

Business Management and Enterprise

A resource for Year 11 ATAR/
Year 12 General



Elizabeth Criddle
Jason Hinton



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Year 11 ATAR/Year 12 General**

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INTRODUCTION

OVERVIEW

The authors of Business Management and Enterprise believe that business education has a diverse scope and range, and that students must develop consumer and financial literacy in order to be able to play their part in the world outside their schooling. Economic and financial transactions occur at many levels in our daily lives. Each individual needs to be enabled to engage in a critical manner with the complexities of the financial world.

In this text, students will be encouraged to apply their learning to real life situations and case studies and to take into account current economic and financial contexts.

These two units will provide students with the enthusiasm to interact with the business world as either a consumer, an employee or a business owner. The focus will enable engagement with the impact of the community and the environment on the business world.

The study of Business Management and Enterprise will provide the student with capabilities to make decisions about personal financial and business financial dealings in a context of changing local community and global economic circumstances.

USING THE TEXT

LEARNING CONTEXTS

Unit 1 11 ATAR/Unit 3 12 GENERAL: Business at a national level

- Marketing campaigns
- Expansion in products, market share or diversification
- Marketing plan

Unit 2 11 ATAR/Unit 4 12 GENERAL: Business growth and expansion

- Business environment
- Intellectual property
- Employee motivation
- Business plan



UNIT CONTENT

Environments

- Political and legal
- Economic
- Socio-cultural
- Technological
- PEST

Management

- Marketing
- Operations

People



ACTIVITIES

Review questions, Group research, (contained at the end of each chapter)
Short answer, Extended answer, (contained Appendix A)



COURSE OUTCOMES

Outcome 1: Business concepts

Students understand the concepts, structures and factors underpinning business performance.

Outcome 2: Business in society

Students understand the interrelationships between business and society.

Outcome 3: Innovation and operations

Students demonstrate knowledge, skills and processes required to manage business operations.

Each of these is explained below.

Themes

The Units each have a particular focus.

- Unit 1 (11 ATAR) or Unit 3 (12 GEN): The focus of these units is on success in business at a national level and exploring what it takes to be successful beyond the initial start-up stage.
- Unit 2 (11 ATAR) or Unit 4 (12 GEN): The focus of these units is on business growth and the challenges faced by business expanding at a national level.

Learning contexts

The learning contexts for each unit are representative examples, and other contexts may be chosen. After the context or contexts are selected, relevant unit content is used from within the text.

Unit content

The content for each unit of Business Management and Enterprise is split into three main sections. These main sections form the structure of the text and are as follows.

- **Environments:** political and legal, economic, socio-cultural and technological (PEST)
- **Management:** marketing and operations
- **People**

The unit content outlined in the text is studied in conjunction with a range of relevant activities.

Activities

Activities are found at the end of each chapter or in Appendix A: Examination and externally set tasks. They have been split up as follows.

Review questions

These are aimed at checking basic comprehension of the Unit content in the previous chapter. They require the student to be able to define and explain terms and theories as well as apply knowledge from the chapter to a variety of situations, or they require higher order thinking such as analysis.

Group research

These are activities and worksheets available on the internet, or a question that must be researched using web resources. All directly relate to the content of the particular chapter and allow for interactive application of skills and knowledge.

Short answer questions

These are questions designed in response to the sample written examination paper and the sample externally set task. These are short answer style questions that might be allocated between 8 and 20 marks in the written paper, where the student might be required to explain, interpret, analyse, evaluate and/or compare stimulus material.

Extended answer questions

These are simple case study, scenario, quote or statement stimuli, which can be scaffolded or sectionalised. They aim to encourage students to develop an approach to elements of likely questions in the written paper, where the student can be required to make reference to other relevant case studies and is required to answer in the form of a report or essay.

Course outcomes

Outcome 1: Business concepts

Students understand the concepts, structures and factors underpinning business performance.

In achieving this outcome, students:

- understand marketing
- understand how leadership and management function
- understand how organisational practices, procedures and structures function.

Outcome 2: Business in society

Students understand the interrelationships between business and society.

In achieving this outcome, students:

- understand the impact of beliefs and values on business activity
- understand the impact of economic environments, government policies and legal requirements on business activity
- understand the impact of technologies on business activity.

Outcome 3: Innovation and operations

Students demonstrate knowledge, skills and processes required to manage business operations.

In achieving this outcome, students:

- apply business skills, tools and processes
- process and translate information required for effective business operations
- demonstrate interpersonal skills required for effective business operations
- investigate and evaluate innovative and enterprising opportunities.

USING THE DOWNLOAD

Student resources

The student resources in this Download include a series of Templates in Word document format that cover a variety of business topics relevant to the course. An interactive Small Business Quiz is available for student use. It presents 15 multiple choice questions. An answer sheet is also provided.

Teacher resources

The teacher resource section of the support Download includes two **Sample Teaching/Learning Programs**. These programs contains suggested themes, outcomes, unit content, learning contexts and text references.

Marking Guides for the Activities in the textbook and the Appendix's Short Answer and Extended Answer questions, are provide in the Download. The solutions are suggested responses only, and should form the basis for further classroom discussion.

A variety of other resources/tools are available for Teacher use. They include suggestions for Group projects, a comprehensive list of Web resources and a GST calculator.

SECTION A: ENVIRONMENTS

CHAPTER 1

Business Ownership

'Your work is going to fill a large part of your life, and the only way to be truly satisfied is to do what you believe is great work. And the only way to do great work is to love what you do.'

– Steve Jobs –

TYPES OF BUSINESS OWNERSHIP

The choice of the form of business organisation to use when starting a business is a major decision. It is a decision to be reviewed over time as the business grows and the business environment changes.

Aspects of a business to consider when making decisions about the form of organisation include:

- **Tax:** the form which will minimise the tax burden.
- **Ownership:** how best to share business ownership.
- **Liability:** how best to protect owners and investors from being personally liable for business debts.
- **Succession:** setting up the ownership and control of the business for the future (very important with family businesses).
- **Sources of finance:** considering the capital needed to start the business.

In this section we will examine the following forms of business:

- sole trader
- partnership
- small proprietary company
- not for profit organisation
- franchise



Table 1.1: Types of business forms

TYPE	DEFINITION	LIABILITY	TAXATION	OWNERSHIP
Sole trader	A single person operating a business under their own name.	Unlimited liability. The owner is personally liable for all debts and damages owed by the business. All contracts and assets are in the owner's name.	Profits of the business are taxable income of the owner.	The business can be run in the name of the owner or a business name can be registered.
Partnership	Two or more people going into business together with a view to make profit. Governed by the Partnership Act 1895. The Act can be overridden by a formal Partnership Agreement.	Unlimited liability. All contracts and assets are in the owner's name.	Profits of the business are distributed to the partners and considered part of their personal taxable income.	Contracts entered into by one partner are binding on all partners. New partners can enter with the consent of all partners. There is a maximum of 20 partners except for a limit of 400 for some professions, eg. accountants, lawyers
Small proprietary company	A separate legal entity, it has Proprietary (Pty) and Limited (Ltd) in its name.	Liability of shareholders is limited to any unpaid shares.	The business completes a company tax return and pays a company rate.	It can have no more than 50 shareholders. Shares cannot be offered to the public.
Not for profit organisation	A non-profit organisation is not operating for the profit or gain of its individual members. Any profit goes back into the operation of the organisation to carry out its purposes and is not distributed to any of its members.	An incorporated organisation provides financial protection by limiting personal liability of members to outstanding membership and subscription fees. Members of an unincorporated organisation can be liable for debts and legal claims.	If approved by the ATO non-profit organisations can be exempt from income tax.	Non-profit organisations are either; unincorporated or incorporated associations. An unincorporated association is not a separate legal entity to the members associated with it. An incorporated association is a legal entity separate from its individual members. An incorporated association can continue regardless of changes to membership.
Franchise	Franchising is a business arrangement where the franchisor (the owner of the franchise concept) licences the business model to franchisees in return for ongoing fees or royalties.	Liability for debts depends upon the form of business that owns the franchise.	The taxation of a franchise depends upon the form of business that owns it, eg. small proprietary company, sole trader or partnership. Franchise costs such as franchisor fees and royalties are tax deductible.	The franchisee owns the franchise. They may sell it to another person but there may be conditions set by the franchisor.

Sole trader: a business run and owned by an individual.

Partnership: an association of two or more people to carry on a business with a common view to profit.

BUSINESS IN SOCIETY

The non-profit sector's main sources of income are the sale of goods and services and government grants and contracts. There are as many as 700,000 non-profit organisations in Australia, most of which are small and dependent on the voluntary commitment of members. There are approximately 380,000 non-profit organisations that are incorporated.

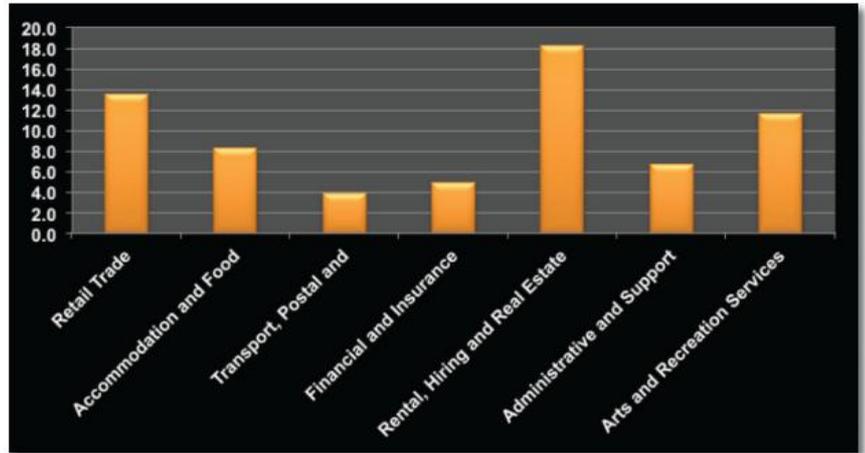


Figure 1.1: Franchising graph showing the main industries and percentage of employees

Table 1.2: Advantages and disadvantages of forms of business organisation

TYPE	ADVANTAGES	DISADVANTAGES
Sole trader	<ul style="list-style-type: none"> · The owner has full control · The owner keeps all profits · Easy to set up 	<ul style="list-style-type: none"> · Unlimited liability – if the business goes broke the owner could lose personal assets to pay off business debts · No-one to share the work load
Partnership	<ul style="list-style-type: none"> · Easy to establish · Partners can bring in money and skills · Work can be shared amongst partners 	<ul style="list-style-type: none"> · Unlimited liability · There can be disagreements between partners over decisions · Rules must be set for partners leaving otherwise the partnership will end
Small proprietary company	<ul style="list-style-type: none"> · Limited liability – personal assets are not taken to cover business debts · A person can sell their shares if they want to leave the business 	<ul style="list-style-type: none"> · Expensive to set up · Less say in the running of the business because there are so many owners · Profits are shared amongst more owners · Must operate within the Corporations Act
Not for profit organisation	<ul style="list-style-type: none"> · Inexpensive to incorporate · Few formalities and a low compliance requirements · May be eligible for tax exemptions 	<ul style="list-style-type: none"> · Limited to operating in the state of incorporation · Not closely monitored or regulated so no clear guidelines for operation and for resolving disputes
Franchise	<ul style="list-style-type: none"> · A well established brand and product or service · Franchisor offers management training and assistance · Established operating procedures, manuals and management systems · Obtaining finance may be easier due to established market presence 	<ul style="list-style-type: none"> · Franchisees have to operate the business according to the franchisor's procedures · Less autonomy in business decisions · Restricted territory for operation and promotion of the business · Ongoing cost of payments to the franchisor · There may be restrictions on selling your business

Small proprietary company: a company which meets at least two of the following criteria: the consolidated revenue is less than \$25 million, consolidated gross assets are less than \$12.5 million and/or it has fewer than 50 employees.

