviewed is created. When reviewing applications there are common areas often considered: hobbies and interests, accomplishments/results, any gaps in employment history, stability in employment, related experience to job advertised, appearance and overall structure of resumé, career progression, education and qualifications.

For larger corporations that attract many applicants, online testing is sometimes used to determine whether or not an applicant meets the basic requirements of the role. They could be assessed on problem-solving abilities or technical expertise in the area they are applying for. Timed tests could be simple multiple-choice questions or games that require critical thinking.

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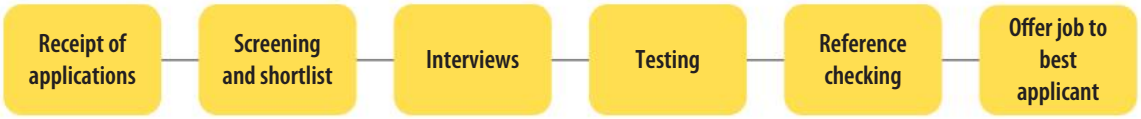
Often a rating system is used: 'Yes' (will get an interview), 'No' (definitely no interview) and 'Maybe' (consider again later). If the applicant is to be interviewed, they are normally contacted by telephone and a mutually convenient time is arranged.

Figure 16.7 The selection process



CASE STUDY **16.2**

Virgin's recruitment process

MESSAGE FROM VIRGIN AUSTRALIA CEO JOHN BORGHETTI

The Virgin Australia group of airlines prides itself on recruiting the right people into the right roles and we're always looking for team members in all specialities to join our award winning team.

We know what sets Virgin Australia apart is our people and the drive that we all have to make a real difference for our guests. Our culture encourages innovation whilst ensuring that our guests remain the focus of our business. We deliver a highly professional and polished service, whilst ensuring that we are safe in everything that we do. We want dedicated people who are passionate about customer service and ready for the challenge of working in a challenging environment.

The reality is that being a team member of the Virgin Australia group of airlines involves hard work but is very rewarding. Our people are at the cornerstone of the business and their award winning service to every guest every day is putting the magic back into flying.

So if you are interested in being a part of our passionate and innovative team then we would love to hear from you.

Kind regards,

John Borghetti

CEO – Virgin Australia group of airlines

(Source: Virgin Australia website, 'Careers')

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ANALYSIS

Use your favourite search engine to find the Virgin Australia careers website to assist you to answer the following questions.

1 Outline the information required to be provided in an applicant's online application.
2 Describe the importance placed by Virgin on an applicant's covering letter.
3 Outline the information that Virgin believes should be included in an applicant's resumé.
4 Describe the importance Virgin places on developing a 'good' resumé.
5 Describe the purpose of Recruitment Days.
6 Explain the purpose of undertaking a behavioural interview and why Virgin would consider this to be a useful selection tool.
7 Identify the process Virgin Australia uses to advise applicants that they have not been successful in becoming a staff member.

Interviews

The employment **interview** is the most commonly used selection technique. It is the opportunity for an employer and the candidate to learn more about each other. Some businesses use video communication such as Skype or FaceTime to conduct initial interviews (virtual interviews) with the aim of screening candidates and narrowing down the pool of applicants who will be invited for a face-to-face interview. This is also a way to reduce the expense involved in interviewing candidates who are not local.

interview a meeting that is held between an employer, or a representative of an employer, and an applicant in order to determine whether or not an applicant should be hired

It is quite common that an applicant will attend several rounds of interview. The first in-person interview generally seeks to find out about the applicant's experience, skills, work history and whether they have the personal qualities and qualifications the business is seeking from its workers. The number of interviews often reflects the level of seniority of the position in the business. For example, a shop assistant may only have one face-to-face interview with the owner of a small business, whereas a senior manager in a larger business will go through a far more rigorous and time-consuming interview process.

The most common interview style is structured, where a series of questions are asked based on the job description and specification. Alternatively, an unstructured interview can be used where the applicant is encouraged to do most of the talking with not much direction from the interviewer.

There are certain elements that must be addressed if a selection interview is to be successful and produce the desired outcome.

1 Plan for the interview

The location must be arranged and the candidate advised of the time and location. The location should be private (such as a conference room), free of interruptions. Seating arrangements need to be made to ensure no confronting or intimidating situations are created. The interview panel must be formed, given all relevant information on the candidate and the job; that is, personal attributes, experience, skills and qualifications required for the job and any other relevant business details. They should be directed to look for any gaps in employment history, vague wording, inflated job title and frequent job changes. In addition, the panel meets to formulate a series of questions to put to each candidate during the interview.

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Figure 16.8 Panel interview of an applicant

2 Opening the interview

The candidate should be greeted with a handshake by all parties and a little 'small talk' entered into to gain rapport and put the candidate more at ease. It is important to set the scene by outlining how the interview will be conducted.

3 The main parts of the interview

a *Questioning* – there are two main types of questions that can be asked during the interview.

- Open questions usually require more than a few words in response, giving the applicant opportunity to answer the question. Open questions help to reveal thoughts, needs, feelings and opinions. They also require the applicant to think before answering.
- Closed questions only require a short 'yes' or 'no' answer, or require the candidate to pick 'X' or 'Y'. They require very little thinking and talking. Closed questions are used to elicit specific facts or details (e.g. 'Do you have a current work visa?').

It is important to remember that employers believe that past behaviour is the best predictor of future behaviour. Questions that require the interviewee to explain past experiences and behaviours should be asked; for example, 'Tell me about a time you encountered a difficult customer and how you dealt with the situation.' Often the interviewer will need to gain further details by using follow-up questions. The candidate should be allowed to talk for approximately 70% of the time, with the interviewing panel being active listeners. Watch the body language of both the candidate and the panel. Non-verbal signs, such as facial expressions, fidgeting, arm movements and the like give important clues as to what people are really thinking.

b *Understanding the legal requirements* – it is important to be aware of areas of discrimination (race/nationality, marital status, age, pregnancy, physical features, impairment/disability, religious belief or activity, lawful sexual activity, parental status, industrial activity) when questioning and forming opinions of suitable applicants. This will help to protect the panel from any accusations of discriminatory or unfair interviewing practices.

c *Selling the job and the business* – explain the key aspects of the job and where it fits within the business. Ask the applicant if they have any questions or need any more information.

4 Close the interview

Give a firm handshake and thank the applicant for coming. Advise them of the next stage in the process.

5 Evaluate the applicants

capabilities
competence to perform a task

All panel members need to finalise their notes immediately after the interview. Assessment should be made only on the candidate's skills, knowledge and **capabilities** relative to the job requirements and you may be asked to explain your decision and justify your choice. (Hint: do not dismiss your gut feelings about a person.)

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Table 16.5 Advantages and disadvantages of using interviews as a selection method

Advantages	Disadvantages
Allows the parties (interviewer and applicant) the opportunity to start developing their relationship	To be effective it generally requires more than one interview to make the selection
Permits the interviewer to gain a lot of information about the applicant	Time-consuming as time needs to be found for: preparing for the interview by the interviewer or panel of interviewers, conducting interviews, interpreting the responses and making recommendations on which candidates should progress to the next round of interviews
Provides an opportunity for the applicant to find out information about the business and what the job involves	Potential for interviewer bias
Provides the interviewer with the opportunity to pose problem or behavioural scenarios to the applicant and then to make a judgement of their problem-solving skills	Costly due to personnel costs associated with interview and panel members
Allows the applicant to make clear any misunderstanding or mistake they may have made during the interview	Inefficient if the interviewer and panel members are not trained or experienced in how to conduct an interview

Online selection

Figure 16.9 Some businesses now use a combination of recruitment methods to assist them to find the best candidate for the job.

Some businesses now use a combination of recruitment methods to assist them to find the best candidate for the job. For example, when recruiting graduates, the Department of Defence requires applicants to complete certain components online and, if successful, they will be called in to an assessment centre for a face-to-face interview. This practice is also common with many state and federal government departments and large businesses. Applicants access the online application form on the website and need to provide the required information for each selection criteria set out for the position. The information provided must be clear and concise as it is used as the basis for short-listing applicants as well as for their selection.

For employers, using an online application and selection process can have some advantages. It is cost-effective and reduces the cost associated with hiring. Receiving job applications in digital format makes them easy to store, sort and screen for key words, which saves time when wanting to create a short list of people to be interviewed. Using the online application also allows the business to cast a wider net for finding the right candidate as job openings can easily be advised and spread on the internet through job-posting sites, company websites, blogs and social media.

The ease of applying online means that a business may receive applications from unqualified applicants or people who are not seriously interested in the position. This places more importance on having an effective screening strategy in place to reduce the number of applicants to a manageable number to process for selection.

Another issue with using standardised online forms as the bases of sorting and selecting applicants is that it often constrains the applicant from uploading some of the data that would be contained in their traditional resumé. If the employer wants someone with creative skills, an online application and selection format may exclude them from including samples of their work.

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Figure 16.10 Job applicant completing an aptitude test to assess their ability to think conceptually

Psychological testing

Psychological testing (also known as psychometric testing) provides a scientific component to selection. It must be carried out by a qualified organisational psychologist, who has completed training in occupational testing. It aims to assess the potential of an individual to perform in a particular job role and covers:

- **aptitude test** or an ability or intelligence test – designed to measure an applicant's intelligence or IQ based on their ability to reason with numbers, words and abstract items. This test indicates a person's ability to think conceptually and solve problems.
- personality or temperament traits, which looks at the behaviour of a person in the workplace. One popular test is the Myers-Briggs Type Indicator (MBTI), which classifies people as being: an extrovert or introvert; sensing or intuitive; thinking or feeling; judgemental or perceptive. Although it is a common test, it is worth noting that the MBTI has recently lost favour as a job recruitment tool. Even the President of The Myers-Briggs Company, Jeffrey Hayes, told the BBC that the MBTI 'should never be used for hiring, screening or to dictate life decisions'. While it might still be useful for predicting a person's behaviour in a group situation, it has therefore been deemed to be less useful for determining a person's suitability to a particular role.
- motivational – looks at a person's drive and initiative.

aptitude test
a test of special abilities (e.g. clerical, language, artistic) that are required for a specific job

Table 16.6 Advantages and disadvantages of psychological testing

Advantages	Disadvantages
Acts to prevent a business hiring an applicant not really suited to the tasks of the job	Too great a reliance on applicants telling the truth when answering questions
Tests are standardised so every candidate gets the same questions and is given to the same opportunities	Not always a good way of assessing an applicant's personality
Provides candidates with weaker interview skills or who are shy a chance to prove themselves in another way	If an unqualified person is administering the test, the finding may not be correct or able to be relied upon

Work testing

Figure 16.11 Applicant being given a work test of preparing a document based on information supplied

Businesses use work testing as a method to assess how candidates perform in work situations. This form of testing can provide additional objective information which relates to skills that may be difficult to assess using other methods, such as an interview. Work tests can take a variety of forms, such as: computer tests, presentations, role plays and written work. They can also include exercises that test the applicant's ability to analyse statistical or budget information or other exercises that test an applicant's speed, skill, accuracy and dexterity at manual tasks. For instance, a cashier for a supermarket may be tested in product knowledge and their speed and accuracy of processing customers through a checkout.

Candidates are usually advised in advance that they will be asked to take a work test and often it is arranged to be taken either before or after their interview.

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Examples of common work tests are:

- drafting and typing a letter to a client of a business
- creating an Excel spreadsheet, based on information that has been supplied
- drafting a press release to announce an important decision made by the business
- reading and summarising a document that could be placed on the intranet of the business.

Asking a job applicant to undertake a work test can provide the following advantages when undertaking the selection process.

- It can be relied upon to test the work capability of the candidate as the test should be based on tasks likely to form part of the job.
- Because the work being tested has a direct relationship to the job, their ability to perform the task usually ranks higher than the results of the personality test.
- It is difficult for an applicant to fake job proficiency.
- The applicant is using equipment that is the same or very similar to the actual equipment they will be using for that job.
- An applicant will often feel that the test allows them to display skills that would not be shown during an interview.

The major disadvantage in conducting a work test relates to the type of job. If the tasks associated with the job are complex and take a longer period (days or weeks) to perform, they are not as good an indicator of an applicant's ability for jobs where tasks can be completed in a short period of time.

Background investigation – reference checking

Comprehensive reference checking provides important opportunities to learn more about candidates and should be undertaken before offering the position. Human resource supervisors can conduct these checks personally by contacting former supervisors and work colleagues of the applicant or using their professional network to talk with other individuals who can provide additional insight into the applicant.

It may also be wise to check academic qualifications, as there are instances of qualifications having been misstated in resumés. A police check may also need to be undertaken if the area of employment relates to providing services to children, such as teaching or childcare. Social media, such as Facebook, are now being extensively used by businesses as part of background checking of applicants.

Figure 16.12 Academic qualifications need to be checked.

Advising applicants of outcome

Once all the background checks and testing have been undertaken and the selection panel has decided on the most suitable applicant, the following needs to occur:

- the position needs to be officially offered to the successful job applicant. This may be done initially by telephone and followed up by a formal letter of offer. This letter will contain all the conditions of work, such as salary, leave entitlements, job title, starting date, location of job and to whom the person will report.
- the remaining unsuccessful short-listed applicants need to be thanked for their interest and advised of their non-success
- an announcement needs to be made to the employees of the business regarding the new appointment.

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Evaluation of recruiting methods

The evaluation of recruitment methods provides valuable feedback for controlling costs, improving recruitment performance and determining whether strategic business objectives are being achieved. This can be done by looking at the measures outlined in Table 16.7.

Table 16.7 Evaluating recruitment methods

Measure	Evaluation
Quality of process and outcome	How many applicants applied for the vacant position? How many of the applicants were qualified and suitable for short-listing?
Cost of process	What was the total cost, including advertising, agency fees and travel expenses?
Time	How long did it take between recognising the need for the new position, receiving the application and selecting and offering the job?
Soft data	Was there any additional qualitative feedback from the applicant and management on how well the method worked?

Figure 16.13 The use of social media as a recruitment method has become more common.

ACTIVITY 16.4

Complete the following questions.

1. Identify the costs that could result from a business undertaking a poor recruitment and selection process.
2. Identify which areas of cost would be reduced if a business were to recruit internally.
3. Discuss the advantages and disadvantages of recruiting from internal and external sources.
4. Analyse which method of selection would be cheaper for a business – an interview or a combination of online selection and interview.

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16.4 Employment arrangements

employment contract a written agreement made between an employee and an employer that outlines the legal requirements and responsibilities of both

permanent full-time the employee enters into a continuing contract of employment

permanent part-time the employee enters into a continuing contract, with same employment conditions, but will work fewer hours than a full-time employee

fixed-term contract employees engaged in either a full-time or part-time capacity for project work or to replace employees absent on long service or parental leave

casual where an employee is appointed by oral contract (not written) for short-term, irregular or seasonal work

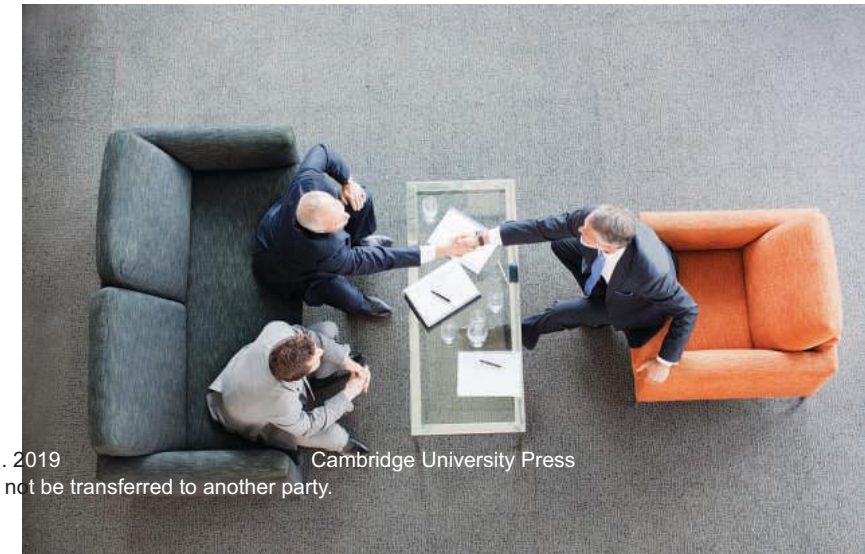
An employer and employee will enter into a legally binding **employment contract**. There is a range of ways these contractual arrangements can commence. One common method is the signing of the duplicate letter of offer by the successful candidate and returning it to the person making the offer.