BUSINESS CONCEPTS

A fast food chain wants to encourage existing franchisees to add stores and become multi-unit franchisees. They are discounting their franchise fee. They will decrease the royalty percent the more stores you own:

- one store: 6%
- two stores: 5%
- three stores: 4%
- four or more stores: 3%



Table 1.3: Buying a franchise – what do you get?

\$15,000	\$45,000	\$80,000	\$150,000+
<ul style="list-style-type: none"> • A labour intensive business • Ability to work from home • Small marketing budget • Little or no specialist equipment or technology <p>For example:</p> <ul style="list-style-type: none"> • Mobile car cleaning • House cleaning • Personal training 	<ul style="list-style-type: none"> • A mobile service based business • More established brand name • More training • More sophisticated equipment and technology <p>For example:</p> <ul style="list-style-type: none"> • Bookkeeping • Grout and tile sealing • Garden maintenance 	<ul style="list-style-type: none"> • Retail business • Good location • Established brand name • Intensive training <p>For example:</p> <ul style="list-style-type: none"> • Scratch, dent repair • Skip bins • Courier 	<ul style="list-style-type: none"> • Excellent premises • National brand • Higher return • Marketing support <p>For example:</p> <ul style="list-style-type: none"> • Juice bar • Auto servicing • Hair salon

CHOICE OF LEGAL STRUCTURE

There are factors to consider when deciding which legal structure to use when starting or expanding a business. Aspects of a business to consider when making decisions about the legal structure are shown here.

Choosing a legal structure is an important decision to make when starting a business and considering the best legal structure for a business is ongoing.



Figure 1.2: Choice of legal structure

A small business operator may be planning to increase sales and expand the business; changes in tax laws and other government regulations may mean that a change in structure is necessary. A death, retirement or business closure may also require a change to the legal structure.

In the table below the factors to consider will be explained when deciding between the three most common legal structures for business.

Table 1.4: Factors to consider when choosing a legal structure

FACTOR	SOLE TRADER	PARTNERSHIP	COMPANY
Size	If a business can be run by an individual with few employees a sole trader is suitable.	Suitable when expanding a sole trader. Up to 20 partners can be in a partnership. More partners means more leaders and managers to supervise a higher number of staff.	Used for a large business or one that is expanding nationally and globally.
Tax	Business profit will be taxed as personal income; good if the business is the sole source of income	Business profits are divided amongst partners and taxed as personal income. Income splitting can be used in partnerships to minimise tax.	Business profits are taxed at the company rate. The company rate is lower than the top individual tax rate. Owners can then be paid a salary and taxed as an individual rather than on the full amount.
Ownership	Suitable if the operator wants to have ownership and control. If a sole trader dies or retires the business will end. Commonly used in a family business where a family member can take over the business.	The partnership structure and agreement make clear guidelines for ownership and decision making. Partners are motivated to act in the best interests of the business. If a partner dies or retires the partnership will end but arrangements can be made to keep the business going in the Partnership Agreement.	Because a company is a separate legal entity, owners can leave the business but the business will continue. Suitable for owners who want the financial return from a business but without having to run it on a day to day basis.
Liability and risk	An owner must have high risk tolerance as personal assets can be taken to cover business debts	Personal assets of partners can be taken to cover business debts. Less risk than for a sole trader because losses and debts are shared amongst partners. Expertise that one partner does not have can be supplemented by other partners.	A business is still risky, it can fail, but owners' assets are protected by limited liability. Only business assets can be taken to cover business.

BUSINESS CONCEPTS

A Family Business Australia² survey found that 25 per cent of family businesses surveyed do not have a formal succession plan to organise what will happen if a the sole trader of a family business dies or retires. Without a plan conflict can arise amongst family members arguing over business assets.

Income splitting: when a high level of business income is split up amongst family members. The overall tax bill will be less than the business owner paying tax on the whole amount. Each person will be able to use the tax free threshold. Often used in a situation where a business operator splits income with their spouse.

2 www.fambiz.org.au

ACTIVITIES

Content review

1. List three differences between sole traders and partnerships.
2. Discuss two factors to consider when deciding which legal form to use for a business.
3. What is income splitting?
4. Why can't a sole trader use income splitting to minimise personal tax?
5. Why should you consider liability when choosing a form of business?
6. Which form of business is best for minimising personal liability for business debts?
7. What are some advantages of a small proprietary company?
8. What are some disadvantages of a sole trader?
9. What is a franchise?
10. Why is a franchise a good option for becoming a business owner?

Group research

1. Investigate examples of each of the five different types of business ownership. Find three examples of each and classify them.
2. Use the Australian Securities and Investments Commission website: www.asic.gov.au, to investigate the differences between small and large proprietary companies. Then examine how a small proprietary company can register their business name and create a summary flow chart of this information.
3. Each group member should identify an example of an Australian franchise business. Use the information on 'Buying a Franchise' from the Small Business Development Corporation website: www.smallbusiness.wa.gov.au, to evaluate each franchise opportunity. Select the best option from your identified franchise businesses.

CHAPTER 2

The Legal Framework of Business

‘Anybody who thinks talk is cheap should get some legal advice.’

– Franklin P Jones –

CONSUMER PROTECTION

On 1 January 2011, Australian Consumer Law (ACL) was introduced to put in place national consumer protection laws. The ACL is based on the *Competition and Consumer Act (2010)* and replaces the consumer protections in the *Trade Practices Act (1974)*.

The ACL is enforced by the Consumer Protection agencies in each state and territory and by the Australian Competition and Consumer Commission (ACCC).

In WA the ACL replaced the following state legislation:

- *Fair Trading Act (1987)*
- *Consumer Affairs Act (1971)*
- *Door to Door Trading Act (1987)*

The ACL covers:

- unfair contract terms
- consumer rights when buying goods and services
- warranties
- product safety
- door-to-door sales and other direct marketing
- lay-by agreements
- new penalties, enforcement powers and consumer redress options.



If a business is found to have breached the ACL the penalties it may face are:

- monetary penalties
- injunctions to force the business to stop the conduct
- damages awarded to the consumer
- orders to require the business to do such things as provide repairs and spare parts and advertise corrections.

Misleading and deceptive conduct

It is illegal for a business to make statements that are incorrect or create a false impression. A business must not make false or misleading claims about the quality, value, price or benefits of products or services.

This applies to product labels and advertisements in print, radio, television, social media and online. It also applies to what sales staff and managers say to customers.

A focus of the ACCC and Section 18 of the ACL is to prevent misleading and deceptive conduct; to stop businesses lying to customers to get sales. Examples of illegal conduct under the ACL are:

Table 2.1: Misleading and deceptive conduct

Bait advertising	<p>Advertising a discounted product that is not in stock</p> <p>Bait advertising is when an advertisement shows a very low price for a product that is very attractive to customers. The aim is to lure customers into the shop with the promise of a bargain, to take the bait, and when they can't buy the advertised special they buy something else at full price. Special prices can only be advertised if the business has the item in stock.</p>
Country of origin	<p>Making false claims about the country of origin of products and their ingredients</p> <p>Phrases such as 'Australian Made' and 'Product of Australia' and similar logos and labels cannot be used to mislead the public. Some products include claims on their labels such as 'Proudly Australian owned' or '100% Australian owned'. These are about the ownership of the business and do not mean that the product itself is sourced in Australia.</p> <p>Two criteria must be met to be labelled 'Product of ...' or 'Made in ...':</p> <ol style="list-style-type: none"> 1. Each significant component or ingredient must originate from the country or state of the claim 2. All of the production or manufacturing processes must take place in that country or state. <p>If you want food that was grown or sourced in Australia, look for: 'Grown in Australia' or 'Product of Australia'</p> <p>If you want food that has been made in Australia by Australian workers, look for: 'Made in Australia', 'Grown in Australia' or 'Product of Australia'</p> <p>A product with a 'Made in Australia' label may contain ingredients from overseas.</p>
Scientific claims	<p>Making scientific claims about products with no proof</p> <p>Businesses must be able to prove their products have the characteristics that are being promoted. For example, claims such as 'not genetically modified', 'recycled', 'sustainable', 'reduce wrinkles by 40%', 'decrease cholesterol by 20%' or 'environmentally friendly' must be backed up by scientific proof. Many products claim that their benefits are 'clinically proven'. Scientific data must be provided to back up the claims.</p>



➔	<p>Fine print</p>	<p>Using small print and disclaimers to hide information and mislead customers</p> <p>This refers to the fine print included in advertising. Often when promoting phone deals or service arrangements business will include details about the price and additional fees and charges in very small print. There may also be warnings and safety information hidden in this way. The ACCC now requires businesses to make these details clearer and easier for customers to see and understand.</p>
	<p>Wrongly accepting payment</p>	<p>A business must not accept payment for goods or services if it does not intend to supply the goods or services or knows it cannot supply the good or service.</p> <p>It is an offence if a business sells a product online or in a shop with the intention of taking the customer's money without supplying the goods or knowing that they would not be able to supply the item in a reasonable time.</p>
	<p>Offering gifts and prizes</p>	<p>A person who offers rebates, gifts, prizes or other free items in connection with the sale of goods or services must honour that offer.</p> <p>Gifts and prizes are often used to entice customers to enter a shop or to provide their personal information to be used for direct marketing. The ACL prohibits a person from offering rebates, gifts, prizes or other free items in connection with the supply or possible supply or promotion by any means of goods or services:</p> <ul style="list-style-type: none"> • with the intention of not providing them • not providing them within a reasonable time.

'Puffery' refers to exaggerated claims about a product or service. For example, a restaurant advertises that they have the 'best desserts on Earth', a drink has the 'freshest taste ever' or a cafe has 'the best coffee in the world'. These types of statements are not considered to be misleading because no one could possibly treat them seriously.

Guarantees, warranties and refunds

Consumers are entitled to a **guarantee** or **warranty** on their purchases. They are also entitled to a refund where a product is faulty or fails to fulfil its purpose. The aim of these requirements is to provide consumers a level of protection when they make purchases.

Guarantees and warranty requirements are different for services and products. Service providers must take care to ensure services are carried out with duty of care. This means all materials are of standards suitable to providing the promised level of service. The consumer must ensure that the service provider is clearly aware of needs and expectations.

Guarantee: a legal right to redress under consumer law.