The employment contract may engage the employee in the following ways:

- **permanent full-time** basis – the employee enters into a continuing contract of employment. The number of hours worked (e.g. full time is 38 hours per nominal week as stated in the National Employment Standards) will depend on the conditions of either the award or collective agreement applicable to the business. The employee will be entitled to receive a salary or wages, leave entitlements (sick and carer's leave, parental leave, compassionate and bereavement leave) and superannuation guarantee rate of 9.5%. In addition, for each year of employment at a business, the employee accrues long service leave entitlements.
- **permanent part-time** basis – the employee enters into a continuing contract; however, while entitled to all the above employment conditions, they will work fewer hours than a full-time employee. All calculations for pay and entitlements are made on a pro rata basis.
- **fixed-term contract** – employees can be engaged in either a full-time or part-time capacity for project work or to replace employees who have gone on long service or parental leave. Annual and sick leave is generally accrued on a pro rata basis. As the length of their employment is finite and contractually stipulated (e.g. one year or five years), it is not covered by the termination of employment legislation.
- **casual** basis – an employee is often appointed by oral contract (not written) for short-term, irregular or seasonal work. They are usually engaged and paid on a daily or hourly basis and do not have access to permanent employment benefits such as sick leave and annual leave, so their wages usually include compensatory loadings of between 20% and 25% depending upon their applicable award. Casual employees who are employed regularly may be entitled to benefits such as superannuation and long service leave under federal and state legislation. Protection is now provided for casual employees who are terminated after having been employed for longer than 12 months.

Businesses increasingly have been employing independent contractors to complete specific tasks or projects, without affecting their ongoing staffing plans. These contractors negotiate their hours of work and rates of pay and are responsible for paying their own taxation and goods and services tax (GST) to the Australian Taxation Office. They need to have an Australian Business Number (ABN) and submit regular invoices for payment to the business. Contractors are responsible for making their own superannuation contributions and are not entitled to receive leave entitlements from the business.

Figure 16.14 The successful applicant signs an employment contract to formalise their employment arrangements.



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Chapter summary

- Job analysis is the systematic process of looking at a particular job to determine the tasks and duties required for that job. It also determines the skills and level of experience needed by the job holder of that position.
- Job analysis results in the creation of two documents: job description and job specification.
- A job description sets out the tasks or duties specific to the job while the job specification sets out the personal qualities, qualifications and experiences of the actual job holder.
- Job design involves grouping together tasks for a particular job. The design of a job can be changed by job enlargement (increasing the number of tasks), job enrichment (increasing the complexity of the tasks) or job rotation (moving between several jobs).
- Creating teams and quality circles are also popular tools used by businesses to create greater flexibility, increased motivation and a greater feeling of ownership and contribution to the achievements of the business.
- Recruitment involves locating and attracting a pool of qualified applicants to fill a vacant position in the business.
- Recruitment can be through internal or external sources, both of which have their associated methods and their related advantages and disadvantages.
- Selection is the process undertaken by a business to ultimately decide to which applicant it will make a job offer.
- The selection process can involve: screening the applicants, creating a short list, conducting interviews, different forms of testing and undertaking background checks.
- A business can use a variety of employment arrangements with its staff. They may be employed as permanent staff members either on a full- or part-time basis, as casuals or on a fixed-term contract basis.

Chapter summary tasks

1 Define the following terms and use them in a sentence to demonstrate your understanding of the term:
   - **a** promotion
   - **b** job analysis
   - **c** work testing
   - **d** fixed-term contract
   - **e** external recruitment.

2 Outline the benefits for both the business and its employees from using internal recruitment as a way to fill a job vacancy.

3 Outline the benefits to a business of using external recruitment methods as its way of finding suitably qualified applicants for vacant positions within the business.

4 Explain the importance of good job design to a business wanting to achieve its objectives. Include in your explanation how job enrichment and job rotation can help a business to become more productive.

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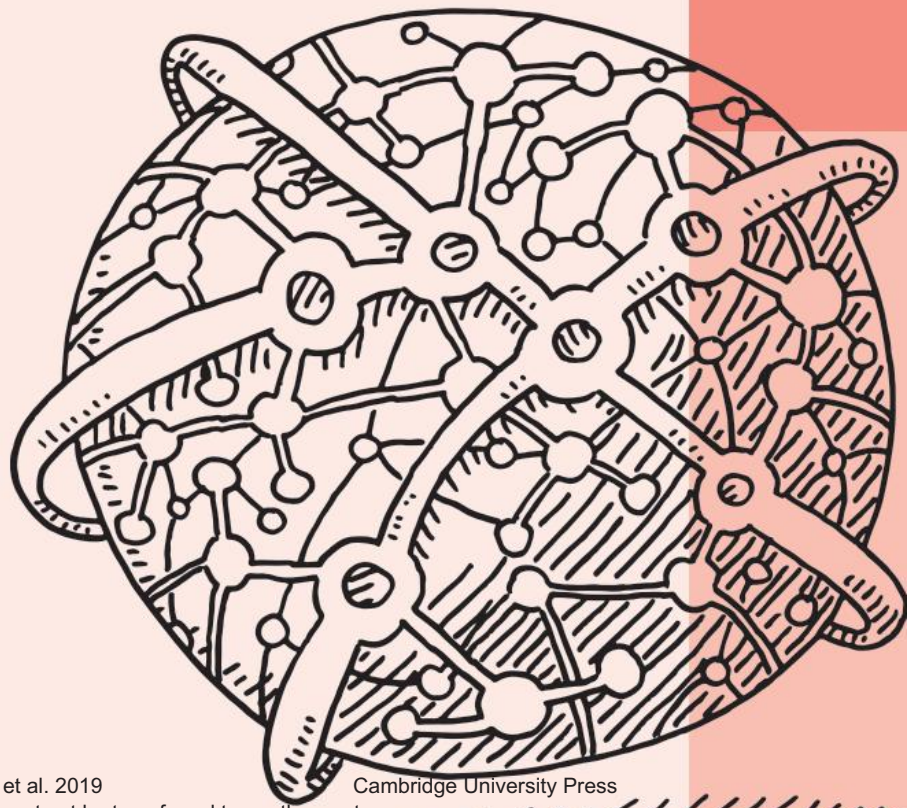
5 Describe the selection process a business needs to undertake to ensure it is choosing the right applicant for a vacancy within its business.
6 A variety of tests can be undertaken by applicants. List them and explain why they are used.
7 Distinguish between the employment arrangements for a permanent full-time and permanent part-time employee.
8 Discuss the advantages and disadvantages of a panel interview as one of the selection tools used by a business.

Extension questions

Golden Property Development and Real Estate Company was created in late 2018 with the aim of providing opportunities for overseas clients from China and Malaysia to purchase properties in Australia either for residential or development purposes. The owners of the business believe that to best suit the needs of their business they should employ a diverse workforce based on age and ethnic background. Fluency in English would put them in a better position when negotiating with property owners in Australia to sell their properties, whereas fluency in Asian languages would assist when negotiating with overseas buyers and property investors.

Golden Property Development and Real Estate Company has taken out a lease on business premises and now needs to recruit and select real estate agents and office staff.

1 Advise the owners of Golden Property Development and Real Estate Company on the process they should undertake to create the job description and job specification for the real estate agent's position.
2 Outline the important personal specifications that would be needed for the position of a real estate agent in this business.
3 Advise the owners of Golden Property Development and Real Estate Company where it would be appropriate to advertise or to go to attract applicants for the real estate agent and office staff positions.
4 Outline the selection process that you would recommend be followed to ensure the best applicant(s) are chosen to fill the vacant positions.



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Chapter 17
Expectations and legal obligations

Overview

Each individual employee working for a business will have different expectations from their job. Some will place great value on the conditions under which they will be employed, while others are looking to create a balance between their work and personal lives. Securing a job with a guaranteed future, while an achievable goal in the past, is now becoming a more difficult expectation to fulfil. Employers expect their employees to be loyal to their business and in the event of them wanting to leave the business they will provide the necessary terms of notice. When an employee commences work at a business it is important that they are properly inducted, as this will result in them being able to contribute to the business objectives and be productive at a faster rate.

The federal and state governments have passed legislation and established statutory authorities that set out legal obligations employers must observe, which relate to providing equal employment opportunities and workplace gender equity.

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Key terms

- benefits
- bullying
- conditions of employment
- discrimination
- enterprise agreement
- flexible work practices
- harassment
- induction
- modern awards
- National Employment Standards (NES)
- remuneration
- salary
- salary package
- wages
- work–life balance

Key knowledge

In this chapter you will learn about:

- employer expectations such as contracts of employment, business loyalty and terms of notice
- employee expectations such as conditions of employment, remuneration, job security and work–life balance
- legal obligations for staffing such as occupational health and safety (OH&S), equal employment opportunity legislation and the Workplace Gender Equality Agency
- the purpose and common methods of employee induction.

(Source: VCAA Business Management Study Design, 2017–2021, p14)

What's ahead

Figure 17.1 Expectations and legal obligations when staffing a business

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17.1 Employer expectations

Employers hire staff to help the business achieve its objectives and contribute to its overall success. Regardless of the job title of the employee, there are a few characteristics that employers value in their employees. A positive attitude is a requirement as this will impact upon the relationships the employee develops with their co-workers, supervisors and managers. This will also affect the way the employee feels about the tasks related to their job. Being punctual, dependable and cooperative are also key characteristics. It is key that the employer feels they can rely on the employee to do what they say they will do, while also getting along with their fellow workers. Employees are also valued if they are willing to learn new skills and happily receive feedback to assist them to improve how they perform their job.

Contracts of employment

National Employment Standards (NES) ten minimum employment entitlements that have to be provided to all employees in Australia; however, only certain entitlements apply to casual employees

Employers expect that they will enter into a contract of employment with an employee, laying down terms and conditions of their involvement with a business. This contract can be either written or verbal and cannot provide for less than the legal minimum as found in the **National Employment Standards (NES)** and any enterprise agreement, award or any other applicable registered agreement. All employees are covered by the NES whether or not they have signed an employment contract.

The NES are the ten minimum employment entitlements that must be given to all Australian employees; however, only certain entitlements apply to casual employees. Providing less than the minimum wage or conditions found in the NES cannot be excused by an enterprise agreement, employment contract, award or other registered agreement. The ten minimum entitlements are set out in Table 17.1. The NES came into operation on 1 January 2010 and their purpose is to ensure that all employees' key entitlements are protected in law by a strong safety net of fair minimum conditions. The NES apply to employees under the federal system, regardless of the industry to which they belong, their occupation or income levels.

Table 17.1 The National Employment Standards

Minimum standard	Explanation
Maximum weekly hours of work	Full-time employee – 38 hours. May be only required to work a reasonable number of additional hours.
Requests for flexible working arrangements	Right to request flexible hours if they are the parent, or have responsibility for the care, of a child who is of school age or younger, if they are a carer (within the meaning of the *Carer Recognition Act 2010*) if they have a disability, are 55 or older, are experiencing violence from a member of their family, or provide care or support to a member of their immediate family or household, who requires care or support because they are experiencing violence from their family. Employers only able to refuse on reasonable business grounds.
Parental leave and related entitlements	Parents to have a right to separate periods of 12 months of unpaid leave, up to a total of 24 months. An employer must consult an employee if they make a decision that will have significant effect on the status, pay or location of the employee's pre-parental leave position.
Annual leave	All full-time, non-casual employees will be guaranteed four weeks of paid annual leave each year (part-time employees paid pro rata). Certain shift workers will be entitled to an additional paid week of annual leave.

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Personal/carer's leave, compassionate leave, and family and domestic violence leave	Employees will be entitled to 10 days of paid personal and carer's leave each year (part-timers pro rata). Employees also entitled to two days of paid compassionate leave on the death or serious illness of a family member or a person the employee lives with, plus two days of unpaid personal leave where required for genuine caring purposes and family emergencies. Employees are also entitled to five days of unpaid family and domestic violence leave each year. Employees are entitled to the full five days from the day they start work. They don't have to build it up over time. The five days renews each 12 months but doesn't accumulate from year to year if it isn't used.
Community service leave	Entitlement to leave for prescribed community service activities (e.g. paid leave for jury service and reasonable unpaid leave for emergency service duties).
Long service leave	Employee's existing entitlements preserved.
Public holidays	Guarantees eight national public holidays, plus prescribed state and local holidays. Where an employee works on a public holiday, they will be entitled to an appropriate penalty rate of pay or other compensation (set out in an appropriate award).
Notice of termination and redundancy pay	Employees will be entitled to fair notice of termination, provided in writing, and those who are made redundant and who are employed in workplaces with 15 or more employees will be entitled to redundancy pay (maximum of 16 weeks' pay).
Provision of a Fair Work Information Statement	Employers must provide all new employees with a Fair Work Information Statement that contains prescribed information about the employee's rights and entitlements at work.

(Source: Adapted from the *Fair Work Act 2009* (Cth))

Businesses may choose from one of the following arrangements relating to the pay and working conditions under which they employ their staff.

- **Modern awards** are a legally binding document determined and verified by the Fair Work Commission (FWC), which sets the pay and employment conditions for a whole industry or occupation. They are used as the benchmark for assessing enterprise agreements before approval. Building on the NES, modern awards cover areas including minimum wages, penalty rates and overtime rates, leave, superannuation, employee representation and dispute resolution procedures.
- **Enterprise agreements** are made at an enterprise level (workplace) between an employer and their employees covering their terms and conditions of employment. Enterprise agreements can be tailored to meet the needs of particular enterprises and differ from awards, which relate to an entire industry or occupation. The enterprise agreement should state a nominal expiry date for the agreement which is no more than four years from the date of its approval by the FWC. It should also include a dispute settlement procedure authorising either the FWC or an independent body to settle disputes relating to matters covered by the modern award or the NES.

modern awards an agreement that sets out minimum terms and conditions of employment relating to an industry or occupation

enterprise agreement a written collective agreement made between an employer and the employees at a workplace, setting out the terms and conditions of employment

The FWC can assist with the process of making such agreements, deal with disputes that may arise under the terms of the agreement, and assess and approve agreements. The agreement covers a broad range of matters such as rates of pay and employment conditions; for example, hours of work, meal breaks, overtime, consultative mechanisms, dispute resolution procedures and any authorised deductions to be made from the wages of an individual employee.

Prior to approval of any enterprise agreement, it must undergo checking against the Better Off Overall Test (BOOT) created by the *Fair Work Act 2009*. The test compares the terms of the proposed enterprise agreement against the relevant modern award to make sure employees will be better off overall.

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Figure 17.2
Employees are valued if they are willing to learn new roles and skills.

Business loyalty

In our current business environment where loyalty to a business is not rewarded by job security, employers can't just expect employees to be loyal – they need to earn loyalty. There is a lesser sense nowadays that a business is going to look after its employees, which would lead one to expect a reduction in the loyalty shown by employees.

Businesses that conduct themselves in an ethical manner and take responsibility for both their wins and losses are far more likely to have loyal employees. A loyal employee will treat their boss as a 'person' not as a 'position of power', and often will feel sufficiently confident to provide honest feedback that perhaps the boss did not want to hear, such as that their idea may not work or a mistake has been made. Loyalty may also be shown in the way that the employee will not criticise or disagree with their manager or the business in public; however, they will expect to receive respect back from the manager. They will also expect to be involved in an honest exchange of ideas in private. Finally, once a decision has been made, they will support the decision whether they agree or not. When they decide to leave the business, a loyal employee will try to make the termination as painless as possible both for the business and themselves.

Employees are often more loyal to those around them – their manager, their colleagues and perhaps their clients – than they are to the business. If a manager looks out for their subordinate's best interests, provides opportunities for them to improve themselves and pays attention to their career path, then they are more likely to earn the loyalty of that employee.

Currently, Australian workplaces are made up of employees from four generational classifications. Baby boomers (born between 1944 and 1964), generation X (born between 1965 and 1979) and generation Y (born between 1980 and 1994), often referred to as the 'millennials', and generation Z (born between 1995 and 2015). This provides an additional challenge to employers as the expectations of each of these groups are diverse. While baby boomers may be less driven by financial rewards and more by the stimulation they gain from their jobs, they are more likely to be loyal to their employer if they are provided with jobs that reflect their wishes, such as part-time employment. To gain the loyalty of generation X, businesses need to provide these employees with better pay and working conditions, time off for study and training, and development opportunities. Providing a flexible work–life plan for both these generational groups should assist in gaining their loyalty.

Gaining the loyalty of generation Y or millennial employees poses a different challenge to a business. Each year, a survey is undertaken by Deloitte, a multinational professional services firm. The results of the 2018 Deloitte Millennial survey indicate that Australian millennials believe culture and a positive work environment are the most important considerations when choosing a new employer. It also found that generation Z was proving to be less loyal to employers than millennials, with the majority indicating that they would expect to stay with the current employer for less than two years.

ACTIVITY 17.1

'It is unrealistic for any business to expect their employees to be loyal enough to stay working at that business for 10 or 20 years, and maybe that's a good thing.'

1 Discuss this quote by presenting arguments that agree and disagree with its content.
2 Outline what actions you would recommend a business takes to gain loyalty from its employees.

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Terms of notice

When an employee decides to resign from a business they need to give notice to their employer. The period of notice commences when the employee advises the employer that they want to end the employment relationship and finishes on the last day of employment. The period of notice required to be given will be set out in the legal document under which they are employed, namely the award, employment contract or enterprise agreement. It is possible for an employee to give more notice than is formally required; however, an employer does not have to accept this and can choose to ask the employee to leave when the minimum notice period ends.

It would be an expectation that as the employee has decided to leave the business, they would work during their period of notice. The employee may, however, take annual leave during the notice period if they have the agreement of their employer. Accrued sick leave may also be taken during the notice period; however, the employer may ask for evidence (e.g. medical certificate) verifying that the employee is actually sick.

An employer would expect, and has the legal right, to retain the intellectual property in an invention or any work developed as part of an employee's job. The employer may also require the departing employee to enter into a non-disclosure agreement about the work they were performing. After the period of notice is served by the employee, the employer would expect that all property provided by the business to that employee (e.g. car, computer, mobile phone) be returned and their access to the intranet will cease. It is also a reasonable expectation that if the job position has been filled during the term of the employee's notice, they will carry out a formal handover of work to their successor.

17.2 Employee expectations

Each individual employee working for a business will have different expectations from their job and different factors will motivate them. As every person has different values, it must be realised that what one employee may expect, and will be motivated by to perform well, will not necessarily motivate another. People all have different cultural backgrounds, abilities, experiences, attitudes and learning patterns and will therefore be motivated by different rewards. For a reward to be effective, it must be both attainable and worth attaining.

It is important for employers to gain an understanding of what employees want from their workplace. Employees seem to greatly value working for a respected and successful business that provides them with the opportunity for personal development and advancement. They want to feel that their work not only contributes to the corporate bottom line (profit) but can also have a positive impact on the broader community.

The workplace is now seen as a place that must have a 'real' meaning, where employees can gain respect, recognition and fulfilment, not just an environment where they go to perform a set of tasks.

Conditions of employment

Conditions of employment specify what the employee will receive from the employer in exchange for their work. It is an expectation of employees that they will receive **remuneration** (pay) in return for the work they perform for their employer. The remuneration for their labour may be as straightforward as receiving a wage or salary, but may also encompass less tangible benefits.

conditions of employment the specific remuneration or benefits that an employee will receive from an employer in exchange for work

remuneration the amount a person is paid for performing work tasks (i.e. job); it can take the form of cash and/or fringe benefits; it can be referred to as a wage or salary

wages monetary reward for labour, paid on a weekly basis, calculated by multiplying the hourly rate by the number of hours worked for the period

salary an agreed amount of money paid to employees for their labour during a year, expressed as an amount per annum

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- **Wages** – calculated on an hourly basis and structured around a working week (e.g. the nominal 38 hours per week). An employee would expect to receive overtime if their hours at work exceed the nominal hours, at a rate of one-and-one-half times the normal rate. Additional penalty rates may be paid for Sundays or public holidays. Employees under this system would expect to be paid on a weekly basis.
- **Salary** – an annual figure usually paid on a monthly or fortnightly basis. Employees receiving a salary would not expect to receive payment for overtime, as additional hours worked are often taken off in lieu.
- **Salary package** – used for more senior positions in a business. The employee would expect to receive a salary component, performance-based pay (bonus), additional superannuation entitlements, company car, share options and other fringe benefits.
- **Benefits** – employees, while not necessarily expecting them, do value additional benefits provided by their employers. These benefits can be care assistance programs (e.g. family care, paid parental leave), or alternative work arrangements.

Employees have the expectation that they will receive a fair wage and work under the conditions outlined in the award relevant to their job. The Fair Work Ombudsman provides protection for workers who feel that this expectation has not been met.

salary package the total value of an employee's remuneration and is comprised of both cash and fringe benefits

benefits financial rewards that are not paid directly in cash to an employee; for example, parental leave and sick leave

CASE STUDY 17.1

The Fair Work Ombudsman and penalising underpayment

$300 000 PENALTIES AND BACK-PAY FOR 'FLAGRANT' UNDERPAYMENTS OF FIRST AID WORKERS

The operators of a Melbourne health services company that a Judge said showed a 'flagrant disregard' for its first aid responder staff has been penalised $300 000 in the Federal Circuit Court, following legal action brought by the Fair Work Ombudsman.

Melbourne man Paul Tempany has been penalised $50 000 and his company Acute Health Pty Ltd an additional $250 000 for underpaying staff, many of whom were university students.

Tempany and Acute Health underpaid six employees, one aged just 21, a total of $13 715 between March 2014 and December 2015. The workers were engaged as medical first responders on a casual basis to provide first aid services at events and functions in Victoria and NSW.

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In addition to the penalties, the Court also imposed orders for workers to be fully back-paid.

The $300 000 penalties are the second largest secured by the Fair Work Ombudsman in a case involving work in Victoria, and the third largest in a case involving work in NSW.

Underpayments were partly the result of a failure to pay employees for all work performed. One employee was paid nothing for more than 30 hours of work.

Acute Health largely engaged the employees on flat hourly rates of $25, which was insufficient to meet required penalty and overtime rates at the time of up to $48.53 per hour on public holidays and $38.82 for overtime.

The result was underpayment of employees' minimum hourly rates, casual loadings and penalty rates for overtime and public holiday work. Tempany and his company also failed to provide minimum shift pay and a laundry allowance, failed to reimburse travel expenses, and made unlawful deductions from wages to cover a uniform bond.

Individual underpayments ranged from $404 to $3517. Underpayments represented between 33 and 100 per cent of each worker's entitlement.

Tempany and Acute Health also contravened workplace laws by failing to comply with six Notices to Produce issued by a FWO inspector and by providing an inspector with false pay records.

Judge Alister McNab said the court evidence displayed a 'pattern of conduct' by Tempany and his company.

'It seems to be a well-practised methodology that the respondents have used with these employees and there is a flagrant disregard for the rights of those employees,' Judge McNab said.

This was despite the Fair Work Ombudsman providing education to Tempany on obligations under workplace laws in 2012 and again in 2015.

'Notwithstanding the efforts of the FWO to educate the respondents, it appears that there has been no satisfactory change to the mode by which this company operates in relation to the way it treats its employees,' Judge McNab said.

The impact of the underpayments on the employees were 'significant', even if the dollar amounts were not, Judge McNab said.

'The persons underpaid were generally students who were relying on the income to fund living expenses whilst studying. The underpayments represent a major percentage of the entitlements.'

Judge McNab criticised what he described as Tempany's apparent 'pretended cooperation' with the Fair Work Ombudsman.

'There has been a failure on the part of [Mr Tempany] to engage in any meaningful way with the Fair Work Inspector … since about April 2016 and there has been no meaningful engagement with this proceeding since it was filed.'

Judge McNab also made orders restraining Tempany and his company from any further breaches of relevant workplace laws.

'The Court makes those orders because it is mindful that members of the public, in particular people who are undertaking important work areas where matters of public health are concerned, should be protected from operators of this kind and prospective employees

CONTINUED ITEM

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should be also protected from respondent employers who frequently breach industrial awards,' Judge McNab said.

The injunctions mean Tempany and his company could face contempt of court proceedings for any further contraventions proven in court.

An order was also made for Acute Health to engage an external auditor to monitor the company's future workplace compliance and report results to the Fair Work Ombudsman.

Acting Fair Work Ombudsman Kristen Hannah says the substantial penalties were a stark reminder for all employers of the consequences of ongoing failures to meet workers' entitlements.

'We simply have no tolerance for employers who trample on workers' rights and refuse to change their ways, even when directly informed of their obligations,' Ms Hannah says.

'The financial penalties for exploiting workers have never been higher, and we will take enforcement action, including litigation, in egregious cases like this when advice is ignored.'

Ms Hannah says mistreatment of young workers remained a focus area for the FWO.

'Employers should be aware that we treat cases involving underpayment of young workers particularly seriously because we are conscious that they can be vulnerable due to a lack of awareness of their entitlements and a reluctance to complain,' she says.

(Source: Fair Work Obudsman website, '$300 000 penalties and back-pay for "flagrant" underpayments of first aid workers', 12 April 2018)

ANALYSIS

1 How many medical first responders employed by Acute Health were found by the Fair Work Ombudsman to be underpaid?
2 Describe the nature and basis of their employment.
3 Explain the penalties imposed on Paul Tempany and Acute Health Pty Ltd. Do you consider them to be sufficiently harsh?
4 Identify the circumstances determined by the Fair Work Ombudsman which led to the underpayment to the employees.
5 Outline the two other instances where Tempany and Acute Health contravened workplace laws.
6 Describe Judge Alister McNab's opinion of the conduct of Tempany and his company in their actions both with their employees and the Fair Work Ombudsman.
7 Outline the orders and injunction imposed on Tempany and his company.
8 Acting Fair Work Ombudsman Kristen Hannah made several statements about the approach the FWO takes to employers exploiting young workers. Describe the approach of the FWO and comment on whether you believe this approach is the correct one to take.
9 Undertake research to find any current claims for underpayment of wages that are being dealt with by the Fair Work Ombudsman. Select one of the claims and outline the problem, and then describe what action has been taken to rectify the employee's claim.

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Job security

Employees like to feel assured that they have gainful employment for as long as they determine. Job insecurity has become a growing concern for many employees. Job security, or lack thereof, has a huge impact on the level of motivation demonstrated by employees as well as their feelings of loyalty and commitment to a business.

In the past, employees believed that if they were able to get a job with a large business, such as a bank, insurance company, large manufacturer or government department, they would have job security for their entire working lives. They were happy to start with an entry-level position and work their way up the hierarchy over time. In recent times, with the change in economic circumstances of both Australia and businesses, this expectation is no longer able to be met. For example, the closure of the main automotive companies operating in Australia and the scaling back of the mining industry have meant that a vast number of employees have lost their jobs, with many finding it difficult to get another job in the same industry. Statistics provided by the Australian Bureau of Statistics (ABS) indicate that many of these workers have, however, been able to find other forms of work, either through changing industries, updating their skills or using their redundancy payouts to establish their own businesses. The mode of employment has also changed, with some workers changing from being permanent employees of a business to providing their services as contractors.

CASE STUDY **17.2**

The appeal of work benefits over salary

STUDY: 84% OF AUSSIES WOULD TAKE A PAY CUT FOR MORE FLEXIBLE WORK HOURS

New research has found there has been a shift in the workplace as Australians increasingly value flexible working conditions, for many even over a higher salary. The survey of 1000 Australian office workers, commissioned by specialised recruitment firm Robert Half and published in the newly-released 2018 Robert Half Salary Guide found the majority (84 per cent) of Australian office workers are willing to accept a lower salary for more benefits.

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The top five benefits are:

- Flexible working hours – 47 per cent
- Working from home – 40 per cent
- Increased holiday allowance – 37 per cent
- Medical benefits – 36 per cent
- Travel allowance e.g. company cars and fuel expenses – 31 per cent

Andrew Brushfield, Director of Robert Half Australia, said, 'While salary is a prime motivator and the main incentive of a remuneration package, it is one component. Flexibility is increasingly becoming one of the most in-demand workplace benefits and Australians are actively seeking out job opportunities that not only satisfy their monetary ambition but also their lifestyle needs, such as flexible working hours, ability to work from home or additional holidays.'

'In a market characterised by slow wage growth, Australian companies might not be in a position to award pay rises or higher starting salaries. In such cases, employees should consider negotiating for benefits other than pay, such as training and professional development opportunities or more leave.'

'Employers are fast realising these non-monetary benefits help to build a satisfied, motivated, productive and loyal workforce. In a candidate-short employment environment, Australian companies benefit from diversifying their incentives offerings beyond the purely financial aspect in order to attract and retain high-calibre professionals', Brushfield concluded.

(Source: Based on 'Study: 84% of Aussies would take a pay cut for more flexible work hours', B&T website, 2 May 2018)

ANALYSIS

1 Identify the percentage of the Australian workforce surveyed that were willing to accept lower pay if they received more benefits.
2 Conduct a mini survey of people you know (both genders and a variety of age groups) who are currently in the workforce to find answers to the following questions.
   a Would you be prepared to accept a lower level of pay in exchange for receiving a greater number of benefits?
   b Which benefits would be important to you?
   c What do you value more in your job – flexible working conditions or job security?
3 Based on the results of your mini survey, discuss whether job security is an outdated job expectation of workers in today's work environment.
4 Identify the benefits to a business of providing the non-monetary benefits listed above to their employees.

Work–life balance

Employees are now placing increasing demands on employers to provide more flexibility in their work practices to allow time for their family or other responsibilities. The FWC recognises this change in expectation for working parents responsible for the care of a child and encourages employers to enter into arrangements to change the employee's hours of work, pattern of work or even the location of that work to allow time for family responsibilities.

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Figure 17.3 Men and women of all ages use flexible work arrangements to meet family commitments.

Businesses that are working towards creating **work–life balance** for their employees are offering the following family-friendly work practices: family and parental leave (either paid or unpaid); child care, which may be subsidised and provided either on-site or off-site; and school holiday programs. In addition, **flexible work practices** should be available to workers of all ages and may take the forms of: offering flexible working hours, part-time work or job share, and home-based work where employees work some or all of their hours at home and telecommute.

When a business introduces flexible work practices, it is important that the employees are consulted and any proposed changes discussed, particularly with those staff directly affected. These new arrangements should be checked to ensure they comply with any workplace agreements operating at the workplace.

Introducing flexible work practices brings benefits to a business, such as reducing or avoiding unnecessary recruitment costs as staff turnover will reduce; retaining valued employees who might otherwise leave the business; promoting diversity and fairness throughout the business; positive effects on employee well-being; higher staff morale; and increased productivity of employees, as they are more focused when at work. To accommodate the continuing demand for flexibility it has become increasingly important for businesses to ensure they have a digitally connected mobile workforce. The advent of cloud-based computer systems is enabling this. This borderless connectivity needs to be managed carefully, however, as it can actually negatively impact employees' work–life balance.

work–life balance the relationship between a person's work and the commitments in the rest of their life

flexible work practices conditions that allow employees to balance work and family responsibilities more effectively

17.3 Legal obligations for staff

The legal obligations of a business to its staff can come from any one of the following sources:

- federal, state and territory laws
- industrial awards and agreements
- tribunal decisions
- contracts of employment (written or verbal).