Warranty: a written guarantee from the manufacturer of a product promising to repair or replace it within a specified period of time. A warranty is voluntary and is in addition to a guarantee.

BUSINESS IN SOCIETY

Jack and Jill who run a small business by the Middleton beach renting bicycles for the day have duty of care or a responsibility towards their customer to ensure that the bicycles are in good working condition and they are serviced regularly.

The consumer has the right to expect a safe, enjoyable experience of a product. Therefore, the business must inform the consumer of any legal restrictions related to using the product.

The business must ensure the product is tradeable, suitable for purpose and matches any description given. Consumers are responsible for checking particular information when making purchases covered by warranties and guarantees. These are outlined below.

BUSINESS IN SOCIETY

Marty recently purchased a sound system to set up at his home music studio. He continued playing music from dawn to dusk. Then next morning he received a visit from the local police authority, where he was warned over disruption to the neighborhood. Marty was advised to install sound proofing material. Marty felt distressed as he had no financial capability to install such material. The seller has failed to inform the consumer of REQUIREMENTS OF USE.

Table 2.2: Consumer responsibilities

Product is of tradable quality	Must meet basic safety, quality and performance standards for the price and description of the product
Product is suitable for its purpose	Should be able to do the job or satisfy the need, as indicated at the time of purchase
Product must match pre-purchase sample or description	If demonstrated or presented to the consumer via a source of advertising such as television, product catalogue, trade expo or even in labelling and packaging, final product purchased must match it

If a product or service fails to comply with the guarantee or the warranty, the customer is able to take action. There are many options available.

Customer action for a guarantee

1. Resolve the issue with the business:

- i. If a product is either faulty or fails to satisfy expectations, it should be brought to the attention of the business. The customer must reasonably explain the dissatisfaction with the product to the seller and may suggest a preferred alternative.
- ii. Customer can request a service provider to repeat the service if it fails to meet the expectations. Alternatively the service provider can offer to pay for the service to be repeated by another provider or to refund the expense.

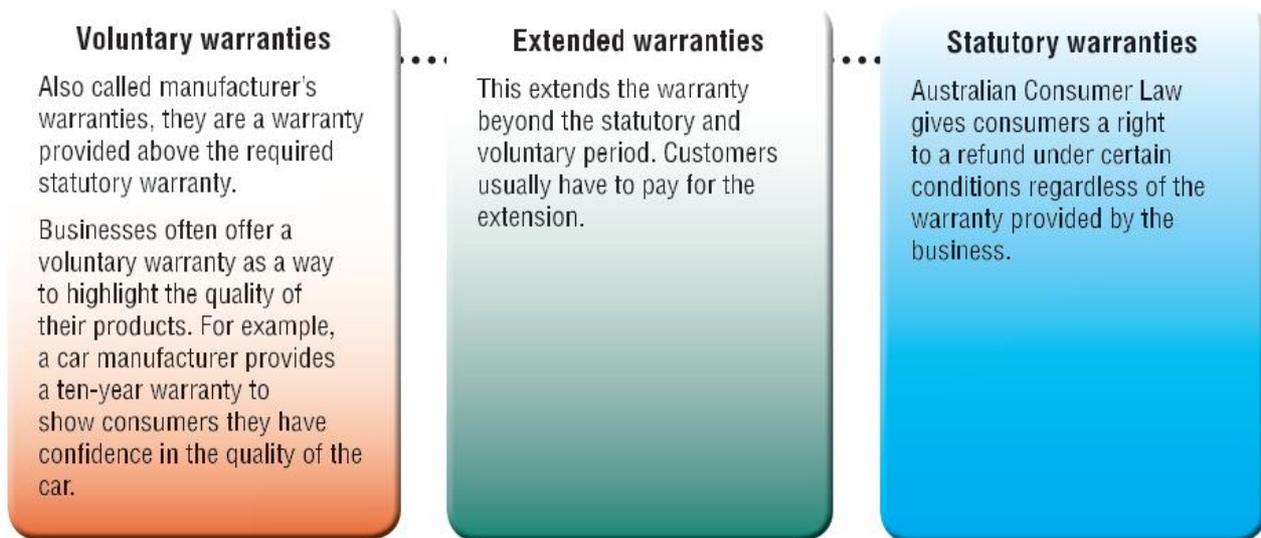
2. The customer can put their complaint in writing, giving details of the date of purchase, problem and preferred remedy.

3. If the complaint involves a local business, the customer can contact Consumer Protection.

4. The customer may need to lodge a claim at the Magistrates Court.



There are three main types of warranty a businesses can provide. They are:



A product is regarded as faulty even if the customer has been using it for an extended time. For example, a washing machine, a television, a car and other goods are expected to last a long time with normal use. If a vacuum cleaner breaks down after three months or a stereo after six months the consumer can still take it back to the shop.

Product safety

The Australian Consumer Law includes product safety laws covering:

- **consumer products:** products intended for personal, domestic or household use
- **product related services:** services related to consumer products such as installation, maintenance, repair, cleaning, assembly or delivery

Product safety laws create a legal duty for businesses to only sell products that are safe. Laws protect consumers from being harmed or injured by unsafe products. Consumer Protection WA and the Australian Competition and Consumer Commission (ACCC) enforce product safety standards and take action if a product is unsafe. There are also product safety agencies for particular industries. For example:

- Food Standards Australia New Zealand (FSANZ): safety information about food and grocery products and enforcement of the Australia New Zealand Food Standards Code
- Electrical Regulatory Authority Council (ERAC): safety information about electrical appliances and goods

Consumers can contact them if they have a concern over product safety.

BUSINESS IN SOCIETY

In 2008 and 2009 an Australian business imported and sold banned mini jelly cup products which can cause choking. They are banned because their size and shape means that they can easily get stuck in the throat and cause choking.

There is no standard testing of all products before they go on the market. It is the responsibility of the business to ensure the products it sells are safe and comply with product safety laws. The consequences of a business selling products that are unsafe may be:

- injuring customers
- products being removed from shops
- a **recall** of all products
- fines and damages
- getting a bad public image.

Recall: when a product is removed from all shops and suppliers and returned to the manufacturer due to a defect or safety problem, including all customers who have purchased it.

The government imposes national standards regarding product safety:

- Products must meet mandatory safety standards before a business can sell them. The following must all be safe:
 - the manufacturing process
 - ingredients and components
 - how it works.
- Consumers have a right to receive safety warnings about use and storage of a product
- It is illegal for a business to sell products that do not comply with a mandatory safety standard.

- Consumers have a right to be provided with certain information about a product such as a list of ingredients and warnings about any safety issues regarding the use and storage of the product.
- Consumers have the right to be provided with instructions about safe use and care of the product.
- If a product is recalled the business must advertise widely and notify all sellers and purchasers.
- It is illegal for a business to sell products that do not comply with an information standard.



Mandatory Safety Standard



Mandatory Information Standard

BUSINESS IN SOCIETY
 Recently a cotton clothing retailer recalled jeans because they contained a dye with carcinogenic azo-colourants. Holden¹ recalled nearly 42,000 cars because of a seat belt fault. Customers must contact their nearest dealer and take their car for inspection and repair.

Product Safety Recall

When a business recalls a product they must notify all sellers and people who have purchased it. They are required to advertise widely using this design.

An ad must include:

- a description of the product and a picture
- model numbers and dates of manufacture or sale
- where the products were sold
- the safety risk
- how to return it
- contact details

See www.recalls.gov.au for Australian Product Recall Information

¹ www.holden.com.au

Repair and replace

Under ACL, a consumer has the right to take a faulty or unsafe product back to the seller and ask the business to fix it.

When a business sells a product to a consumer there is a statutory guarantee that gives consumers the right to a refund if a product is faulty or unsafe. Consumer guarantees apply to all goods and services whether they are new or second hand, bought in a shop or online. Reasons that give a consumer the right to a refund are listed below.

Table 2.3: Right to a refund

A product is not of acceptable quality	A television burns out after a month of normal use
A product is not fit for the purpose	A steam cleaner advertised as perfect for kitchens isn't powerful enough to clean the benchtop
A product does not match the description	A jacket advertised online as leather arrives and it is vinyl

The above are major problems. With major problems, consumers have the right to ask for a replacement or refund. Minor problems are those that can be repaired easily or it may be a missing part like a battery or remote control. If the product has a minor problem the business can choose to repair it for free instead of providing a replacement or refund. If the repairs are not completed within a reasonable time the consumer has a right to request a refund or replacement.

Consumers can also seek compensation for damage, injury and loss caused by a safety defect in a product.

Managers can ensure their products are safe by:

- conducting regular tests of products
- having quality testing systems when making the products
- provide clear instructions for product use.

Governments are less likely to penalise a business if it is proactive and conducts a quick voluntary recall of any products with safety concerns. The reputation of a business in the community will be better if it shows it cares about consumer safety and doesn't try and hide the problem.

BUSINESS CONCEPTS

JB Hi Fi² publishes the following on their website – You are entitled to a replacement or refund for a major failure if the goods fail to be of acceptable quality. You are also entitled to have the goods repaired or replaced if the goods fail to be of acceptable quality and failure does not amount to a major failure. Consumer Guarantees have no set time limit – depending on the price and quality of goods, consumers may be entitled to a remedy after any manufacturers' or extended warranty has expired.

² www.jbhifi.com.au/corporate/consumer-guarantees-warranties-refunds/

NATIONAL EMPLOYMENT STANDARDS

The *Fair Work Act (2009)* has been in force since 1 July 2009. Most Australian workplaces are governed by the Act. The National Employment Standards have been in place since 1 January 2010. The Standards are minimum conditions that all employees across Australia are entitled to receive.

The Fair Work Ombudsman provides information and advice about workplace rights and laws. The Fair Work Ombudsman:

- educates people about fair work practices and employee and employer rights and obligations
- investigates complaints or possible breaches of workplace laws, awards and agreements
- takes court action to enforce workplace laws and employment standards.

Minimum working conditions

The National Employment Standards (NES) provide the following worker entitlements:

Table 2.4: National employment standards

1. A maximum standard working week of 38 hours	Plus reasonable additional hours for a full-time employee
2. The right to request flexible work arrangements	An employee with at least 12 months' continuous service, if they have a child under school age, or a disabled child under 18 years of age
3. At least 12 months' unpaid parental leave	For employees with at least 12 months service, the additional time can only be refused on reasonable business grounds
4. 4 weeks' paid annual leave	Annual leave accrues progressively during the year based on an employee's ordinary hours of work
5. 10 days' personal leave per year	Casual employees have access to two days unpaid leave
6. Leave for community service activities	Such as emergencies and natural disasters, an entitlement to 10 days' pay when an employee is called up for jury service is also covered by this provision.
7. Long service leave entitlements	2 months after 10 years service
8. Paid public holidays	When a public holiday falls on a normal working day for the employee
9. Minimum notice period	Depending on the length of service and an entitlement to redundancy pay
10. Fair work information statement	All new employees are required to be provided with a copy and can be found on the Fair Work Ombudsman's website.