An employer is obliged to pay their employees their correct pay and provide supporting documentation (pay slips) and reimburse any work-related expenses. They must also deduct Pay As You Go (PAYG) tax instalments from the pay of their workers and forward them to the Australian Taxation Office (ATO). An employer is also legally obliged to make appropriate payments (currently 9.5%) under the Superannuation Guarantee legislation. As outlined by the Australian Government on its business.gov.au website, employers are obliged to ensure that they are providing a safe work environment, are not acting in a way that may seriously damage an employee's reputation or cause them mental distress or humiliation, or act in a way that damages the trust and confidence necessary for an employment relationship.

Occupational health and safety

A business must provide a safe and healthy workplace for its employees. The *Occupational Health and Safety Act 2004* (the Act) is the cornerstone of legislative and administrative measures to improve occupational health and safety (OH&S) in Victoria. It outlines the rights and responsibilities of employers, penalties for non-compliance, workplace insurance and how to make a claim, and return to work expectations and procedures.

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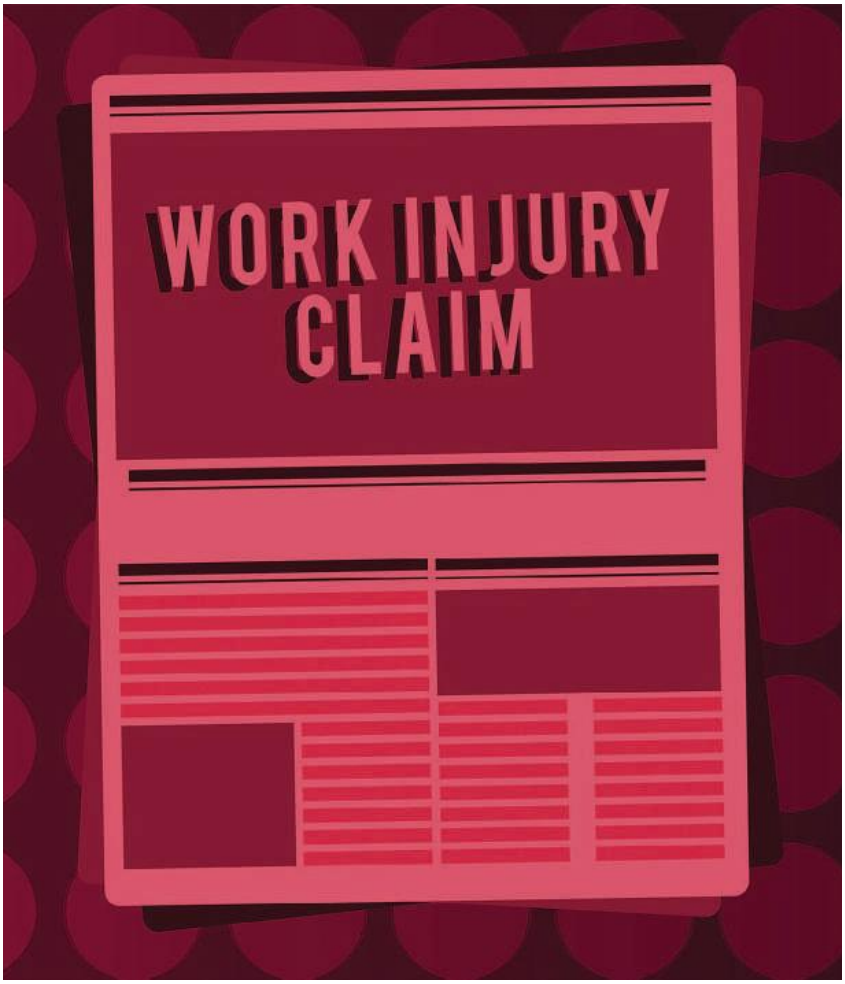

Figure 17.4 A workplace injury could result in a compensation claim by an employee against their employer. The WorkSafe website can be accessed for more information on this topic for Victorian workers and businesses.

It is the expectation that employers will provide and maintain a safe workplace, which includes machinery, equipment and systems of work. Also covered is the safe use, handling, storage and transport of chemicals. Employers must ensure that safety procedures are in place, such as fire exits not being blocked, emergency equipment being serviceable and the worksite being generally tidy.

Employees should also be provided with adequate facilities, such as clean toilets, cool and clean drinking water and hygienic eating areas. Employees must receive information, instruction, training and supervision to work in a safe and healthy manner.

Workplaces should have a poster prominently displayed that outlines the procedure for an employee in the event of them being injured.

In the event of a workplace injury, employees have the right to return to work to take up alternative duties once they have received a WorkSafe Medical Certificate of Capacity. Employers have legal obligations under the *Workplace Injury, Rehabilitation and Compensation Act 2013*, which state that the injured worker does not need to be 100% recovered to return to work. The worker may undertake reduced hours in their regular job or alternative duties.

Penalties for breaches of the *Occupational Health & Safety Act 2004* are imposed on both corporate bodies (companies) and individuals. The maximum penalty for a company is $3 171 400 and for an individual it is $285 426.

ACTIVITY 17.2

Study the following scenarios and determine whether the business is at fault in terms of OH&S regulations. Justify your answer with reasons.

a. Dong Pham worked at a steel manufacturing plant. He injured his back lifting heavy steel beams off a conveyor belt. Over a period of 18 months he had complained to his employer about his sore back. His complaints were ignored and he was directed to keep working. Dong had been given no training in lifting the beams, a task clearly beyond the ability of one man.
b. George lifts by himself a large and very heavy couch from a small removal truck and hurts his back. The truck had an electric operating tail gate which can be used to lower heavy goods. All workers at the furniture removal business had been trained in how to use this device.
c. Bronwyn works as a data entry operator in an office. In the past she has suffered lower back and neck problems. Her computer keyboard and screen are located on her desk and she sits on a non-adjustable chair.
d. Peter works in a very noisy mechanics workshop. The business has provided Peter with both ear and eye protection, but he chooses not to wear either. He has now reported that he is suffering from hearing loss.

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Equal employment opportunity

discrimination unfair treatment of an individual based on factors such as race, age, sex, ethnicity or religion

harassment behaviour designed to make a person feel uncomfortable, offended, humiliated or intimidated

In Australia, national and state laws cover equal employment opportunity and anti-discrimination in the workplace. Businesses are legally obliged to create a workplace free from **discrimination** and **harassment**. Putting effective anti-discrimination and anti-harassment procedures in place while protecting employees has the added benefit to a business of improving productivity and efficiency.

To assist a business to develop their policies and put in place best practice procedures, the Australian Human Rights Commission provides written directions via its fact sheets. The Fair Work Ombudsman also works with employers and employees to assist and educate them on how to prevent discrimination in the workplace.

In Victoria, the *Equal Opportunity Act 2010* (the Act) provides protection for people from discrimination and harassment in areas of public life, such as workplaces, schools, clubs, shops or places that provide services. The Act makes it illegal for someone to discriminate against an employee based on their personal characteristics such as age, race, disability, physical features and political beliefs. It is also against the law to sexually harass, victimise or vilify someone based on their race or religion. The Act encompasses the entire process of employment, from recruitment, deciding on workplace terms and conditions, negotiations about flexible work, the process of returning to work, making adjustments to employment terms and dismissal.

Figure 17.5 Victorian Equal Opportunity and Human Rights Commission logo

It is easy to detect direct discrimination, such as treating someone unfavourably due to their personal characteristics, and this often occurs because people make wrong or unfair assumptions about what people with particular characteristics are capable or not capable of doing; for example, where a worker does not get a job because the employer says 'we have employed people with your religious beliefs before and they want to take off too many religious holidays'.

Detecting indirect discrimination is a little harder and often becomes part of the culture or practices of a business. It could mean that the business is placing unreasonable requirements, conditions or practices that act to disadvantage an individual or group of employees due to their personal characteristics or circumstances; for example, if a business changes the start of its work day to 6 a.m. from the prior time of 8.30 a.m. and requires all employees to be at work at that time. While it may be a reasonable requirement for the business to commence its operations at this earlier time, it could also be judged as not treating all its workers equally, as the change could disadvantage those who need to provide care for their children in the morning.

The Act also makes it illegal to victimise an employee due to their asserting their rights under equal opportunity law, having made a complaint or refusing to do something because it would be judged as being a discriminatory act, sexual harassment or victimisation.

bullying someone in the workplace who repeatedly behaves unreasonably towards another person or group of people and causes a risk to health and safety in the workplace

Employers must also ensure that **bullying** is not occurring at their business. Bullying happens when someone in a workplace repeatedly behaves in an unreasonable manner towards another employee or group of employees, which leads to placing the bullied person's health and safety at risk. Bullying can take many forms, such as publicly humiliating someone, verbally abusing them or spreading malicious rumours or gossip. It can be undertaken by managers towards their workers, among co-workers or even by workers towards their managers. It is important that businesses respond to instances of workplace bullying in a way that is judged as being appropriate to the seriousness of what has occurred.

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ACTIVITY 17.3

You be the judge

CASE 1

Joanne had been working with her employer, a travel agency, for more than 11 years when she became pregnant. Unfortunately, she suffered from morning sickness and found it difficult to start work at 9 a.m. To compensate for arriving late to work she offered to remain behind at the end of the working day to complete her daily tasks. Her employer told her that this arrangement was not acceptable and started deducting money from her wages for the hours she missed working in the morning.

1 Advise Joanne on whether she could make a formal complaint about the actions of her employer.
2 Identify the basis on which the complaint should be lodged.

CASE 2

James (who is 35 years old) applied for work in a bank and was offered a position as security liaison manager. He did not state on his application form, nor in his resumé, that he had a criminal record from a minor incident (shoplifting) when he was 13 years old. The bank withdrew its employment offer to James, who then argued that his criminal record was very old and that the information related to his record was not obtained via a standard police check, but actually told to them by another employee at the bank who had also applied for the position, but had been unsuccessful. The bank confirmed that it had offered James the job and had rescinded the offer after it learnt of his criminal record. The bank claimed that as the role required liaison with police services, his criminal past made him ineligible for the position.

Figure 17.6 You be the judge – what is your decision?

1 Explain what you think the outcome of this claim should be.
2 Discuss whether James should be allowed to work at the bank or if the bank should pay him compensation for lost wages.

CASE 3

Six years ago, Henry was made redundant after 15 years of service in his role as a boiler maker for a steel manufacturing company. He claims that during his employment, he was an active member of his trade union as well as a union delegate. In the years since his redundancy, Henry has applied on two separate occasions to be re-employed with the company when they were expanding their workforce, however has been unsuccessful each time. He alleges that he has been refused employment due to his prior union involvement and claims that he was told he would not be offered a position because he 'had a history' and had in the past cost the company a large sum of money. The company has denied the comments and claims that the two positions Henry applied for in the past five years were filled by more qualified applicants.

1 Explain whether Henry has been discriminated against by the company.
2 Determine whether or not there is any action that needs to be taken by the company in this case.

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Workplace Gender Equality Agency

The Workplace Gender Equality Agency (WGEA) is an Australian Government statutory authority whose role is to promote and improve gender equality in the Australian workforce. The agency was established by the *Workplace Gender Equality Act 2012* with the purpose of overseeing that women and men are equally represented, valued and rewarded in the workforce.

Businesses that have 100 or more staff are required to submit to the agency each year a report outlining the operations of their business based on the following criteria:

Figure 17.7 The Workplace Gender Equality Agency seeks to improve and promote gender equality in the workplace.

- the gender composition (i.e. male and female) and their levels within the management hierarchy of the business
- remuneration levels of their male and female employees
- employment conditions and practices relating to flexible working arrangements, and working arrangements and support provided to employees with family or caring responsibilities
- consultations they have undertaken with employees on issues of gender balance
- any sex-based harassment or discrimination issues that have occurred.

ACTIVITY 17.4

Gender workplace statistics at a glance (February 2019)

- Women comprise 46.9% of all employed persons in Australia; 25.4% of all employed persons are women working full-time, and 21.6% are women working part-time.
- Women constitute 37% of all full-time employees and 68.5% of all part-time employees.
- The workforce participation rate is 60.6% for women and 71% for men.
- The workforce participation rate among those aged 15–64 years is 73.5% for women and 82.9% for men.
- The full-time average weekly ordinary earnings for women are 14.1% less than for men.
- Average superannuation balances for women at retirement (aged 60–64) are 42.0% lower than those for men.
- Of all women aged 20–24, 89.9% have attained year 12 qualifications or above, compared to 84.4% of men in the same age bracket. Of all women aged 25–29, 44.7% have achieved a bachelor's degree or above, compared to 32.1% of similarly aged men

Results from the Agency's 2017–18 dataset show:

- Women hold 13.7% of chair positions and 25.8% of directorships
- Women hold 30.5% of key management positions and 17.1% as CEOs

(Source: Workplace Gender Equality Agency, 'Gender workplace statistics at a glance, 2017–18')

Go to the Workplace Gender Equality Agency website and answer the following questions.

1 Identify the workforce characteristics for the current year as stated in the WGEA's annual report.
2 Compare these characteristics with those outlined above and describe the major differences (increases or decreases).
3 Determine whether or not there has been an improvement in the percentage of women in senior management positions.

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Small businesses and their owners employ the largest proportion of employees in the workforce. There appears to be limited awareness of gender equality and pay equity issues by many of these businesses as they are not compelled by law to report on these. It is essential that if equality and equity are to be achieved, small businesses must ensure that they manage and improve gender equality and pay equity at their workplaces.

17.4 Employee induction

induction the process of introducing new workers to their place of work, their job role, their colleagues, supervisors, management and corporate culture

Induction involves all the activities undertaken by a business when introducing a new employee to the business and the department or area in which they will work. The length of the induction period, which often incorporates some form of training, can last from a couple of hours to several days. The main purposes of induction are to:

- commence the socialisation process; that is, sense of feeling of belonging and create a feeling of being supported
- communicate the workplace culture – the values, beliefs and expectations of the business
- provide information about job tasks and performance expectations
- create a favourable impression (public relations) about the business
- educate employees about the policies of the business relating to safety, bullying, sexual harassment and other critical policies
- assist employees to become productive in a shorter time frame.

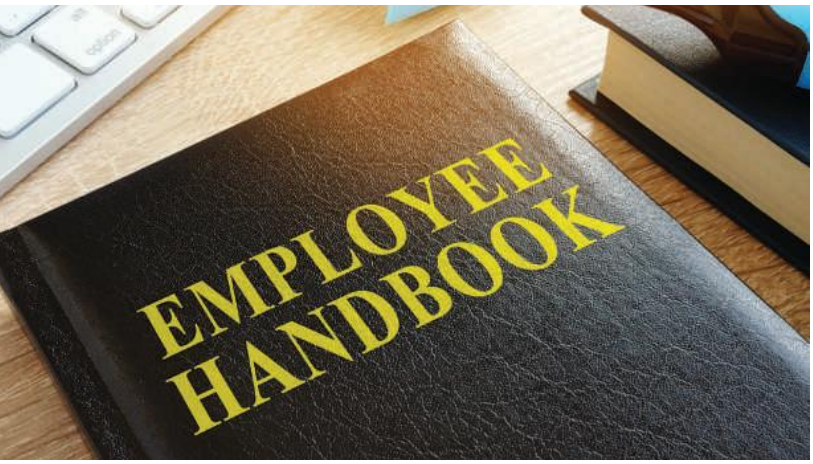

Figure 17.8 An employee handbook forms part of the induction process.

Figure 17.9 Employee training is another part of the induction process.

Creating an induction pack (employee handbook), which can be given to the employee on the day they commence at the business or made available via the intranet of the business, would be a good start to their induction process. The employee may then refer to this induction pack when they have queries in the early days of their new job.

The pack would consist of:

- an organisation chart which lists the current roles and employees' names
- a copy of the human resources manual for the business (relevant to medium or larger businesses)
- a copy of the job description of the employee
- the staff telephone list for the business

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- a list of employees' email addresses
- instructions on how to access and use the intranet of the business
- a safety induction including evacuation procedures
- security access details.

Using a simple induction checklist (see Table 17.2) can ensure that all necessary documentation and arrangements are in place for the new employee.

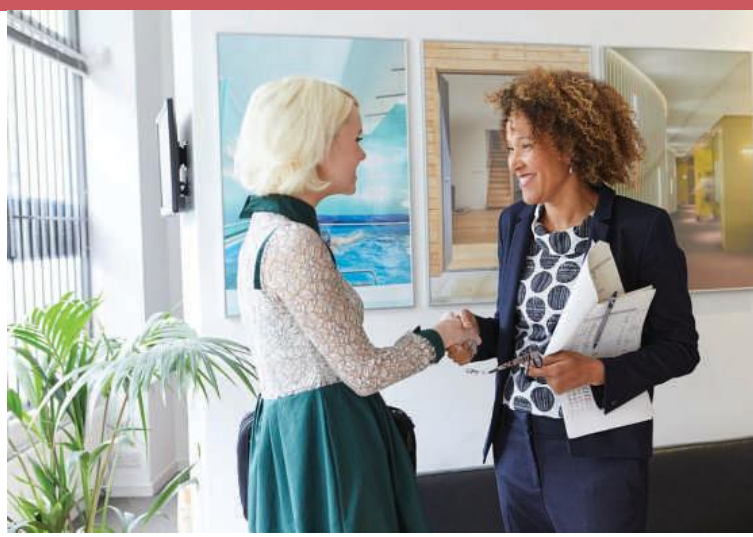

Figure 17.10 Introducing new staff members to co-workers forms an important part of the induction process.

Table 17.2 Simple induction checklist

Item	Yes/No
Prepared work area/work station; e.g. computer, telephone, desk, chair	
Arranged for supervisor/manager to welcome new employee and introduce to fellow employees in their work area and department	
Explanation of job procedures, duties and responsibilities completed	
Initial training requirements organised	
Information sourced on the business's expectations as to attendance, personal conduct and appearance	
Orientation tour of facilities arranged	
Staff handbook and other induction material ready to be given to new employee	
All administrative/pay documentation compiled and ready for employee to complete	
Access to intranet organised and protocols and procedures of internet use explained	
Sourced details of organisational chart, organisational communication and responsibility channels, safety rules, security requirements and other relevant policies	
Arranged for a mentor to assist new employee to settle into job	

NAB, a business in the financial sector with in excess of 35 000 employees, recognises the importance of implementing a good induction program. The bank undertakes a rigorous program which includes new employees completing a number of training courses in the first 12 weeks of joining the bank. The courses relate to enterprise education, Job Ready learning and any compliance training specifically required for the role being performed by the employee at the bank.

A good induction program is important, as it reduces staff turnover and means the new employee will become effective and reach expected performance levels more quickly. After the initial formal induction program, many businesses use a mentoring or 'buddy' system to further assist the new employee to settle into the job. The mentor or buddy will often be assigned to assist the new employee in that first important year as they gradually settle into their new work environment.

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Chapter summary

- Employers value their staff having a positive attitude, being dependable and cooperative.
- Employers expect their employees to enter into a contract of employment, which sets out their job role and working conditions.
- Employers will rely on an award to set out the pay and working conditions for their employees or negotiate an enterprise agreement for a particular workplace.
- The National Employment Standards (NES) set out 10 minimum standards that must be reflected in all agreements that relate to pay and working conditions.
- Employers expect their employees to be loyal to their business and to provide appropriate terms of notice in the event that they resign or retire from the business.
- Employees also have expectations that relate to their employment.
- Employees want their conditions of employment to provide for fair remuneration for their labour.
- Remuneration can take the form of wages, salary, salary package and benefits.
- Employees like to feel assured that they have job security; however, this expectation is often now not being met.
- The expectation of having work–life balance is placing increasing demands on employers.
- This has led to a variety of family-friendly work practices being offered by businesses, such as family and parental leave, child care facilities or subsidies and school holiday programs.
- It is also an expectation of employees of any age that they should be able to have flexible work practices made available to them. These can take the form of flexible working hours, part-time or job share, home-based work and telecommuting.
- Legal obligations for staff require employers to provide a safe and healthy workplace (OH&S).
- Equal employment opportunity legislation regulates workplaces to ensure that businesses are working towards creating equal employment opportunity and eradicating discrimination, harassment and bullying in workplaces.
- Workplace gender equality is an important issue. The Workplace Gender Equality Agency oversees the practices occurring in businesses to ensure that women and men are equally represented, valued and rewarded.
- Induction is the process of introducing new workers to the place of work, their job role, colleagues, supervisors, management and corporate culture.
- A well-run induction program means that the new employee will become more effective and reach their expected performance levels more quickly. It also has the effect of reducing staff turnover.

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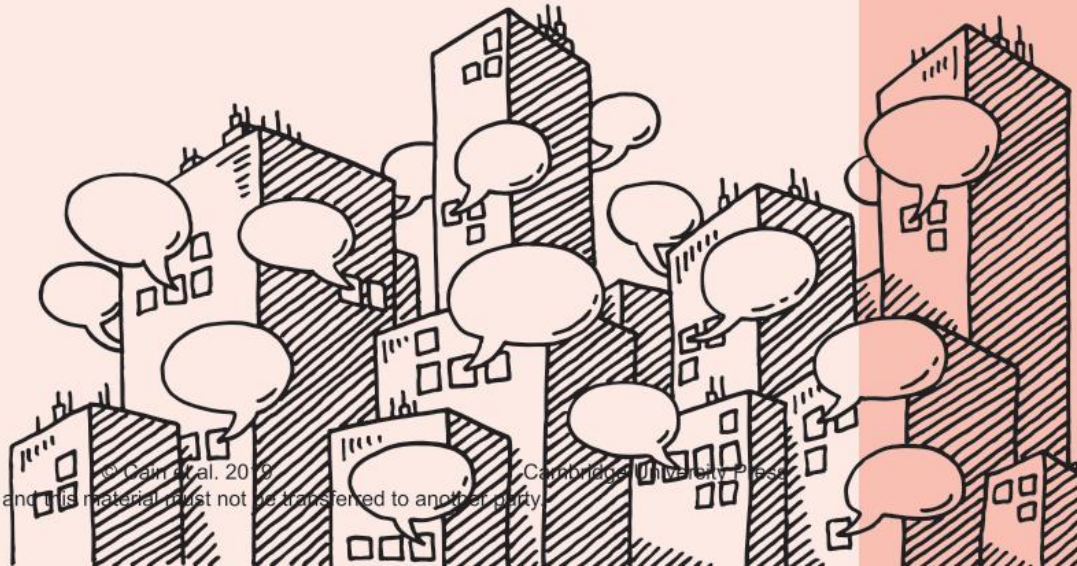
Chapter summary questions

1 Define the following terms. Use each term in a sentence to demonstrate your understanding:
   a remuneration
   b discrimination
   c salary package.
2 Congratulations – you have just been offered your first permanent full-time job. Describe what your expectations would be from that job and the business for whom you will work.
3 Identify the expectations that your employer (the business) would have of you. Describe why they may differ from your expectations.
4 'Loyalty by an employee to a business is a thing of the past.' Discuss whether you believe this statement is true or not.
5 Discuss the similarities and differences between the following three methods of remuneration: wages, salary and salary package.
6 Work–life balance is an expectation that employees are increasingly placing on businesses. Describe the concept of work–life balance and provide examples of practices that a business could adopt to achieve it.
7 Explain the effect that having four generations of employees in the workforce is placing on employers.
8 Outline why it is important for businesses to adhere to legislative requirements relating to the management of staff.

Extension questions

Starting at a new job and a new workplace can be overwhelming as well as exciting. However, if there is a thorough induction process, the transition can be a lot smoother. Despite this, many businesses underestimate the importance of induction, taking an ad hoc approach, and relying on their employees to work it out as they go.

1 Define the term 'induction' and describe its purpose.
2 As a new employee to a business, outline what you consider would be a satisfactory induction program.
3 Describe the benefits that a well-run induction program can bring to a business.



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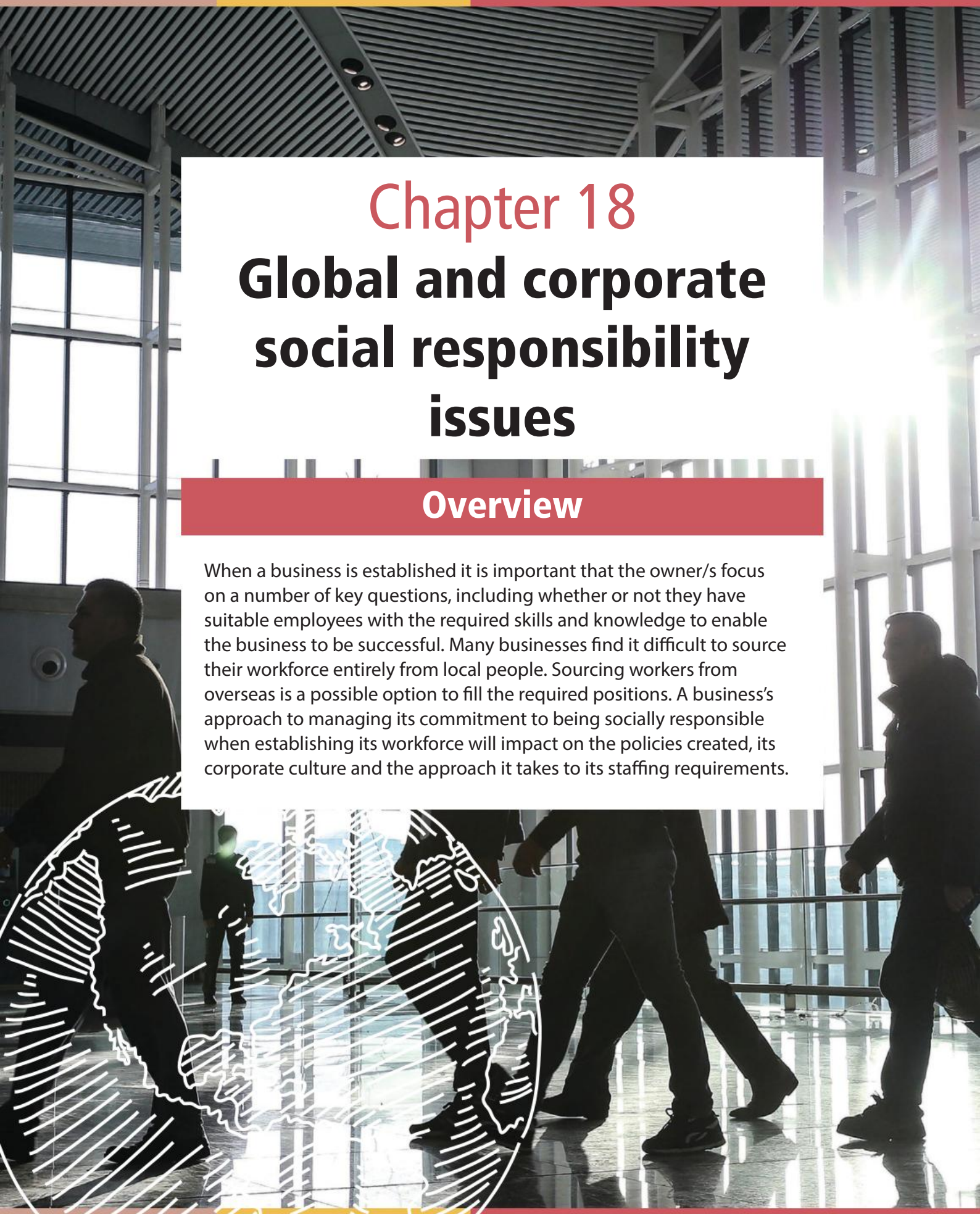

Chapter 18
Global and corporate social responsibility issues

Overview

When a business is established it is important that the owner/s focus on a number of key questions, including whether or not they have suitable employees with the required skills and knowledge to enable the business to be successful. Many businesses find it difficult to source their workforce entirely from local people. Sourcing workers from overseas is a possible option to fill the required positions. A business's approach to managing its commitment to being socially responsible when establishing its workforce will impact on the policies created, its corporate culture and the approach it takes to its staffing requirements.

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Key terms

- disability
- Employee Assistance Program (EAP)
- Employer of Choice
- visa
- volunteering

Key knowledge

In this chapter you will learn about:

- global issues such as overseas recruitment
- corporate social responsibility issues regarding establishing the staffing of a business.

(Source: VCAA Business Management Study Design, 2017–2021, p14)

What's ahead

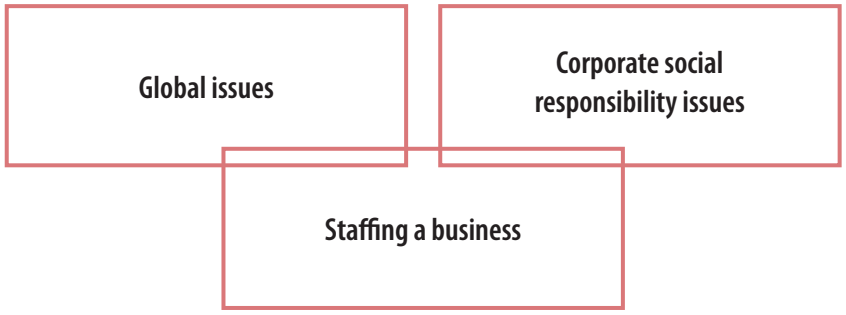
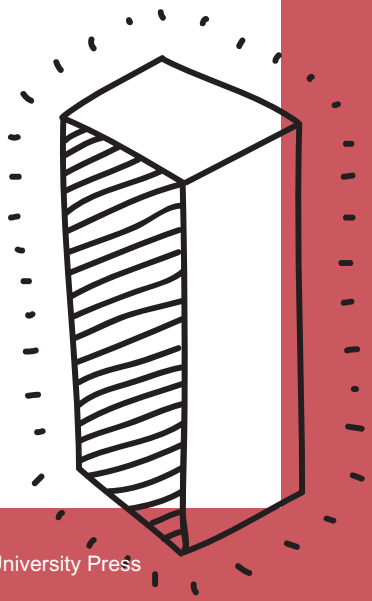


Figure 18.1 Global issues and corporate social responsibility both overlap with staffing.



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18.1 Global issues

If a business is unable to locate suitable local employees with the necessary qualifications, skills and experience to meet the demands of the job to be filled, then employing people from overseas can sometimes be the best option. Overseas staff may also bring fresh ideas and new approaches to the business.

Figure 18.2 Employing people from overseas can sometimes be the best option for a business.

Recruiting from overseas

The most popular countries that Australian businesses source their overseas workers from are India, China and the United Kingdom. Each year the Department of Home Affairs sets out the different types of **visas** and occupations that people can apply for so they can live and work in Australia. There are a number of methods businesses or potential employees can use to enable overseas workers to legally work in Australian businesses, including:

- sponsoring a worker on a permanent basis
- taking part in a regional sponsored Migration Scheme
- applying for a Skilled Independent visa
- applying for a Training visa
- nominating for a temporary skill shortage
- applying for a Temporary Graduate visa.

visa an official document that allows the holder to enter or leave a country, or to stay for a specific time period

Should a business be interested in employing skilled overseas workers, it can access information online from the Department of Home Affairs. Employers can access the information on the 'Visas' section of the website to find out more about employing foreign nationals. This includes information about employing visa holders currently in Australia, as well as information about the sponsorship of skilled workers when there is no equally skilled Australian citizen available to take the role. It allows a business to conduct a search based on occupation, qualifications and English-language ability. The Victorian Government also has a state nomination program to assist in sourcing overseas workers. It is the responsibility of the business to ensure that these skilled employees wishing to work in Australia will be allowed to do so.