The Fair Work Commission is an independent body that reviews the NES. Employers and employees can go to the Commission to lodge complaints, resolve disputes and make decisions in unfair dismissal cases.

Minimum wage

The national minimum wage is the minimum wage that applies to employees who aren't covered by an award or a workplace agreement. Employers cannot pay people less than the minimum wage. The minimum wage is set as an amount per week for a full time job. People who work part time or are casual will receive a wage based on the full time amount.

In WA, businesses that are not covered by the national minimum wage have to comply with the state wage level. The state minimum wage is set by the WA Industrial Relations Commission and is reviewed each year. For example, workers in hotels, pubs and clubs in WA are subject to a minimum wage that is higher than the national minimum.

People with a disability that affects their ability to work receive a percentage of the minimum wage. For example, if a disabled person is assessed as having a work capacity of 80% they must be paid at least 80% of the minimum wage.

The Fair Work Commission reviews the minimum wage annually and makes decisions about whether to increase or decrease it based on the economy and submissions from employer, worker and community groups. The fair Work Ombudsman investigates breaches of the minimum wage order.

Unfair dismissal

A dismissal is when employment is ended by the employer. There must be valid and fair reasons for dismissing the employee.

Fair and valid reasons for dismissing an employee include:

- their ability to do the job
- their conduct and performance in the workplace
- operational requirements of the business.

An employee may claim they have been unfairly dismissed. Employees covered by the industrial relations system in WA can lodge a claim of unfair dismissal with the Western Australian Industrial Relations Commission (WAIRC). Employees covered under the national system lodge with the Fair Work Commission.



BUSINESS IN SOCIETY

The Fair Work Commission³ reviews and sets the minimum wage. Each year an expert panel conducts an annual wage review and decides what the national minimum wage will be. In 2013 the minimum wage was \$622.20 per week at \$16.37 per hour.

In 2014, Australia's 1.5 million lowest paid workers received an \$18.70 a week pay rise. The increase was below the \$27 unions asked for and higher than the \$8 business groups said they could afford. The minimum wage was set at \$640.90.

³ www.fwc.gov.au

If an employee has performance issues, the employer must document a fair process to show how they tried to improve their performance through training, coaching and support. The employer must also give the employee clear warnings about their performance and the consequences of not improving.

Under the national system an employee has been unfairly dismissed if the Fair Work Commission finds that:

- the dismissal was harsh, unjust or unreasonable
- the dismissal was not a case of genuine **redundancy**
- the dismissal does not follow the Small Business Fair Dismissal Code if the employee was employed by a small business.

Employees of small businesses cannot make an unfair dismissal claim if they are dismissed in the 12 months after being hired. Employees of larger businesses are able to make a claim for unfair dismissal within six months. A small business is defined as 15 employees or less.

If there is serious misconduct such as theft, violence or serious breaches of health and safety procedures, it is fair for an employer to dismiss an employee without warning. The Fair Work Commission provides a checklist for small business owners to help them apply the Small Business Fair Dismissal Code.

If a dismissed employee makes a claim of unfair dismissal, the small business owner must provide evidence that a fair procedure was followed. This includes written evidence of help and support to improve their performance in warnings, emails and letters.

Redundancy: a job is no longer required by a business because of a change in the way a business operates. The job role is no longer needed by the business. A business must try and find another position for the employee of similar pay and conditions if their current job role is no longer needed.

BUSINESS IN SOCIETY

There can also be unlawful dismissal. It is unlawful to dismiss an employee based on discrimination such as gender, family situation, cultural background, marital status, membership of a union, sexual preference and disability.



Every new employee must receive a copy of the Fair Work Information Statement. It contains information about the NES, the information and assistance offered by the Fair Work Ombudsman and the Commission and how to contact them.

Figure 2.1: Fair work information statement

Termination management from the point of view of the employer is covered in a later chapter.

Employing children

In WA the employment of children is regulated by the *Children and Community Services Act (2004)* (CCS Act) and the *School Education Act (1999)*. The School Education Act 1999 states that children cannot be employed during school hours unless in approved employment, under specific conditions or with permission from the Minister of Education. Generally children need to be at least 15 years of age to be employed. The CCS Act sets rules about what work and hours children can do depending on their age.

Employment laws often change when there is a change in government. Managers and business operators must keep up to date with changes to avoid breaking the law and facing penalties from workplace regulators.

Table 2.5: Other employment regulations in WA

Legislation	What it covers
<i>Long Service Leave Act 1958</i>	It gives employees the entitlement to take $8\frac{2}{3}$ weeks of paid leave after 10 years of continuous service. And $4\frac{1}{3}$ weeks of paid leave for every five years of continuous service after 10 years.
<i>Surveillance Devices Act 1998</i>	It regulates the use of listening devices and optical surveillance devices in the workplace.
<i>Workers' Compensation and Injury Management Act 1981</i>	The Act sets compensation amounts based on the nature and severity of the workplace injury and sets out the requirements for employers to rehabilitate injured staff so they can return to work. Administered by WorkCover WA.

CONTRACTS

A contract is an agreement between two or more parties that is legally enforceable. There can be written or verbal contracts. A contract is formed when one party makes an offer and another party accepts it.

A contract is entered into when:

- signing a written agreement
- taking a product of a shelf in a shop and paying for it
- clicking on the 'I agree' or 'Confirm' button in an online shopping cart.

If there is an agreement in writing all parties have a record of what has been agreed to, what they have to do and what money is involved. A contract documents the promises that have been made. For example, one party promises to provide a product and in return the other party promises to pay a certain amount of money.

If there is a dispute over what has been done or the money that has been paid, the contract details are used to resolve the dispute. The contract may be used in a court to prove that there is an agreement so the court can enforce the agreement. There may be a verbal contract but then if there is a dispute it is difficult to prove the facts.



Examples of contracts include:

- employment contract
- loan contract
- phone plan contract
- vehicle purchase.

For example, an employment contract includes the following:

- name of employer
- name of employee
- job title
- employment status: full time, part time, contract or casual
- term of employment: fixed term, permanent
- pay rate or annual salary
- hours of work
- leave entitlements
- probationary period

Before signing a contract:

- ✓ Read it carefully.
- ✓ Seek legal advice about anything you do not understand.
- ✓ Check that the contract contains everything that was agreed to.
- ✓ Never sign a blank contract or one with blank spaces in it.
- ✓ Sign and date all changes and additions.

Elements of a contract

For a contract to be valid it must have the following elements.

Table 2.6: Elements of a valid contract

Intention	The parties must intend that their promises will create legally enforceable obligations in a contract.
Agreement offer and acceptance	The parties have negotiated the terms of the contract. One party has made an offer which has been accepted and agreed to by the other party.
Consideration	There must be something of value exchanged between the parties. Consideration is usually money but it can also be the performance of an act or the provision of a service.
Legal Capacity	The parties to the contract must be aged 18 and older and of sound mind.



<p>➔</p> <p>Consent</p>	<p>Signing a contract must be done with free will and proper understanding of what is involved. If it can be shown that proper consent was not given a breach of contract exists. Consent may be affected by:</p> <ul style="list-style-type: none"> • false statements • duress • using authority or power to force someone to sign.
<p>Legality of purpose and form</p>	<p>The purpose of the contract must be legal. The contract is invalid if it requires parties to do anything illegal. Some contracts such as for banking and for the purchase of land must have certain details to be valid.</p>

Advantages of contracts

Verbal agreements or oral contracts do exist and are common in business. Decisions can be made quickly without having to wait for legal documents to be written and signed. But many disputes and cases in court arise because agreements are not in writing and clearly defined. The advantages of having a contract include that it:

- clearly defines the promises made by each party and the consideration involved
- outlines processes to resolve disputes
- describes how profits and losses are to be shared
- defines a process if either party wants to terminate the contract
- creates certainty regarding income and costs for the contract period
- outlines a timeline or schedule for work and completion.

BUSINESS CONCEPTS

Contracts must have an agreement based on an offer and an acceptance of the offer. Courts have considered when the contract is made when we shop. Shops do not make an offer when products are displayed on shelves. A shop displays their products to invite you to buy them. The contract is completed at the checkout. Otherwise every time you pick up something to look at it you would have to pay for it.

BUSINESS CONCEPTS

Contracts that involve the sale of goods that have been banned due to safety concerns or to provide fraudulent services are not enforceable. For example, if you sign an employment contract to sell exploitative finance packages based on fraudulent property valuations the employer cannot enforce the contract if you refuse to do the job.



ACTIVITIES

Content review

1. What is the purpose of Australian Consumer Law (ACL)?
2. What are two penalties a business may receive if they breach ACL?
3. What are the benefits of national consumer protections?
4. What is bait advertising?
5. What is the difference between a voluntary and a statutory warranty?
6. Explain the two mandatory standards for product safety.
7. What are the three reasons a consumer is entitled to a replacement or refund?
8. What is the purpose of the National Employment Standards?
9. On what grounds can an employer fairly dismiss an employee?
10. Explain the six elements of a valid contract.
11. Verbal agreements or oral contracts are common in business. Agreements can be reached quickly without having to wait for legal documents to be written, reviewed and signed. But many disputes and court cases arise because agreements are not in writing and contained in a valid contract.
 - A. What is a contract?
 - B. List four reasons why businesses should use contracts.
 - C. Describe two situations that would result in an invalid contract.
12. Explain whether each of the following case studies of misleading or deceptive conduct is an example of puffery, silence, disclaimers/small print, prediction/ opinions or not misleading and deceptive:
 - A. A real estate agent is selling apartments with a view of the Swan River and has told buyers that the view will never be built out because it was zoned for low rise development. This was based on information obtained from the council, however it was wrong.
 - B. A clothing retailer is advertising '25% of all clothing' but has an exclusion for certain clothing written in small print at the bottom of the advertisement.
 - C. A fish and chip shop owner is selling their business because a similar shop is opening nearby. He does not tell the buyer this information.
 - D. A day spa advertisement claims they have the 'best sun tanning' product in the world.

Group research

1. Search online for advertisements or business policies that you believe breach Australian Consumer Law or contain puffery. Look for two examples. Explain the breach or puffery in each example.
2. Pyramid selling is prohibited by ACL. Investigate pyramid selling to learn more about it. What is a definition of pyramid selling? What are some examples of pyramid selling schemes? How is it different to a legitimate business activity?
3. Design one advertisement and one product label that breach ACL because of misleading and deceptive conduct. Explain how each one deceives consumers.
4. In small groups make a decision in the following consumer protection cases and explain how the law applies to the case.

<p>A customer bought a dress for her daughter at a sale. The next day her daughter bought the same dress at the sale. The customer went back to the store and asked for a refund. The store refused to give her a refund.</p>	<p><i>Is the customer entitled to a refund or replacement?</i></p>
<p>A customer purchased an outdoor setting with a table and six chairs. After three weeks one of the chairs had a large crack in one of its legs. The customer took the faulty chair and the receipt back to the furniture store to ask for a replacement. The sales assistant refused saying that it isn't shop policy to break up a new setting just to replace one chair.</p>	<p><i>Is the customer entitled to a refund, repair or replacement?</i></p>
<p>Jake found a used car he liked at a dealership. Part of the deal was for a new stereo to be installed at no extra cost. The sales contract did not list the stereo as an extra but the salesman assured Jake that the stereo would go in. When Jake went to pick up the car the stereo had not been installed as promised. Jake complained and the manager said that there were no extras listed in the contract.</p>	<p><i>Is Jake entitled to the stereo? What could have Jake done differently?</i></p>

5. Design and develop information products to educate people about an aspect of law that affects their lives. Design a slideshow and a brochure or poster. Include key points people should know, what to do if there is a problem and important contacts for assistance and advice. Choose one of the following topics:
 - National Employment Standards
 - Australian Consumer Law

6. Access the Australian Consumer Law website at www.consumerlaw.gov.au/ and go to the 'Guidance' tab. Find the information on sales practices. Create a brochure aimed at consumers about their rights in relation to:
 - unsolicited supplies
 - unsolicited consumer agreements
 - pyramid schemes
 - multiple pricing
 - lay-by agreements
 - referral selling
 - harassment and coercion.

7. How do the National Employment Standards apply to people who are:
 - A. Employed in an apprenticeship?
 - B. Working on a casual basis?
 - C. Under the age of 18?Use the Fair Work Ombudsman website www.fairwork.gov.au, to investigate these scenarios.

8. Select a set of case studies in the 'Consumer Rights and Guarantees' section of the Australian Competition and Consumer Commission website www.accc.gov.au. Each group member should select an example, classify the potential issues, and create a summary table of relevant consumer rights and protection.

CHAPTER 3

Economic Impact on Business

'Imagine believing in the control of inflation by curbing the money supply! That is like deciding to stop your dog fouling the sidewalk by plugging up its rear end. It is highly unlikely to succeed, but if it does it kills the hound.'

– Michael D Stephens –

Economic factors are part of the macro business environment. The strengths and weaknesses in the economy affect business success. There are cycles in the economy, periods of growth followed by a downturn, recovery then growth again. When the economy is growing unemployment is low, people have more discretionary income and loans and credit cards are easy to obtain. Discretionary income is spare money that can be spent on non-essential items such as electronics, cars, fashion, travel and entertainment. Non-discretionary income is money that must be spent on essential items such as food, rent, electricity, mortgage payments, transport and basic clothing needs.

If loans and credit cards are easy to get discretionary income can be increased. When the economy is growing consumers are willing to spend more and save less because they are confident that they will keep their jobs and continue to earn income. Banks are more willing to provide credit through loans and credit cards because they are confident that the good economic times will continue and customers will be able to meet their debt repayments.

The increased discretionary income and spending will increase demand for goods and services. The demand may be higher than what can be produced. Managers and operators will put their prices up because their production and supply costs are higher because of the increased demand. Prices can also be increased because business people know customers have the money and ability to pay through cash or credit. This results in inflation – a sustained rise in the prices of goods and services.

The Reserve Bank of Australia (RBA) tries to control inflation before it gets so bad that people can't afford the essentials. By increasing interest rates the Reserve Bank tries to slow down discretionary spending by increasing the amount of money people need to spend on debt repayments and by making loans and credit cards less attractive.



Because of high interest rates and inflation the essentials cost more and people are paying more on their mortgage, loans and credit cards so they have less or no spare money.

People still need food but they may switch to cheaper brands and stop going to restaurants and gourmet shops. Clothing will be bought more from discount stores instead of expensive department stores and boutiques. Spending on home renovations, white goods and furniture will decrease as well as electronic goods. Spending on entertainment and holidays will also decrease. People may keep spending but change from expensive options to less expensive ones, but overall discretionary spending will decrease.

The economic factors explored in this chapter are shown in Figure 3.1.

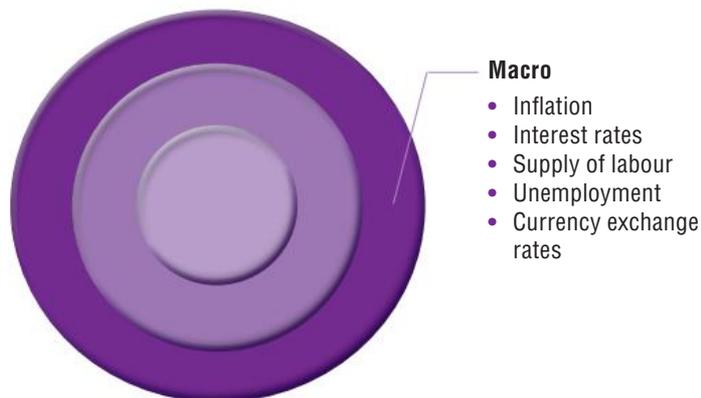


Figure 3.1: Macro environment

INFLATION

Every quarter the Australian Bureau of Statistics calculates the Consumer Price Index (CPI) based on a list of the typical goods and services purchased by a household. The CPI is compared to previous quarters. Inflation is identified when there is a rise in the CPI over a number of quarters in a row. The inflation rate is the percentage change in the CPI from one quarter to the next. If the CPI rises it means that you have to spend more to buy the same goods and services. Inflation can occur when consumption is high.

When the economy is going well, the demand for goods and services is greater than the supply. Prices rise because it costs businesses more to find stock and business managers know that people are more able and willing to pay higher prices.

If inflation is high consumers will spend more time searching for the lowest prices. Businesses and consumers may change their market behaviour to use online shopping more to compare prices and they may import less expensive goods. Businesses will find it difficult because their costs are inflating while still trying to use low price to encourage consumers to buy. Profit margins get squeezed and profit may decrease.

Instead of substituting less expensive brands, consumers may stop spending on luxury items all together. Consumers and businesses will need to use higher levels of debt to purchase goods and services. This increase in debt will have an impact on other spending because of the higher debt repayments.

BUSINESS IN SOCIETY

The Treasury and RBA aim to achieve an inflation rate of 2–3%. This is a rate of inflation low enough to have a minimal impact on business and the community.

INTEREST RATES

The Reserve Bank of Australia (RBA) sets interest rates. The interest rates set by the RBA determine the interest rates businesses and individuals pay on their loans, mortgages and credit cards. If interest rates increase the debt repayments increase. More money going to pay off debts means individuals have less money to spend on day to day expenses and luxury items. Low interest rates will lead to increased consumption as people have more spare money because of low debt repayments and because they are able to access more debt.

The RBA adjusts the interest rate as a way to combat inflation. If prices are rising because people are spending and demand is greater than supply, the RBA will increase the interest rate to slow down spending. If people and businesses are spending more to pay off debt they will have less money to spend on the consumption of goods and services. Higher interest rates will also discourage people from getting more loans and credit cards. This slow down in spending eventually slows demand and reduces inflationary pressure.

Low interest rates result in increased spending as people are spending less on debt repayments and have more spare money. Businesses and people can also increase their debt to finance spending because the debt is easier to pay off.



SUPPLY OF LABOUR

Supply and demand of labour has an impact on wages. If there is a shortage of people with specialised skills, the demand is high for skilled labour and the supply is low. Businesses have to use high wages to attract and keep people in the jobs. Those people with the desired skills will earn high wages and can spend more on luxury items such as travel, entertainment, electrical goods and house renovations. This increased spending can lead to more jobs and profits in the building, luxury goods, entertainment and hospitality service industries.

Unskilled jobs can be filled by people without special qualifications and skills. The supply of people may be greater than the supply of jobs. The pressure to increase wages to attract people does not exist.



BUSINESS IN SOCIETY

Since 2008, there has been little growth in employment in occupations where economically disadvantaged persons are typically employed – such as labourers, technicians and trades workers, and clerical and administrative roles.

UNEMPLOYMENT

Unemployment has an impact on business profit and success when it is increasing and decreasing:

RISING UNEMPLOYMENT



- Lower consumer spending
- Lower demand for products and services
- Consumer spending is focused on essential items not luxury goods
- Over supply of labour may result in lower pay levels
- Specialised skills and experience are lost when people are sacked
- Staff morale may be lower; they are motivated by fear of losing their job

Figure 3.2: Impact of unemployment

FALLING UNEMPLOYMENT



- Consumers can spend more
- Higher demand for products and services
- Consumer spending can broaden to more non-essential items
- Shortages in labour puts upward pressure on pay
- Higher wages increase business costs
- Workers are more motivated if the business is doing well

CURRENCY EXCHANGE RATES

The exchange rate for the Australian dollar is based on many factors, including the level of interest rates, inflation and terms of trade (the difference between imports and exports). If the Australian dollar increases in value compared to other currencies then imports from those countries will be cheaper. People can afford to buy more imported goods and go on international travel. Consumers may also buy more online so they can take advantage of cheaper foreign products.

If the exchange rate for the Australian dollar decreases, imported products will be more expensive, more Australian dollars will be needed to pay the same price. People will buy fewer imported goods and may cut back on international travel.

For example, a new car imported from overseas will have to increase in price in Australia if the dollar falls in value. The Australian distributor needs more Australian money to convert into the same price in foreign dollars.

When the Australian dollar is worth more, businesses exporting goods to overseas customers may find that sales will fall. Even though the Australian business still charges to same prices the customers need more of their currency to convert. Customers will try and find cheaper alternatives.

Here is an example. A customer wants to buy computer online from a business in Singapore. It costs \$1000SGD. It is very different depending on the exchange rate for Australian dollars.

Singapore price	AUD exchange rate	AUD dollars
\$1000	75c	\$1333
\$1000	\$1.02	\$980

When the exchange rate is high the customers spends \$980. If the exchange rate is lower the customer must spend more AUD to pay the same price.



ACTIVITIES

Content review

1. Which level of business environment are economic factors a part of?
2. What are three examples of economic factors that have an impact on business?
3. How can inflation have an impact on spending?
4. How can the supply of labour have an impact on business costs?
5. How can rising unemployment have an impact on business costs?
6. How can falling unemployment have an impact on business costs?
7. What is the impact of currency exchange rates on business spending?

Group research

1. Access the latest 'Economic Roundup' from the Australian Government Treasury website: www.treasury.gov.au. Examine the current impact of the following economic factors on business function in Australia:
 - A. Inflation
 - B. Interest rates
 - C. Availability of labour
 - D. Unemployment rates
2. Use the Reserve Bank of Australia's website: www.rba.gov.au, to investigate why Australia has a floating exchange rate, and the impact of currency exchange rates on business function in Australia.

CHAPTER 4

Corporate and Social Responsibility

‘Conducting your business in a socially responsible way is good business. It means that you can attract better employees and that customers will know what you stand for and like you for it.’

– Derby Brown –

BUSINESS PUBLIC IMAGE

A public image is created by the ideas and opinions that the public has about a business. It is how the business is perceived and the reputation it has in the community. In a market where businesses compete with similar products at similar prices, it is their public image and reputation that may influence where a consumer shops.

A business wants to create a public image through advertising, public relations and **community engagement**. Businesses that use advertising and public relations to show how committed they are to the community are often held to higher standards by consumers. The reality must match what they are saying. No matter what is in its advertisements, treating employees, customers and the community badly has a much more powerful influence on public image.