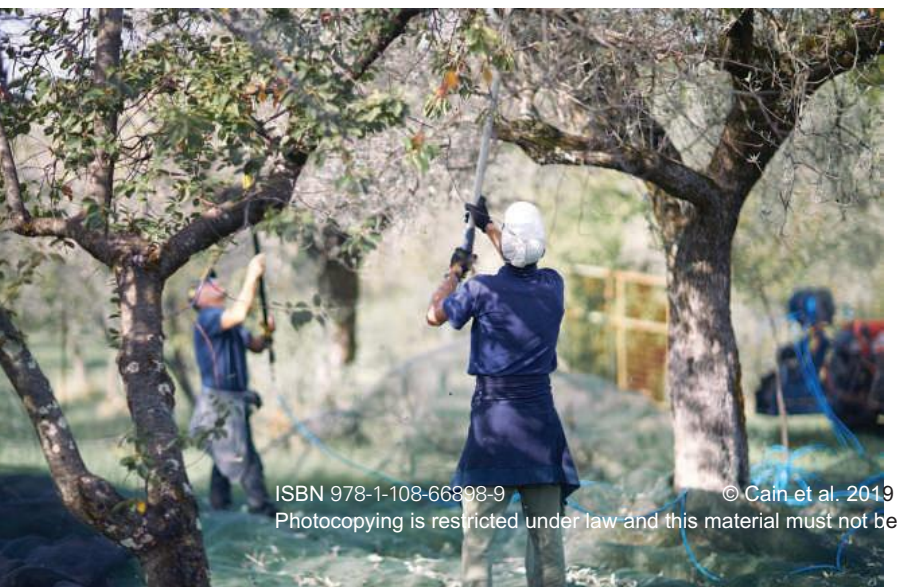

Figure 18.3 Temporary skilled workers and workers under labour agreements often perform agricultural work.

It is important that a business with skilled foreign employees provides support mechanisms in the workplace. These could involve activities such as:

- undertaking a comprehensive induction process. This should explain how things work at the business and provide clear information about what is expected of employees and the employer.

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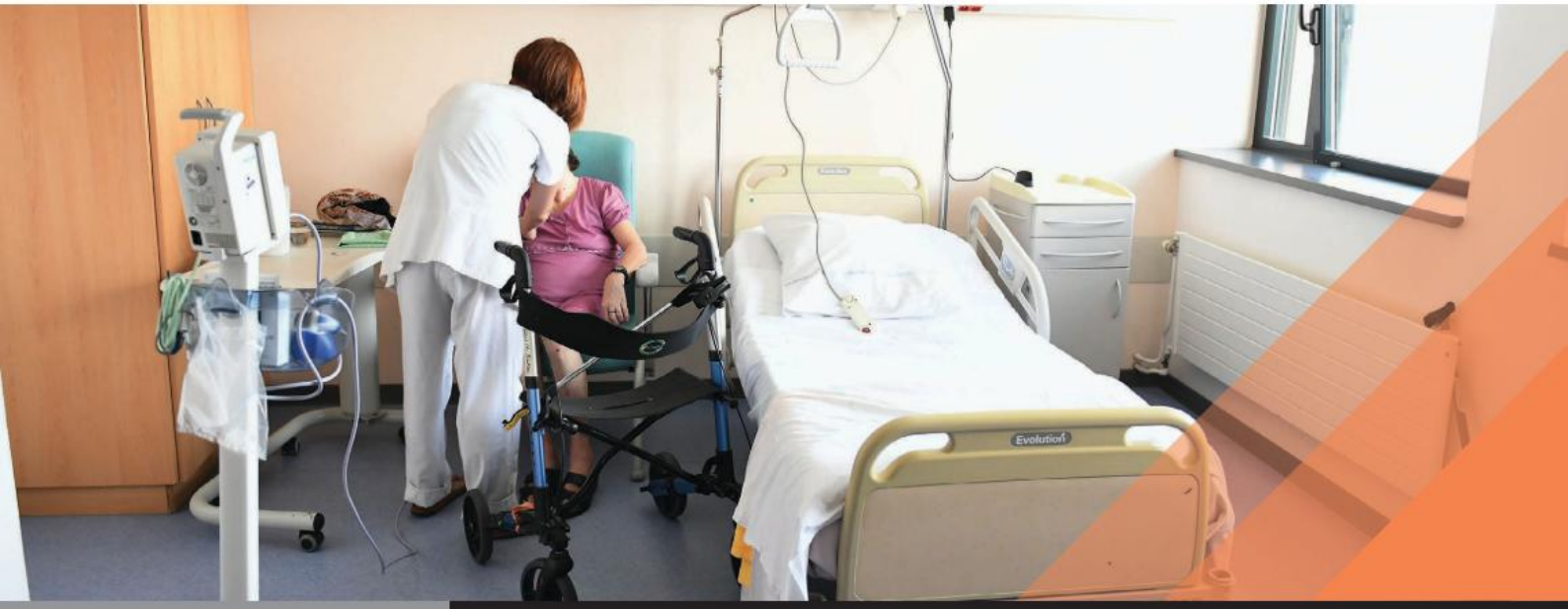
- providing diversity training to all employees at the workplace; that is, current employees and new overseas employees. This will assist employees to gain a better understanding of and respect for the different cultures in that workplace.
- providing a mentor or buddy to give the new employees ongoing support following their initial induction.

In order to help newly arrived overseas workers to settle into their new communities some businesses create specific programs, often assisting them with accommodation and welcome events, and providing information about local services and attractions in their local community.



CASE STUDY
18.1

The importance of skilled migrants in Australia's workforce

AUSTRALIA'S JOBS AND MIGRATION POLICIES ARE NOT MAKING THE BEST USE OF QUALIFIED MIGRANTS

Australia's skilled migration system has helped us attract hundreds of thousands of highly qualified immigrants since 1988. But one side effect of the policy is that we seem to waste many of these skills.

Up to 40% of recent immigrants in Australia are over-educated (having more qualifications than necessary), making it hard for them to find suitable employment. This is almost four times the level of over-education seen in native-born Australians.

The problem could be a lack of coordination between Australia's migration system and employment policies. The migration system is devoted to supplying immigrants for perceived labour market skill shortfalls but employment policies pay less attention to getting the most out of every immigrant.

As a result we can simultaneously have a skill shortage and qualified migrants who are unable to fill these positions. This often occurs because, for example, they do not have relevant Australian experience.

CONTINUED ITEM

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This is an issue not only for the migrants themselves – who are under-used as employees – but for the rest of Australian society as well. The government receives less tax revenue than it otherwise would have from the migrants, which in turn has implications for public funding, savings, consumption and investment expenditure.

Australia's skilled migration program favours immigrants with particular characteristics – namely, they are young, university-educated, and English-speaking.

Australia still admits people who do not possess these characteristics, but in streams that are not directly motivated by economics – for example via family reunification or humanitarian visas.

The current system can lead to mismatches between the skills available in the market and those that employers actually need. One possible reason is the lag between the time employers inform immigration authorities about the skills they most need (or envisage needing in the future) and when migrants enter the labour market, which can be years later.

...

COORDINATING IMMIGRATION AND EMPLOYMENT

Coordinating Australia's immigration and employment policies could reduce some of this skill wastage.

For example, data on the employment outcomes of recent migrants could be compared to skill shortages identified by employers. This should be carried out jointly by an immigration-employment task force.

This would help to pinpoint the most serious cases of migrant over-education. The reasons could be identified (whether it is because of too many skilled migrants, skills of poor quality, or a lack of demand), and solutions developed.

Using these data, Australian immigration and employment policies could include targets related to migrants' skills. Doing so would rebalance the current focus of both immigration and employment policies so that Australia more efficiently uses all the resources we have available, and for which it competes internationally, as in the case of highly qualified migrants.

Since 1988, when the points-based system was introduced, Australia has been at the forefront of designing immigration policies that are attuned to the needs of the labour market. Immigration policy has focused on attracting migrants that could be immediately employed.

But the evidence shows we are wasting skills in levels similar to those of countries that do not implement selective immigration policies.

This suggests that immigration policy by itself is not the only tool responsible for migrants' labour market outcomes. Better coordination between immigration and employment policies is needed if we want to use skills from abroad to fill gaps and become more productive.

(Source: Massimiliano Tani, 'Australia's jobs and migration policies are not making the best use of qualified migrants', *The Conversation*, 8 February 2018. Full article available online.)

ANALYSIS

1 Explain why it is important for Australia to have skilled immigrants.
2 Outline two benefits and two issues that might relate to hiring workers from overseas.
3 Explain why the article argues for a better match between skills and vacancies.

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Skilled workers from overseas who are currently in Australia

Another group of skilled workers that could be recruited to fill a job vacancy are those who, while born overseas, currently live and have the right to work in Australia. These workers may be:

- international students who hold a student visa
- visitors on working holiday visas. These visa holders usually look for short-term or casual work in specific industries in regional Australia.
- refugees who have a protection, refugee or humanitarian visa
- skilled migrants who have come to Australia on a skilled visa because they have skills currently in short supply in Australia.

It is the responsibility of the employer to make sure the applicant they intend to recruit is allowed to work in Australia. Under the *Migration Act 1968*, it is a criminal offence for a person to knowingly or recklessly employ an illegal worker. The business must check the type of visa and its associated work conditions prior to offering employment. Everyone who works in Australia has the right to basic workplace protections provided under workplace laws, award conditions and the National Employment Standards (NES), which outline the 10 minimum entitlements of all employees.

Figure 18.4 Working holiday visa holders are encouraged to work in specific industries.

CASE STUDY **18.2**

Abolition and replacement of the 457 visa – government reforms to employer sponsored skilled migration visas

The Federal Government abolished the Temporary Work Visa and replaced it with a new Temporary Skill Shortage (TSS) visa in 2018.

There are two main streams available under this TSS visa program:

- **Short-term stream** – this is for employers to source genuine temporary overseas skilled workers in occupations included on the *Short-term Skilled Occupation List* for a maximum of two years (or up to four years if an international trade obligation applies)

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- **Medium-term stream** – this is for employers to source highly skilled overseas workers to fill medium-term critical skills in occupations included on the *Medium and Long-term Strategic Skills List* for up to four years, with eligibility to apply for permanent residence after three years

There is also a **Labour Agreement stream** for exceptional cases where standard visa programs are not available and there is a demonstrated need that cannot be met in the Australian labour market.

This visa is part of a reform package to strengthen the integrity and quality of Australia's temporary and permanent employer sponsored skilled migration programs.

Key reforms included changes to the lists used for skilled migration visas and also new requirements such as tightened English language requirements, a minimum of two years' work experience, labour market testing and capacity for one onshore renewal under the short term category.

(Source: 'Temporary Work (Skilled) visa (subclass 457)' page, Department of Home Affairs website)

ANALYSIS

1 Outline the changes made to the categories of immigration.
2 Explain why these changes were introduced.
3 Identify the benefits gained by both the employer and the workers in any skilled immigration schemes.

CASE STUDY **18.3**

Skilled workers and gig employment

BEING EXPLOITED AND BREACHING YOUR VISA: THE LIMITED CHOICES OF THE FOOD DELIVERY WORKER

Some of the most vulnerable workers in the Australian labour market are squeezed between a rock and a hard place.

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You can never do your homework, you are so tired and you just think about how to cook the next meal and sleeping, that is your life.

This international student also works as a food delivery worker. He's a gig worker, which means he uses an app to source his work. One of the reasons he does this is because of his visa restrictions.

He's one of the 46 international students and working holiday worker visa holders we interviewed in our research, who were also working as food delivery workers.

…

Under the Australian migration framework there are varying work restrictions, for different visa categories. There's a cap on international students' ability to work for more than 20 hours a week during the semester. There's also a maximum amount of time (six months) that a working holiday maker can work for one employer.

…

Gig workers are characterised as contractors rather than employees, and are paid per delivery rather than per hour. Some of these workers think that gig work is a potential avenue around their visa restrictions, and are sometimes advised this is the case by the platform companies they work for.

…

Figure 18.5 Gig workers are not considered employees of the companies for which they work and therefore do not have the same protections under law

While the prospect of being able to work additional hours might be a positive, higher work hours doesn't necessarily mean better pay. This is because they are paid on a delivery rather than hourly basis.

Also these workers don't get paid when waiting for their next gig, although they are required to be online, and the length of their stints are recorded.

…

The food-delivery workers we interviewed were acutely aware of the low-paid status of their work, but the apparent freedom of it was a significant attraction:

I used to work in restaurants beforehand. But then it's like there's a boss sitting out over there, they don't pay you well. So it's better working with Uber because it's like you have your own vehicle, you're driving it. If not scooters, you can actually drive it using cycles and you're basically getting paid for just working out.

Exploitation and underpayment of international students and working-holiday makers is widespread. The recent publicity around these issues has spurred a parliamentary inquiry and subsequent federal legislation, currently before the parliament, to protect vulnerable workers.

Abuse of temporary migrant workers tends to be under reported because of the threat of exposing their visa breaches. Punitive measures, such as the potential risk of deportation for breaching visa conditions, discourages these workers from reporting exploitative employer behaviour.

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...

None of the proposed regulatory changes currently being considered by the government will have an impact on these gig workers, as they are not considered employees ...

(Source: Extract from Caleb Goods, Alex Veen and Tom Barratt, 'Being exploited and breaching your visa: the limited choices of the food delivery worker', *The Conversation*, 21 August 2017. Full article available online.)

ANALYSIS

1 Explain what is meant by a 'gig worker'.
2 Explain why the situation is so difficult for international students.
3 Describe why employees working on student visas are not keen to report their employers for underpayment of wages and unfair working conditions.

18.2 Corporate social responsibility management issues when establishing staffing of a business

There are a range of corporate social responsibility (CSR) management issues or questions that could arise when a business is establishing its workforce (i.e. staff). Strategies that businesses may implement to ensure they are judged as being socially responsible include:

1 creating a diverse workforce
2 establishing policies to support their employees
3 establishing policies that link employees to their community.

Employer of Choice a business that is regarded as an excellent place to work

Creating a positive, supportive and diverse work environment where employees feel valued while contributing to the overall success of the business should be key objectives of any business. This approach can contribute to the business being recognised as an **Employer of Choice** based on the internal policies and practices that a business uses to manage its CSR. If a business is judged as being an Employer of Choice, it can also be regarded as demonstrating CSR.

Diversity in the workforce

Creating a diverse workforce is a proactive approach that can be taken by a business to ensure it has a discrimination-free workplace. It is against the law to place an employee or potential employee at a disadvantage due to factors such as their ethnicity, race, gender, sexual preference, age, or physical or mental disability. For a business, having a diverse workforce means it can benefit from the different talents, experiences and perspectives of its employees. There are a variety of ways that a business can create diversity in its workforce.

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For example, in 2018 the Commonwealth Bank launched a new 2018+ Global Diversity and Inclusion strategy. The strategy has three pillars:

1 **Our People** – workplace is one where diversity of thought is encouraged so everyone feels valued and heard and we create a sense of belonging.
2 **Our Customers –** people understand different communities and use these insights and their own lived experience to provide a highly valued and innovative customer experience.
3 **Our Communities –** communities recognise us as an authentic leader in diversity and inclusion, and building our external brand and relationships.

Figure 18.6 Hiring a diverse workforce enriches the workplace.

Employing mature-age workers

Most Australian workplaces have at least three generations of employees (baby boomers, generation X and generation Y/millennials). Hiring a mature-age worker can be a good investment for a business as they bring with them many years of knowledge and experience. They can assist the business to improve their processes and provide mentoring and training to less experienced employees. Mature employees also save the business money as their rate of absenteeism is usually lower than the other two generational groups. A business that welcomes mature-age workers will certainly be judged as a better employer as well as a good corporate citizen.