Customers can see a marketing gimmick a mile away. A business must be honest about what it is doing and be consistent. Businesses must not promote something if they are really not going to follow through on it, as it will damage their reputation.

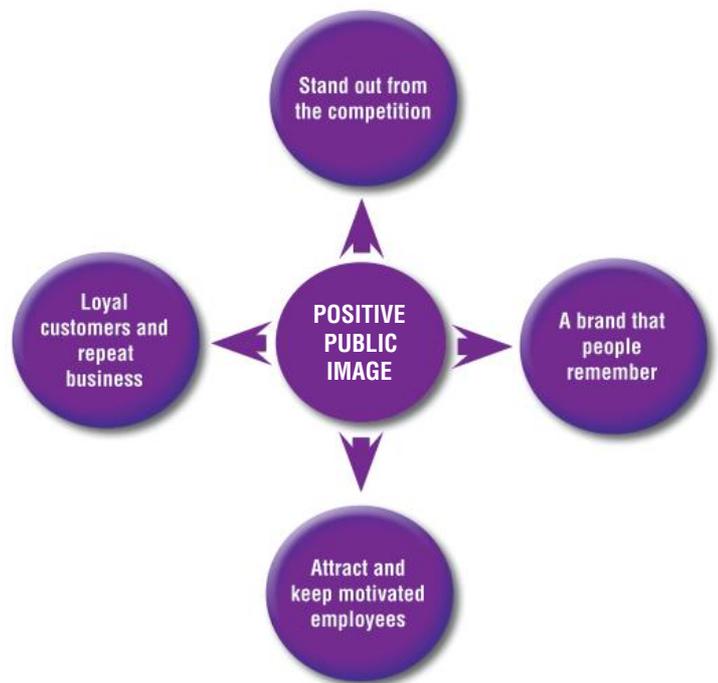


Figure 4.1: The ways a positive public image helps a business

Community engagement: interacting and working with people and groups in the community such as sponsorship, donations, employment and training.

Strategies to build a positive public image

'Green' gifts

Branded reusable shopping bags, water bottles and stationery made out of recycled materials is advertising and shows a commitment to the environment.

Donate to good causes

Donations may be one-off amounts or ongoing donations such as a percentage of sales. A percentage of sales may also encourage customer loyalty. The business can promote their goodwill and the recipients of the donations will also publicise the support. Being associated with a good cause builds an image of a business that cares about the community.

Businesses could donate money or products for fundraising events, or employees could provide time and expertise to assist a charity or community event.

Exceed expectations in service

Word of mouth promotion will grow out of treating customers better than competitors and by providing exceptional service; for example, by making sure products are delivered in time for special events, solving problems and adding free services and support. Happy customers will tell family and friends about their great experience.

Be ethical

A positive public image will develop from treating customers and suppliers honestly, following through on promises and honouring guarantees and warranties. Treating employees ethically will motivate them and encourage loyalty.

Corporate sponsorship

Corporate sponsorship is a business relationship where two parties make an economic exchange. It is not a donation, an example of philanthropy, but a business arrangement. A business creates a community image by building associations that are held in the memory of people in the community.

BUSINESS IN SOCIETY

A major Australian airline wanted to use social media to promote their service and ran a competition asking customers to tweet their dream in-flight experience. Instead, customers used the opportunity to highlight the poor service they received from the airline.

Down at a national grocery chain a Twitter promotion resulted in many negative comments about how the company is destroying local small businesses.



Sponsorship can be a combination of payments, providing support by supplying free office space, equipment, food, clothing or staff. In exchange for financial support or the provision of goods and services the sponsor receives benefits related to:

- **visibility:** the participants and spectators will see the logo and slogan of the company during the event and visibility will be high if a company sponsors an event that is broadcast nationally and internationally.
- **positioning:** because of the association between a company and an event the values and image of the event can support the image and positioning of the company. The event endorses the company in a similar way to how celebrities are used in advertising. By supporting an event the good intentions and community involvement of the event are associated with the company. This linking helps create a positive image.
- **publicity:** during the promotion and running of an event the corporate sponsors are mentioned and thanked. Company representatives may be involved in ceremonies. The sponsor and event are aligned so a mention of the event in the media will usually include a mention of the sponsor and the title of the event may include the name of the company. This is all free advertising adding to brand awareness and creating an image.
- **market reach:** the company will choose what to sponsor based on the demographics of the people involved. A baby products company will sponsor a baby expo or parenting workshops. A company selling healthy breakfast cereal or sports shoes will sponsor a sporting event. Sponsorship is more effective if the company and what it is sponsoring targets the same market.

The aim of corporate sponsorship is to create image transfer; the good public image of an event, cause or organisation is linked to the business sponsor.

Corporate sponsorship has degrees of exclusivity. Organisations looking for sponsors can charge more for exclusive sponsorship. This means that a single sponsor opportunity is sold to the highest bidder, or only one company from each industry is allowed to be a sponsor. The more exclusive the better for the sponsor as they will receive the benefits and image transfer alone rather than sharing with other sponsors.

The fact that a company is sponsoring something and is involved in the community also supports a positive community image. Existing and potential customers can see that the company supports the community and this perception will be remembered by people and become part of the business image.

IMPACT OF ENVIRONMENTAL ISSUES ON PUBLIC IMAGE

When a customer uses a business that shares the same values they will be more likely to return to that business. If a customer finds out that a business causes pollution or uses packaging that is not sustainable they will be less likely to return to the business.

Businesses should be environmentally responsible to build a positive public image, to reduce waste and costs and to minimise harm to the environment. The business benefits (loyal customers, higher profits) should not be the only motivation.

A business could offer environmentally sustainable services such as carbon offsets, recycling or renewable energy options. When faced with the choice between an environmentally sustainable business and one that is not, many consumers will choose the 'green' business.

Environmental issues are important to Australian consumers. Businesses can build a positive public image if they promote what they are doing to be more 'green'. If a business is shown to be damaging the environment it will damage their reputation.

Environmental issues that can have an impact on public image include:

- climate change
- pollution
- energy use
- animal testing
- greenwashing.

Climate change

Climate change is occurring because of the pollution created by human civilisation. Pollution, carbon in particular, reaches Earth's atmosphere and creates a layer that keeps heat in. This global warming increases the temperature of the Earth and changes weather systems and seasonal conditions and increases the temperature of our oceans. Climate change contributes to longer and more severe droughts, storms and the loss of polar ice.

Businesses contribute to climate change through the pollution they produce. The contribution to climate change of individuals and businesses is measured by their carbon footprint. That is the amount of pollution that comes from all of the goods and services produced and consumed; for example, from the production of the electricity used to heat water, light buildings and run equipment; from the pollution created by work vehicles and travel; and from the pollution created by the manufacturing process to make products and packaging.

For example, climate change impacts on tourism include:

- reduced rainfall and increased temperatures reducing water levels in rivers
- more frequent and severe storms damaging coastal accommodation and limiting access to tourism areas
- damage to tourism attractions, for example bleaching of the Great Barrier Reef.

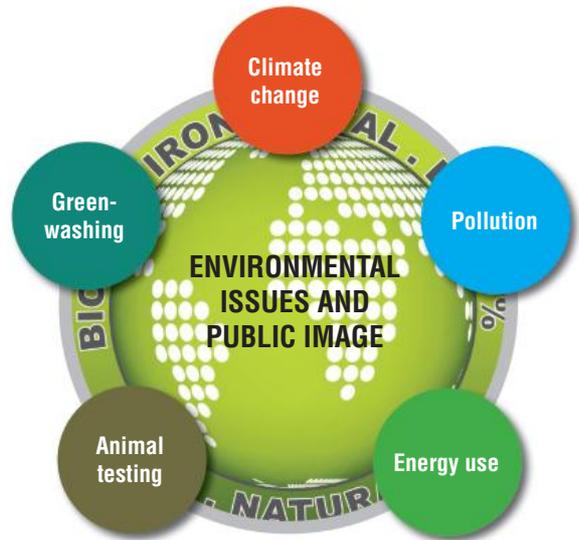


Figure 4.2: Environmental issues and public image



Society is very aware of climate change and the dangers it poses for the community. The public and consumers expect businesses to be aware and to be managing their contribution to climate change. A business that has strategies to minimise their carbon footprint will enhance their public image. Consumers and the broader community will see that the business shares their concerns and is acting in the best interests of society and the environment.

One way businesses do this is by offering carbon offsets. These include investments in planting trees and in renewable energy, or recycling when customers make a purchase.

INNOVATION AND OPERATIONS

The City of Perth¹ have a carbon offset scheme to plant and maintain native eucalypts in the West Australian wheat-belt to offset the carbon emissions from the cars using their parking facilities throughout Perth. It began in 2008 with the planting of 85,000 trees at Kojonup.

Pollution

Pollution control is about cleaning up contaminants after they have been created or released into the environment. Pollution control is an environmental management process that manages what happens to the pollutants that your business generates. For example, rather than dumping waste overflows from a production facility into the local river, a business with a pollution control strategy would collect and then dispose of the waste at an appropriate recycling or processing facility.

The major problem with pollution control is that it is a reactive solution that only acts to fix a problem that has already been created. A far more effective option is to adopt pollution prevention strategies that proactively reduce the amount of pollution your business generates and releases into the environment. Unfortunately, many businesses never take the initiative to shift from pollution control to pollution prevention. They continue to waste money and effort dealing with the environmental issues that they create.

Energy use

A small business will reduce its expenses and lower its environmental impact by improving energy efficiency; for example, by installing energy efficient lighting, using more natural light and incorporating renewable energy options.

Ways to improve energy efficiency include:

- installing fluorescent lighting
- insulating buildings to save on heating and cooling expenses
- switching off lighting, equipment, machinery and computers when not in use
- replacing old equipment with new more efficient equipment
- recycling and reusing materials.

¹ www.perth.wa.gov.au

Animal testing

The safety of cosmetics, medicines and other products, such as shampoos and household cleaners, is assessed by testing on animals. There is no animal testing of cosmetics in Australia. However, the majority of cosmetic products sold in Australia contain ingredients that have been tested on animals in other countries.

The public image of a business can suffer if their products are associated with animal cruelty. Animal rights and consumer groups often publish lists of businesses that use animal testing for their products. Public image can be enhanced if they promote their decisions to sell products that do not involve animal testing.

BUSINESS IN SOCIETY

Cosmetic brands are failing to inform Australian customers that their products are tested on animals in China, including the Draize rabbit eye test, where a product is put into the eyes of rabbits. Skin and eye irritation tests must be conducted on animals in order for cosmetic products to be sold in China. The same products are sold in Australia.

Greenwashing

Consumers can see through gimmicks and what is called 'greenwashing'. This term is based on whitewashing, where imperfections in a wall or building can be covered up by a layer of paint. Businesses have been found to be using claims about being 'green' to try and build a positive public image without really being committed to sustainability. The ACCC can take action against greenwashing because it is deceptive and misleading conduct.

BUSINESS IN SOCIETY

The Australian Federal Court found that a car manufacturer was misleading when it said that 'Every Saab is green. With carbon emissions neutral across the entire Saab range' because 17 trees were planted for every car sold to offset carbon during the life of each motor vehicle. In fact, 17 trees would only offset emissions for one year.

BUSINESS IN SOCIETY

An air conditioning manufacturer had to pay back \$3.1 million to consumers because the energy efficiency claims on the labels were shown to be false.



ACTIVITIES

Content review

1. Why is public image important to business?
2. What are two ways a positive public image helps a business?
3. Explain two strategies a business could use to build a positive public image.
4. What is sponsorship?
5. Describe two business benefits of sponsorship.
6. How can community groups benefit from sponsorship?
7. Discuss one environmental issue that can have an impact on public image.
8. What is greenwashing?

Group research

- I. Choose a business in the local community.
 - A. In your small group agree on two options to raise a positive public image.
 - B. Combine them into a strategy that will be implemented over six months.
 - C. Plan your strategy using a template such as the one below.

PUBLIC IMAGE STRATEGY

Option	Tasks to complete	Resources required	Communication methods

- D. Develop three items to support the strategy, such as a poster, a storyboard for a commercial, an email flyer or a print advertisement.
- E. What are the benefits for the business if they implement the strategy?

SECTION B: MANAGEMENT

CHAPTER 5

Understanding Your Market

'Authentic marketing is not the art of selling what you make but knowing what to make. It is the art of identifying and understanding customer needs and creating solutions that deliver satisfaction to the customers, profits to the producers and benefits for the stakeholders.'

– Philip Kotler –

MARKETS

In its most general sense, a **market** is a location where transactions or deals take place. Markets can be physical meeting places such as a livestock market, or virtual locations such as an online auction website. They facilitate the trading of product as well as the provision of information about product.

Marketing is a process whereby the pricing, promotion and distribution of products is planned and carried out, in order to meet the business' goals and mission. The product being marketed might be a good, a service, an idea, or even a person. Put simply, **marketing** is all the activities undergone to plan, price, promote and distribute a product to current and potential customers.

A business needs to understand its market. Customers included in a market are both consumers who already purchase the good (or service), plus all consumers who potentially might buy the product.

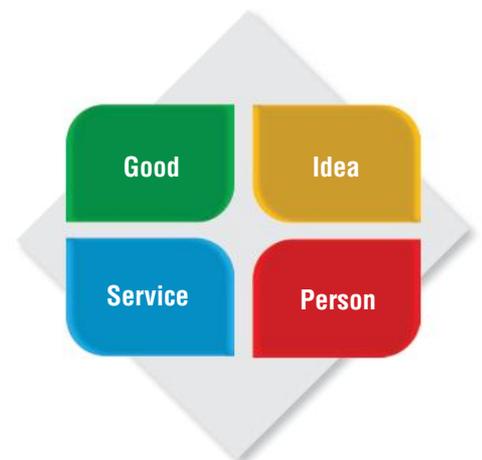


Figure 5.1: Products that can be marketed

Segmenting the market

Mass marketing is a marketing approach where the one product is marketed to all possible consumers, in an attempt to reach the largest audience of potential consumers that is possible. If the business decides to identify a specific group of potential customers, this is defined as the target market. A small business in particular is likely to want to target a **market segment** or a small **niche market**. If the whole potential customer base is represented as an entire pie chart, smaller segments and niches can be shown as a portion of the pie chart.

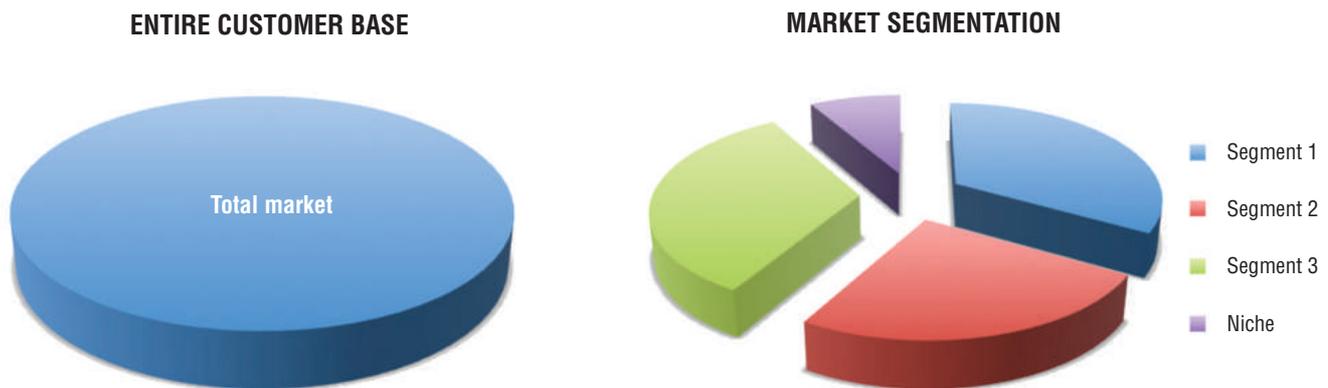


Figure 5.2: Mass market

Figure 5.3: Market broken into three segments and one niche

Businesses segment the market in order to have a focus that allows them to be more competitive and meet the needs of consumers. If the target market is clear, the business can design a focused product, price, promotion and place that directly appeals to potential customers. This will in turn assist with the achievement of the business' broader goals and mission statement.

Market size and market share

The potential market for a product could be considered to be the entire population of consumers who have any interest in the product. This potential market will be a particular size.

Within the whole potential market, the business will target a specific section. This **target market** includes all the consumers that the business has decided to supply. A business may decide that it has more than one market. If this is possible, it is a good idea to prioritise these markets and to decide which is the primary and which the secondary (or less important) market.

The **market share** of the business is the percentage of the entire market that an individual business has. This is illustrated below.



Figure 5.4: Market sizes

If the businesses in the market wanted to work toward **enlarging the whole market**, they would be aiming to increase the overall number of consumers purchasing the product or service. Each business would also be aiming to ensure they kept or increased their proportion of the market share at the same time. Figure 5.5 illustrates the division of a market where the **industry leader**, Business A has 55% of the market share, Business B has 15% and Business C has 30%.

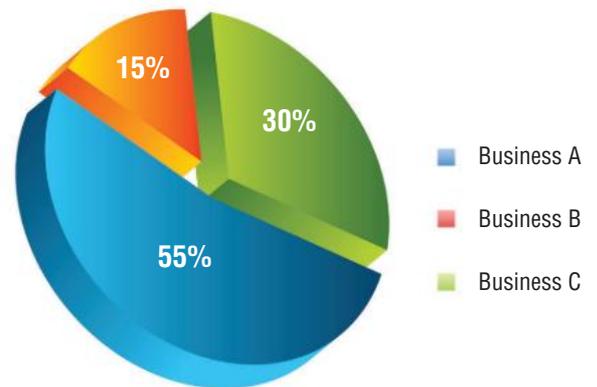


Figure 5.5: Market divided into three market shares

TARGETING THE MARKET

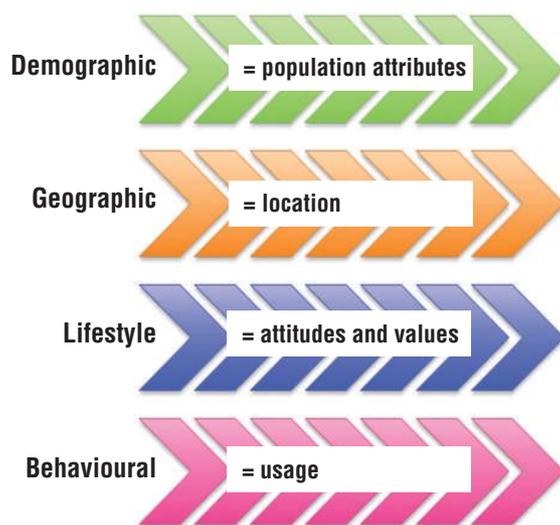
In order to divide the market up into groups of consumers, the business will need to develop an understanding of its target market. There are a series of steps that can be followed to do this.

Market segmentation

To complete the segmentation step of this process, markets can be divided based on the demographic, geographic, psychographic (lifestyle and behavioural) characteristics of the population. Demographic characteristics describe attributes of the consumer population. Geographic characteristics outline where consumers live. Lifestyle characteristics describe attitudes and values in the population. Finally, behavioural characteristics describe how the population would use the product.

Steps involved in target marketing

1. Segment the market
2. Choose and describe the target market
3. Position and differentiate the product



BUSINESS CONCEPTS

The target market for a luxury ice cream business might be described as females aged between 30-40 with an income above \$60,000 a year and no children, living in urban areas of Australia, with strong opinions about lifestyle choices and relaxation, who enjoy the status associated with being able to afford more expensive products and ingredients perceived to be of a higher quality.

Figure 5.6: Segmenting a market

Examples of market segmentation are included in Table 5.1.

Table 5.1: Describing a market segment

MARKET CHARACTERISTIC		EXAMPLES
Psychographic	Demographic	Income, sex, age, education, occupation, nationality, religion, ethnicity, family size, generation, social class
	Geographic	Country, state, rural/suburban/urban, climate, population size, climate
	Lifestyle	Opinions, personality, attitude, interests, leisure activities, beliefs, values
	Behavioural	How the consumer treats products: usage, loyalty, special events, status, convenience, benefits wanted, readiness, occasions/events

Market research process

The market research process involves determining market information needs, collecting primary and/or secondary data, then analysing this data to determine the target market and positioning of the business.

1. Determining information needs

The market researcher needs to first consider the information needs of the business. They want to find out information that allows the business to create good marketing strategies, to meet **sales targets**, to meet the requirements of the customer, and to review the

product range. The researcher should ensure that they do not collect information ‘for the sake of it’. It can be very expensive to undertake market research, so the cost of collecting information should be weighed against its importance and usefulness to the business.

The business might have several reasons for wanting to carry out market research. Generally they want to find out if **customers** will support changes to the product, details about main **competitors**, or if the market itself can **alter**. Other potential objectives are outlined in Figure 5.7.

2. Collection of marketing data

Marketing information is generally collected from either a primary or a secondary source. **Primary data** is collected from the original source, usually from the customer. The business might conduct the collection of primary information itself. Usually this involves interacting directly with customers, by interviewing, questionnaires, observing or test marketing (experimental).