Employing people with a disability

People who have a **disability** make up 10% of the total Australian workforce. When looking for employees, businesses should keep in mind that people with a disability can bring a range of skills to the workplace. People with disabilities work in all industries, in varied roles, with many qualifications, talents and much experience in business. Many businesses have developed programs and initiatives to support the employment of people with a disability. Woolworths is an example of such a business.

It is not only socially responsible to employ people with disabilities, it boosts workplace morale and enhances teamwork. In addition, employees with disabilities tend to have fewer days off, take less sick leave and stay longer at the workplace than other workers.

disability an ongoing physical or mental condition experienced by a person, which reduces their ability to complete certain activities

ACTIVITY 18.1

Visit the Australian Government's Job Access website and scroll down to the 'Stories' page.

1 Select and read two different case studies of employees with disabilities.
2 Identify the approach taken by the business to employing this worker.
3 Describe what the employee has gained by having this job.

Figure 18.7 Evidence has shown that employing people with disabilities boosts workplace morale and enhances teamwork.

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CASE STUDY
18.4

Social enterprises employing workers

HOW SOCIAL ENTERPRISES ARE BUILDING A MORE INCLUSIVE AUSTRALIAN ECONOMY

Social enterprises employ twice the rates of Australians with disability and female managers as mainstream small businesses. Our study of Victorian social enterprises also found 12% of jobs are held by previously long-term unemployed people (those who have been out of work for more than 12 consecutive months), and 2% by Indigenous Australians.

This shows that social enterprises are an important vehicle for the development of an inclusive economy – one that broadens economic participation, is more equitable, stable, and sustainable.

Social enterprises are organisations that aim to address social issues, such as homelessness or social exclusion, using strategies from business. For example, by running cafes to train and employ homeless or disadvantaged youth, social enterprises can harness business for social outcomes.

...

Social enterprises also attract significant amounts of volunteer support – around 251 hours per enterprise per year. This creates further opportunities for those marginalised from the mainstream workforce, fostering training opportunities and a sense of community.

...

Not all social enterprises are focused on job creation, many tackle other social and environmental challenges such as reducing environmental impact through recycling, providing services for small communities (such as petrol), and creating responsibly sourced and produced products and services.

...

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Social enterprises are poised to grow, as they appeal to entrepreneurs, policymakers and investors who are interested in creating more sustainable, dynamic and inclusive economies ...

(Source: Extract from Erin I Castellas and Jo Barraket, 'How social enterprises are building a more inclusive Australian economy', *The Conversation*, 4 December 2017. Full article available online.)

ANALYSIS

1 Explain the concept of a social enterprise.
2 Explain why social enterprises might be leading the way for the employment of a diverse workforce.
3 Describe the benefits of implementing a diversity policy in a business.

Employing Aboriginal and Torres Strait Islander workers

A business could gain different perspectives, experience and knowledge by having Aboriginal and Torres Strait Islander employees. It is worth noting that the Aboriginal and Torres Strait Islander population in Australia is growing faster than the non-Indigenous population, with 56% of Aboriginal and Torres Strait Islander Australians under 25 years of age. Employing these young workers would give a business the opportunity to develop their cross-cultural awareness and would greatly assist when dealing with suppliers and customers from Aboriginal and Torres Strait Islander communities. It is the view of Reconciliation Australia that a business adopting this strategy should be regarded as an Employer of Choice. From their perspective, a key factor in reaching financial independence for Aboriginal and Torres Strait Islander job seekers is improved employment opportunities. In time, this will assist in addressing the long-term disadvantage that Aboriginal and Torres Strait Islander people experience. The employer is a crucial player in supporting this effort, as they have the ability to employ local people in local jobs, and support training and education outcomes by employing Aboriginal and Torres Strait Islander people through accredited apprenticeships and traineeships. Visit the 'Indigenous Apprenticeships Program' page on the Australian Government Department of Human Services website for more information.

Figure 18.8 All businesses should provide opportunities to Aboriginal and Torres Strait Islander people.

ACTIVITY 18.2

1 Explore the Indigenous Business Australia website. Explain why this agency would be set up to support Indigenous businesses.
2 Other businesses also support different groups. Visit the Coles Indigenous Employment website and the Woolworths Diversity website. Summarise the approach being taken by both these companies to employing workers from the Aboriginal and Torres Strait Islander communities.

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18.3 Establishing policies to support employees

Businesses that try to establish policies to support employees as a commitment to staff will usually find that employees are attracted to the business and will stay. Businesses often strive to become an Employer of Choice. This recognises the commitment to employees.

Creating flexible and family-friendly workplace policies

Figure 18.9 Recognising personal, family and work commitments is important.

A business that offers flexible working arrangements to all employees is recognising the personal and family commitments of its employees. A flexible workplace is extremely attractive to workers of any age. These arrangements are appreciated by younger workers (both male and female) who may be contemplating starting a family or are caring for young children, or older workers who are providing care to elderly parents or an unwell partner/spouse. The employer may offer flexible working hours, remote-working opportunities, telecommuting, time-off policies and well-being programs, which then provide employees with tools for coping with the demands of the modern workplace. Adopting these flexible working arrangements is seen as a way of attracting people to the business and a good way to encourage skilled workers to stay with the business.

Creating a policy on parental leave that exceeds the minimum legislated requirements, and also includes programs related to retaining connection with the employee while on leave, is an example of good business practice.

Employee Assistance Programs

Employee Assistance Program (EAP) a counselling service for employees who are facing personal problems that affect their work performance

An **Employee Assistance Program (EAP)** is an employer-funded (and therefore free for the employee) counselling or other personal service that is provided to employees and often their close family members. This confidential assistance is available for employees who are experiencing personal, family and work-related problems that could impact on their performance and/or health. Initially, businesses introduced these programs to assist workers with issues related to alcohol, drugs and gambling. In more recent times, the scope of these programs has been extended to assist with domestic and family violence issues.

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Community volunteering and engagement

Businesses do not operate in isolation, as they are part of and rely upon their broader community. The culture of a business should therefore include giving back to its community. Many businesses now provide financial, pro bono and in-kind support for a range of community organisations. It is important when establishing the relationship with staff during the recruitment and selection process that the applicant understands this important element of social responsibility embraced by the business.

Younger workers often actively look to be employed by businesses that are involved in **volunteering** and community projects. They are looking for businesses that have a positive culture of which they can be proud. If they had to make the choice between two businesses with identical jobs, they would choose the one that has programs enabling them to engage with the community through volunteering. From the viewpoint of the employer, a study by Volunteering Australia found that many employers look favourably upon applicants who are or have been involved in volunteering, as they believe they would have a better fit with the culture within their business.

volunteering offering to do something for free; that is, receiving no payment

CASE STUDY 18.5

Social Traders and the importance of recognising social enterprises

Outlook Environmental has grown to become one of the largest waste management social enterprises in Australia.

Outlook Environmental employs over 100 staff, 40% with a disability, processing over 50,000 tonnes per annum of waste through the operation of transfer stations, recycled goods stores, e-waste processing facilities and labour hire services.

Over the last 2 years Outlook Environmental has actively positioned itself as a provider of services to the Victorian infrastructure sector and secured waste contracts with the Mernda Rail Project; Metro Tunnel Early and Main Works; Westgate Tunnel Project; Western Roads Program; as well as several of the Level Crossing Removal packages including the Southern and Western Program Alliances.

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As a result, Outlook Environmental has increased its workforce by 25% creating significantly greater employment opportunities for people with disability and those facing disadvantage, including the long-term unemployed, refugees and people seeking asylum.

(Source: Social Traders Website, '2018 Social Enterprise Awards')

ANALYSIS

1 Visit the Social Traders website, and navigate to the 'Social Enterprises Awards' page. Describe the businesses of two of the most recent award winners.
2 Describe the benefits for employees and their business who are recognised for their contribution.

Chapter summary

- Businesses often need to source employees from overseas to satisfy their staffing requirements.
- The most popular countries from which workers are sourced are India, China and the United Kingdom.
- Skilled workers currently living overseas can be employed by being sponsored on a permanent basis, a temporary basis or by entering into a labour agreement.
- The Australian Government issues a range of visas to overseas workers wanting to work in Australia.
- Businesses employing overseas workers should undertake a comprehensive induction program and provide new employees with a mentor for ongoing support. All employees (local and overseas) at the workplace should receive diversity training.
- Managing the business's commitment to corporate social responsibility when establishing staffing can be achieved through a range of policies and strategies, such as:
  - creating a diverse workforce
  - establishing policies to support employees
  - establishing policies that link employees to their community.
- Businesses that adopt these proactive strategies are often regarded as Employers of Choice.
- Diversity in the workplace can be achieved through employing mature-age workers, those with a disability, and Aboriginal and Torres Strait Islander peoples.
- Policies that create flexible and family-friendly workplaces and establish Employee Assistance Programs treat staff with respect and provide the help needed to overcome or balance their work and personal life.
- Community volunteering and engagement policies and programs link workers with their community. They also lead to improved worker engagement at their workplace, which will result in additional benefits for the business.

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Chapter summary tasks

1 Define the following terms and use each one in a sentence to demonstrate your understanding:
   - **a** visa
   - **b** induction
   - **c** volunteering
   - **d** mentor
   - **e** diversity.

2 Describe the benefits that employing people from diverse backgrounds can bring to a workplace.

3 Identify and explain the advantages that a business would gain by providing diversity training to all employees.

4 Identify which groups of employees or particular skill shortages are being filled by overseas workers.

5 Identify and explain the advantages that employing overseas workers can provide to a business.

6 Explain how programs where staff members volunteer in the community or provide pro bono work to assist community groups lead to greater employee engagement with the business for which they work.

Extension question

Being recognised as an Employer of Choice gives a business a desirable workplace reputation. Set out below are a few characteristics attributed to being an Employer of Choice that should be considered by a business when trying to effectively establish its staffing:

- providing remuneration to employees that is equal to or above market rates
- providing job security to employees
- encouraging employees to feel empowered to make decisions and take responsibility for their jobs
- ensuring that employees are respected by their managers and co-workers
- providing opportunities for employees to grow both their skill base and their careers
- making sure the business is committed to and involved with its employees, customers and the community
- providing work–life balance through flexible working arrangements.

Discuss whether you believe that a business that incorporates the above seven characteristics into its approach to establishing staffing would be sufficient for it to be regarded as a good corporate citizen, and therefore have effectively managed its corporate social responsibility issues.

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Glossary

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

advertising informing potential buyers about a product

application the processes involved in applying for an advertised position, usually completed through a letter or form

application form a document that covers basic information about a potential employee, such as qualifications, experience and job-related data

aptitude test a test of special abilities (e.g. clerical, language, artistic) that are required for a specific job

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

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

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

automation the use of automated technology to fulfil functions or processes rather than humans

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

balance sheet an accounting report that sets out the assets, liabilities and proprietorship (owners' equity) of a business as at a given date

bank statement a periodical statement where the bank itemises the transactions relating to an account; for example, debits, credits, government and bank charges

benefits financial rewards that are not paid directly in cash to an employee; for example, parental leave and sick leave

best practice certain methods, techniques or procedures that are considered to be superior or most effective and which are used a benchmark

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

big data very large sets of data that are produced by people using the internet, and that can only be stored, understood and used with the help of special tools and methods

bootstrapping a method of financing a small business that does not require borrowing large amounts of cash

brand a powerful business asset that is essentially a maker's mark; it creates and brings with it awareness, desirability and power

brand leader the brand in the market with the highest market share

brand loyalty when consumers continue to purchase the same product, even though rival products may exist

brand stretching using an established brand name in order to introduce unrelated products

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

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

bullying someone in the workplace who repeatedly behaves unreasonably towards another person or group of people and causes a risk to health and safety in the workplace

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

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

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

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

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

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

business incubator an organisation that supports new businesses by making available business premises, office/secretarial services, advice, consultancy and training at minimal cost, until that business is established

business layout the physical set-up or arrangement of a business. Includes placement and type of plant and equipment, fixtures and fittings.

business location geographical site of a business

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

business model the plan implemented by a business to generate revenue and make a profit. The model includes the components and functions of the business, as well as how revenue will be generated and expenses incurred.

business objectives specific, measurable steps that a business takes to achieve its business goals

business plan the formalised planning a business undertakes on a periodic basis

business strategy the plan or process that a business implements to achieve its long-term goals and objectives

by-laws local government laws/regulations relating to activities within a municipality

capabilities competence to perform a task

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

career advancement moving from a junior-level position to a more senior-level position in a business

cash book one of the simplest forms of financial record keeping; sets out all the cash transactions of a business including receipts and payments

cash flow tracking the cash or money coming into and going out of the business

cash payments when items are purchased and paid for in cash

casual where an employee is appointed by oral contract (not written) for short-term, irregular or seasonal work

causal research research that involves finding the cause and effect of certain actions

cheque an instruction to the bank to pay money from an account to the person named on the cheque (drawee)

cheque butt form of evidence to support writing of the cheque and payment of an account

clicks-and-mortar business a business that utilises a hybrid online/bricks-and-mortar business model

code of conduct guidelines to regulate standards of behaviour and conduct either within an organisation or within an industry

codes of practice sets of guidelines established by external bodies to regulate the standards of behaviour and conduct within an industry

company a separate legal entity (incorporated body) that is subject to the requirements of the *Corporations Act 2001*, owned by shareholders who have limited liability, run by directors and has perpetual succession

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

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

complementary business offers products that are related to one's business and may be of use to that business's customers; for example, a bridal wear store and a florist

complementary pricing where the price is set low on one item and high on another item that would normally go together

conditions of employment the specific remuneration or benefits that an employee will receive from an employer in exchange for work

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

consumer behaviour the study of the behaviours and strategies of customers when choosing, using and disposing of products or services

consumer profile a statistical picture of the typical consumer of a product based on demographic data; for example, income, age, gender, occupation

contract legally binding agreement that incorporates the following elements: offer, acceptance, the intention to enter into legal relations, consideration, the capacity to contract, legality of purpose, consent and certainty of terms

copyright exists to protect the original expression of ideas (not the ideas themselves), and is free and automatic in Australia

corporate citizenship acceptance by a corporate of its responsibility to stakeholders for actions and decisions

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

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

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

crisis an unfavourable situation or set of circumstances that puts an immediate focus on the business

crisis management a technique used to manage an unplanned (crisis) situation

crowdfunding a way of financing a business through donations of money from the public

customer someone who buys goods or services

customer base the people or entities that regularly purchase products or services from a business

customer database the collection of information gathered from each customer. A database may include contact information, as well as details about past purchases and future needs.

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

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

customer relationship marketing (CRM) a business process which uses marketing strategies and activities to develop relationships with clients, gain customer loyalty and bring value to the brand

customer satisfaction the degree to which customer expectations have been met

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

demographic a range of data sets about a population such as age, educational level and religion

descriptive research research that incorporates consumers' attitudes, intentions and behaviour

direct distribution channel a manufacturer sells the product directly to the customer

disability an ongoing physical or mental condition experienced by a person, which reduces their ability to complete certain activities

discrimination unfair treatment of an individual based on factors such as race, age, sex, ethnicity or religion

diversity the inclusion of people from different backgrounds, including race, ethnicity, religion, sex, gender, socioeconomic status and age

domain name a unique name identifying the website in a web address

dotcom business a business that has always exclusively used an online business model

employee a person working for another person or a business for wages or a salary

Employee Assistance Program (EAP) a counselling service for employees who are facing personal problems that affect their work performance

Employer of Choice a business that is regarded as an excellent place to work

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employment contract a written agreement made between an employee and an employer that outlines the legal requirements and responsibilities of both

enterprise agreement a written collective agreement made between an employer and the employees at a workplace, setting out the terms and conditions of employment

entrepreneurship demonstrated by individuals who, in the pursuit of profit, are prepared to take risks in creating new business opportunities

environmental audit an assessment of how a business minimises its effect on the environment and how it can improve its practices

environmental sustainability the ability of an ecosystem to maintain itself into the future; involves using the Earth's resources at a rate they can be replenished

equal employment opportunity (EEO) the practice of making sure that all applicants have an equal and fair chance to secure a position regardless of their age, race, sex, ethnicity or physical or mental disability

ergonomics the study of the relationship between people and their working environment

evidence information which identifies type of transaction, its date, parties and financial value (if any)

exchange rate the rate at which one currency can be exchanged for another

executive summary an overview or summary of the key points contained in the business plan

exploratory research collecting information in an unstructured and informal manner

exporter sells home-country products overseas

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

external recruitment the assessment of the current available pool of job candidates, other than existing staff, to ascertain if any are sufficiently skilled or qualified to fill and perform existing job vacancies

fair trade a system of trade in which buyers from developed countries purchase products from producers in developing countries for a fair and ethical price

Fair Work Commission (FWC) Australia's national workplace relations tribunal. Its role is to assist employees and employers to maintain fair and productive workplaces.

Fair Work Ombudsman (FWO) an independent statutory agency of the Australian Government that acts as a central point of contact for free advice and information on the Australian national workplace relations system

false and misleading representation to lie or exaggerate about the features or benefits offered by a product being sold

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

financial management managing financial activities relating to the operation of a business

fixed-term contract employees engaged in either a full-time or part-time capacity for project work or to replace employees absent on long service or parental leave

flexible work practices conditions that allow employees to balance work and family responsibilities more effectively

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

focus group between six and 12 participants gathered together in an informal setting to give their opinion on a product or service

food miles a system of measurement that calculates the distance a food product travels from production to consumption

foot traffic pedestrian visitors to a business or commercial site

franchise where a business owner (franchisor) grants another (franchisee) the right to use their trademark or trade name, business systems and processes, to produce and market a good or service according to certain specifications

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

franchisee an individual who opens what might be viewed as a branch of a company, purchasing the right to use trademarks, associated brands and access to proprietary information and strategy. The franchisee pays an initial franchising fee to the franchisor as well as a percentage of their branch's annual sales revenue.

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

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

general partnership all partners are deemed to be equally responsible for the management of the business. Each has unlimited liability for debts and obligations.

generic brand a brand that attributes its identity to the retailer rather than the manufacturer

generic market a market where broadly similar needs of customers are met by sellers offering a variety and often diverse range of products

Global Innovation Index (GII) ranks countries in relation to their overall successes in innovation. It identifies the complex elements of innovation and also helps to promote long-term output growth, improved productivity and job growth by providing the tools to tailor policies.

global markets all individuals and businesses that participate, or may participate, in the buying and selling of goods and services across the globe

going rate setting a price for a product or service using the prevailing market price as a basis

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

green marketing the marketing of products that are presumed to be environmentally preferable to others

gross domestic product (GDP) the total value of all goods and services produced within a country, usually measured over one year

harassment behaviour designed to make a person feel uncomfortable, offended, humiliated or intimidated

human resource management (HRM) the methods of managing the human element of a business (employees), encompassing a wide range of responsibilities, which are implemented to ensure a good working relationship between employees and the business and therefore increase efficiency

importer purchases overseas products for resale in their home country

imports goods and materials that come into Australia from other countries

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

indirect distribution channel a manufacturer sells their product to a wholesaler and/or retailer (intermediary) who then sells it to the customer

induction the process of introducing new workers to their place of work, their job role, their colleagues, supervisors, management and corporate culture

industry association representative body for a particular industry group

informative advertising advertising that gives consumers factual information about a product rather than creating a product image

infrastructure the foundations and investment needed to provide the means for an economy to operate, including transport, communications, education, power and electricity services

initial public offering (IPO) floating on the stock market involves publicly offering shares to raise capital

innovation developing and applying new ideas that are an improvement to what is currently offered

insurance a contract, represented by a policy, in which an individual or entity receives financial protection or reimbursement against losses from an insurance company

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

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

internal recruitment the process of assessing and selecting existing staff at a business who would be qualified and appropriate to perform a vacant role

interview a meeting that is held between an employer, or a representative of an employer, and an applicant in order to determine whether or not an applicant should be hired

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intranet the internal or private network of a business based on internet technology

job a collection of tasks and duties that an employee performs

job analysis a detailed examination of a certain job, including an analysis of the specific duties and requirements of the job and their relative importance

job board websites where businesses pay a fee to the job board to list their job on the site and will often accept job applications directly from the job board

job description a written overview of a particular position, including details such as the position title, duties and responsibilities, and its position in the overall organisation

job design grouping together of tasks for a particular job, which should incorporate variety and challenge for the job holder

job enlargement increasing the size or level of difficulty of a particular position by merging various tasks and responsibilities at a similar level

job enrichment making a job more challenging so workers are required to use their full capabilities and gain personal growth

job rotation workers are moved between different jobs to increase variety of work and to create a more flexible workforce

job specification detailed listing of the personal skills and characteristics required to perform a particular job

label placed on a product to inform the customer/consumer with information such as manufacturer, ingredients and use-by date

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

legal compliance the process by which a business ensures that it observes and complies with the external statutory laws and regulations

leverage using (something) to maximum advantage

licence a document or permit that gives official permission to do, use or own something

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

limited partnership where liability of one or more of the partners is limited

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

loyalty program a rewards program offered by a business to customers who frequently make purchases. It may give a customer advanced access to new products, special sales coupons or free merchandise.

macro factors factors directly affecting businesses that are outside their control, such as economic factors, government policy, changes in law and global issues

management by objectives (MBO) a process of setting goals, using the SMART principle, which relate to an employee's key areas of responsibility. It creates a sense of direction and provides a measure for assessing the work performance of the employee.

mark-up pricing determined by adding gross profit to the direct cost per unit; usually expressed as a percentage

market a group of customers with alike needs and desires who may purchase products or services from sellers through the exchange of money or other things of value

market penetration a pricing strategy that aims to set low prices initially to gain high market share quickly

market positioning a product is placed within a market with regards to its image, price and age of the target market

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

market saturation occurs when most consumers already own the product and the market is not growing; any sales that occur are replacement sales

market segment relatively similar (homogeneous) group of customers who are likely to respond in similar ways

market segmentation an approach that is midway between mass marketing and individual marketing; it defines and subdivides a large generic market into distinct subsections of potential customers who have similar specific needs and wants

market-oriented approach a business strategy that focuses on the needs and wants of consumers and develops products to meet them

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marketing the process that provides the link between producers or providers of goods and services, and the consumers of these

marketing concept the business focuses on satisfying the needs of the customer/consumer rather than just selling a product or service

marketing consultant a professional (specialist) who provides advice on marketing-related issues

marketing mix the seven variables that are used when undertaking marketing strategies: product, price, place, promotion, people, physical evidence and process

marketing plan the plan that sets out the marketing objectives and strategy to be undertaken by a business

mass marketing a marketing strategy that seeks to attract the attention of all market segments through the use of mass distribution and mass media

maturity the stage of the product life cycle where sales peak (saturation point); mature products either decline or are extended to lengthen their life cycle

media release an item of news prepared for and distributed to the media

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

merchandise the stock of goods in a store or business

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

mixed market economy an economy based on both privately owned businesses and the government (public sector) providing goods and services

modern awards an agreement that sets out minimum terms and conditions of employment relating to an industry or occupation

multi-channel a retailer sells products both online and in 'bricks-and-mortar' stores

National Employment Standards (NES) ten minimum employment entitlements that have to be provided to all employees in Australia; however, only certain entitlements apply to casual employees

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

network an interconnected system of people or businesses

niche marketing a concentrated marketing strategy that attempts to target a small, specific market segment

occupational health and safety (OH&S) laws concerned with the safety and welfare of people engaged in work or employment

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

offshoring labour work done in another country to that in which the business is based

online business a business that conducts activities via the internet

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

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

operational planning the detailed, short-term planning undertaken by a business

overdraft facility an extension of credit from a lending institution that permits an account holder to use or withdraw more money than they have in their account, up to an agreed maximum limit

Pareto Principle referred to as the 80/20 rule – approximately 80% of the business revenue is generated by approximately 20% of the customer base

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

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

passive investor often referred to as a 'silent partner', provides financial input into the business but does not actively participate in the business operations

patent an official right to exclusively own, make and sell a product, method or invention

penetration pricing a pricing strategy where the product's price is set lower than a competitor's price; also used when introducing a new product to the market

permanent full-time the employee enters into a continuing contract of employment

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permanent part-time the employee enters into a continuing contract, with same employment conditions, but will work fewer hours than a full-time employee

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

personal selling product is sold by a salesperson, preferably trained

persuasive advertising attempts to create an emotionally positive feeling about a product's image to encourage consumers to buy it

petty cash a small amount of cash held to pay for items such as stamps, tea and coffee

place encompasses the distribution channels used to market products to customers; one of the 7Ps of the marketing mix

planning a formalised decision-making process that is future-oriented

policy a written statement of the processes, procedures, rules and regulations

population entire group under study as defined by the research objectives

premium periodic payment made to an insurance company

price the amount for which something is sold

price elastic the degree to which demand for a good or service varies with its price

price inelastic a fall or rise in price of a product does not impact on the demand for that product

price leadership a business that through its dominant market position is able to set prices that other businesses adopt

primary data information that a business collects directly from firsthand experience and sources

private company a company where the shareholding is limited (small), with shares being sold privately; often run as a family business; has Pty Ltd at the end of the company name

procurement policy the specific regulations that a business uses to guide the process of procuring goods and services that are necessary for business

product a good or service in its final state after having gone through all stages of the production process

product development the design and development of new or existing products

product differentiation products are developed and advertised to make them appear different from others on the market

product life cycle the stages through which all products pass: launch (introduction), growth, maturity, decline or extension

product line a broad group of products that are intended for similar uses and have similar physical features

product market when a consumer is looking for a particular item; for example, a particular type of drink or car

product mix a full set of all products being sold by a business

product placement a method used to gain prominence of a product in the consumer's mind; for example, in television, movies or the internet

product recall when a defective product is sourced and either rectified or replaced after it has been sold by the manufacturer

professional association usually a not-for-profit organisation that aims to support individuals within a particular profession and further the profession in general

Profit and Loss Statement an accounting report that outlines the revenue less the expenses for an accounting period. It provides a business with an overview of whether it has made a profit for the accounting period.

promotion the advancement in rank or position of an employee within a business related to their previous position or job tasks. Also the use of advertising, branding, sales promotion and public relations to inform and persuade consumers; one of the 7Ps of the marketing mix.

proprietorship the ownership of a business

psychological pricing pricing strategy whereby the price is set in accordance with the value consumers place on the product

public the internal or external stakeholders potentially affected by the actions of a business

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public liability insurance the protection of businesses against damages or injuries to another person or property

public (listed) company larger company with unlimited shareholders; shares freely traded on the stock exchange; has Ltd after its name

public relations the way in which a business creates a positive image and maintains a strong relationship with its customers through its interactions with the public and the media

publicity a 'free' form of mass communication with the aim of attracting favourable attention to a business

qualitative research research based on in-depth, open-ended responses that focus on emotional or motivational aspects of consumer behaviour

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

quality assurance a system established to ensure that predetermined quality standards are achieved

quality circle a group of workers who meet regularly to discuss quality and production. Any proposed changes to production methods are then put forward to management.

quality control process of checking the quality standards of work done or quality of raw materials or component parts

quantitative research market research based on structured, closed questions that aim to gather responses that can be summarised in figures

questionnaire form of survey where questions are asked of respondents

rate of interest the percentage of interest that is charged by a lender to a borrower for the use of their money or other assets

record keeping maintaining accurate records of all matters related to business activities

recruitment the process of locating and hiring the most suitable applicants for a position

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

regulation a rule that is created, maintained and enforced by an authority

remuneration the amount a person is paid for performing work tasks (i.e. job); it can take the form of cash and/or fringe benefits; it can be referred to as a wage or salary

research and development activity undertaken by businesses to discover, innovate and improve new business ideas and processes

risk assessment an assessment of the level of risk for which insurance cover is sought, conducted by an insurance company

robotics the study, design, construction and operation of technology relating to robots and automated technology

salary an agreed amount of money paid to employees for their labour during a year, expressed as an amount per annum

salary package the total value of an employee's remuneration and is comprised of both cash and fringe benefits

sales promotion use of incentives to encourage increased sales; for example, free gifts, competitions, 'buy one, get one free'

sample a proportion or subset of the total population being studied

secondary data information that has been gathered previously by external sources

selection process undertaken by a business to decide whether to make a job offer to a candidate

self-regulation a group or industry regulates its own conduct and behaviour

shareholder owner of a company

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

skimming pricing a strategy where high prices are set to ensure high profits before marketing advantage is lost

Small Business Centres Victoria (SBCV) a network of community-based, not-for-profit business centres providing a range of business services in both metropolitan and regional locations throughout Victoria

SMART objectives or goals which are specific, measurable, attainable or achievable, relevant or realistic and timely or time-bound

social attitudes an acquired tendency to evaluate social things in a specific way; for example, positive or negative beliefs, feelings and behaviours towards others or a particular entity

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

social media online platforms and websites that people can use to connect with others, share content or network

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

source documents documents that provide evidence of transactions

special interest group a group or organisation seeking or receiving special advantages or privileges

sponsorship a business provides financial support to a team, charity or event in return for naming rights, merchandising or promoting the image for the organisation

staff a group of persons, as employees, charged with carrying out the work of a business

stakeholder an individual or a group that has a direct or vested interest in the activities of a business

start-up commencement of business operations

strategic planning long-term (two to five years) planning undertaken by senior management to achieve business objectives

superannuation a pension or lump sum payment made to workers on retirement; the money comes from employers' contributions made during the working life of the employee

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

supply chain a system or process in which resources, information, organisations and people collaborate to move a product or service from suppliers to manufacturers and then on to consumers

support services paid or unpaid services used by businesses to assist them in their decision-making; for example, legal or financial advice or daily operational activities

tactical planning the planning undertaken by middle-level management to assist in implementing strategic decisions; its time frame is medium term (one to two years)

tactics activities or courses of action taken by a business to achieve business objectives

target market the market at which a product or service is primarily aimed

team a group of employees with different tasks and skills working together on a common project, service or goal

technology practical application of science to achieve commercial or industrial objectives

total quality management (TQM) a concept whereby all staff in a business have responsibility for its process and output

trademark a name, symbol, logo, phrase or other aspect of marketing that designates an item as belonging to a particular company, and which therefore cannot be used by another company

transactions contractual arrangements undertaken by a business; for example, payment of wages or rent

transfer a sideways movement of employees within the same level, from one job to another

transition period a period of time when the previous business owner works with the new owner to introduce them to the business operations, clients/customers, suppliers and other business contacts

union a group of workers and employees who have banded together to achieve common goals such as higher pay, better working conditions and job security

unlimited liability full liability of owner (if their business fails) to the extent of their personal assets

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

venture capital money that is given to start-ups and small businesses with perceived growth potential by investors, which is particularly important for start-ups with no access to capital markets

viability whether the business is capable of developing and growing

visa an official document that allows the holder to enter or leave a country, or to stay for a specific time period

vision statement outlines the aspirations and values of the business

volunteering freely offering to do something; that is, receiving no payment

wages monetary reward for labour, paid on a weekly basis, calculated by multiplying the hourly rate by the number of hours worked for the period

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warranty a written guarantee, issued to the purchaser of an article by its manufacturer, promising to repair or replace it if necessary within a specified period of time

well-being a good or satisfactory condition of existence, usually centred on health, happiness and prosperity

wholesalers businesses that purchase in bulk from producers and sell smaller quantities to retailers

word-of-mouth an oral or written recommendation by someone

work environment the overall conditions in which an employee works, including the physical conditions, office temperature, equipment, and work processes and procedures

WorkCover compulsory insurance scheme that provides employers with insurance cover for the cost of benefits if workers are injured or become ill because of their work

workforce planning a continual planning process used to align the needs and priorities of the business with those of its employees to ensure it can meet its production and service requirements and business objectives

workplace relations the relationship between employer and employee with regard to contractual, emotional, physical and practical concerns

work–life balance the relationship between a person's work and the commitments in the rest of their life

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