Figure 5.7: Objectives of market research

Table 5.2: Sources of primary data

SOURCE	EXPLANATION
Interviews	Discussion with customers, such as one-on-one interviews or small focus groups
Questionnaires	Surveys that can be conducted either over the telephone, internet, by post or face to face
Observation	Watching how an individual or a group of people behave when shopping, or collecting information about their purchasing habits
Test marketing (experimental)	Giving the customer the product and observing their response, use and reaction

BUSINESS IN SOCIETY

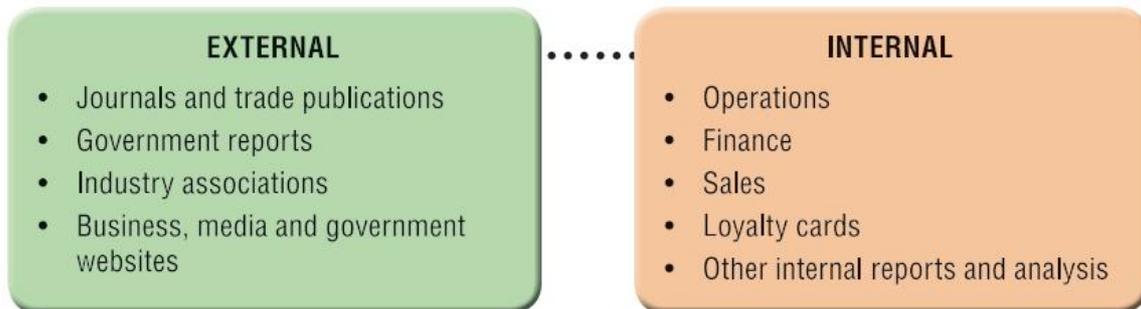
One type of primary data collection is an interactive question-and-answer feature on a business website. The survey would appear whenever a potential customer has visited the site, and pop up when the customer navigates away from the page. The survey might ask the visitor questions about their shopping preferences and their response to the businesses products.



Secondary data has already been collected by another organisation such as the government or another market researcher. **External sources** of secondary data include journals, government reports, industry association information and other publicly available locations. Information about competitors can be obtained on business websites and from publicly accessible company reports. Media reports and government statistics are available online.

Secondary data can be generated within the business. **Internal sources** of secondary data include reports from areas such as operations, finance, sales and so on. Shopper loyalty cards can form a useful source of marketing data because these record detailed information about customer purchasing habits. Internal secondary information can be analysed and interpreted by the marketing manager or owner of the business. It is usually the cheapest and easiest source of decision making information.

Sources of secondary data



INNOVATION AND OPERATIONS

The marketing manager of a business might wish to research the viability of expanding and opening a second shop front in a particular suburb of Perth. Using external secondary data from the Australian Bureau of Statistics, he/she can access census information to determine the socio economic status of the chosen suburb and household expenditure data.

This marketing manager could then research potential funding for the new shop front in Perth. Using internal secondary data on the businesses finances, he/she considers budget information to determine the likelihood that the business will be able to support payment for advertising and set up of the new location.



3. Analysis of marketing data

Market analysis and interpretation is carried out in order to determine if there is a market for a particular product or service. It can assist with deciding if the business has an idea that will appeal to consumers, and the likelihood of sales forecasts being met. After budgeting for potential sales, the business can predict likely profits.

The analysis of market research also provides important data about the market segment to the business. If the research is interpreted carefully it will enable the business to satisfy the wants of consumers.

Table 5.3: Market analysis and evaluation

QUESTION	FOCUS AREAS
Is there a market (or any new markets) for the product/service?	It is important that the business owner is able to objectively consider what the results are showing, and not get carried away with the emotion of a great idea.
What size is the potential market? What is the target market?	Secondary research can assist with determining the market size.
Will sales forecasts, market expansion goals or profit goals be met?	Compare budgeted forecasts and planned goals with the actual results.
Will customer needs and wants be satisfied?	Survey customers and employees to determine the success.
How valid is this market information?	The business must evaluate the research and interpret the results in a non-biased manner.
What are the current trends and likely changes in the market?	External factors, such as the social, cultural and economic environments, can have an impact on the final results and so must be included in analysis.

The main result of the market research process is to use market research information to determine:

1. Target market
2. Positioning

This will then enable the development of the overall marketing strategy.

Positioning

Positioning involves attempting to create a specific idea in the mind of potential consumers of a product. In a crowded market place, it is difficult for a business to distinguish their product from others. Positioning requires the business to both **simplify** their advertising message, and to ensure their message **sticks** in the mind of the consumer. A business that is not the market leader wants consumers to have an idea in their mind about the position of their product in relation to all other similar products. If they are not the market leader, their position could be that they are a viable alternative product to the market leader, or that they can take up a specific niche market.



Successful marketing campaigns

From the determination of target market and positioning, the business can then move to the development of a comprehensive strategy in the Marketing Plan. The marketing plan outlines how the business will develop a campaign to meet its marketing goals in the selected target market and position chosen.

The main aim of a marketing campaign is to increase awareness of the product for consumers, and thereby improve exposure, sales or profits. An effective campaign will do this with a minimal outlay of resources. The business will ascertain if main marketing goals or objectives were met, and this is a useful measure of marketing campaign success. Other performance criteria can be used to measure success, such as customer satisfaction.



SIMPLE MARKETING PLANS

A Marketing Plan must be carefully researched and prepared. Its purpose is to assist the business with achieving goals in other areas of the organisation, and it is generally prepared at the same time as a full business plan. It is a written action plan stating how the business will achieve marketing goals.

MARKETING PLAN SECTIONS

1. Market position
2. Current market
3. Competitor analysis
4. Target market analysis
5. Marketing goals
6. Marketing strategy and marketing mix
7. Costing

1. Market position

The current market position is a summary of the existing situation that the business finds itself in. For example, there may already be customers, the owners may have particular levels of experience, or there may be some knowledge of other businesses in each locality.

This section of the Marketing Plan would analyse the marketing mix. It would contain a synopsis of what is already known about the **product**, compare the **place** where sales will take place with competitor locations, outline the strategy for **price** such as special deals and discounts, and detail all **promotion** that the business currently uses.

It may mention the **people** working in the business and the training they already have, and the **processes** used for each part of the business such as customer service, manufacturing, giving quotes and responding to web page queries. Finally it could outline the **physical** appearance of the business; of signage and uniforms.



2. Current market

This is an analysis of the external factors that will impact on the business, listing the outside industry issues that will have an impact on marketing. The business can base its assessment of the current market on the particular industry it is in. Industry categories can be based on the Australian and New Zealand Standard Industrial Classification (ANZSIC), which has 17 broad groups defined.

Industry categories for market comparisons:

- Agriculture, forestry and fishing
- Mining
- Manufacturing
- Electricity, gas and water supply
- Construction
- Wholesale trade
- Retail trade
- Accommodation, cafes and restaurants
- Transport and storage
- Communication services
- Finance and insurance
- Property and business services
- Government administration and defence
- Education
- Health and community services
- Cultural and recreational services
- Personal and other services

When the industry category has been defined and industry issues outlined, the business will consider the physical, economic, socio-cultural and technological factors that have an impact on it. The examples in the following table may be used when summarising the current market.

Table 5.4: External factors impacting on the business' market

EXTERNAL FACTORS	EXAMPLES
Physical	New government legislation or policy
Economic	Changes in interest rates, industry income, industry annual profits
Socio-cultural	Alternative markets, changing social beliefs and values, family groupings
Technological	New information technology, mobile offices

3. Competitor analysis

A **competitor analysis** can be completed. This is a table showing each product, comparing each one with the competitors' products. The aim is to summarise the strengths and weaknesses of each competitor by analysing their capabilities, strategies and goals.

Competitors can be analysed in the marketing areas of:

- **Product:** quality, choice
- **Price:** method, additional features, offers
- **Positioning:** branding

- **Premises:** facilities, ambiance (etc)
- **People:** staff, customer service
- **Type:** current or potential, direct or indirect

The business owner may complete a **SWOT analysis**, showing the internal strengths and weaknesses and external opportunities and threats. A summary of a SWOT has been included in a later chapter.

A more extensive analysis of the marketing situation would allow the business owner to consider the current market environment as well as possible future trends. The marketing situation analysis covers five areas that relate to marketing decision making. These are: competitors, customers, company (the business), collaborators and climate (PEST analysis).

4. Target market analysis

The business needs to identify the segment of the market that the product or service is aimed at. A good description of the target market will ensure that all promotions are aimed appropriately at the market, thus marketing should be as beneficial as possible.

Target markets can be described using a number of different aspects, as outlined earlier in this chapter.

Aspects of target markets include:

- demographic
- geographic
- psychographic (lifestyle and behaviour).

There may be some **obstructions to entry** for particular target markets. The business should identify any likely barriers such as the costs to establish branding, licenses, government regulations, insurance requirements, staffing needs, transport costs and intellectual property costs.



5. Marketing goals

The business needs to identify the goals it wants to achieve as a result of the marketing campaign. These goals should be specific, and outline what the business wants to achieve in relation to the **product** (good or service) and in relation to the **market**. If the business establishes clear goals, this will assist in the planning of its market research process and marketing campaign.

Marketing goals should set quantitative amounts to be achieved or specific benchmarks for performance. They might involve expanding into **new markets**, changing **market share**, identifying new **niche markets**, increasing **market size** or **diversification**.

The following questions may assist with planning marketing objectives.

QUESTIONS ABOUT MARKETING GOALS

- ☛ What level of sales is expected in the next six months? Next year?
- ☛ How many new customers does the business want to obtain?
- ☛ How many queries about the business should be received?
- ☛ How many quotes for new work should be written? Taken up by customers?
- ☛ What level of public recognition is required?

6. Marketing strategy

This strategy is probably the most important section of the Marketing Plan. All earlier sections relate to identifying the current situation of the business and the aim of the plan. The section on strategy outlines exactly how the business will achieve the goals set out in the Marketing Plan.

This part of the plan is divided into the four (or seven) sections of the marketing mix. For each section, the business must outline an action plan of how the marketing goals are to be met using the related 'P'. Further details of each part are contained in the marketing mix section of this unit.

Table 5.5: Marketing strategies

ELEMENT	EXAMPLES
Product	Benefits customers will receive along with the product (or service), eg. delivery, after-sales service, packaging, branding
Price	Decisions about price setting, eg. discounts, beating competitors price, profit targets
Promotion	How the business will communicate to customers, eg. personal, public relations, sales deals, advertising
Place	How the product will be distributed and sold, eg. distribution networks
People	Staffing needs of the marketing plan, eg. training, communication skills, manufacturing capabilities, selling skills
Process	The customer service experience, eg. the procedure that will be followed if an inquiry is received, how to complete a customer quote
Performance	Satisfaction and competitiveness, eg. customer satisfaction and competitor awareness

7. Costing

This section of the Marketing Plan will list **each product** that will be sold by the business, and decide on the percentage of total sales that it may supply. Then the business can calculate the percentage of profit that each product should contribute. Do any products not provide enough profit? Should all products be sold? The business must also decide the approximate market share that each product will hold.

The costing section of a Marketing Plan outlines a timeline including details of each element of the marketing strategy, with the cost of each item. The timeline is important because it will assist with planning, and enable the business to budget for expenditure.

SAMPLE MARKETING PLAN

Each section of the Marketing Plan will be defined and explained using the example of 'Dippin' Doughnuts', a chain of doughnut stores which has manufacturing facilities located in Perth and outlets in ten suburbs. As part of its overall business plan for the next five years, Dippin' Doughnuts wishes to expand its operations by opening twice the current number of stores. The Marketing Plan has been written with this in mind, and extracts of each section have been included below.

DIPPIN' DOUGHNUTS FIVE YEAR MARKETING PLAN



SUMMARY OF MARKET POSITION

Dippin' Doughnuts has two major competitors – Holy Dough and Flakey Pastry, both of which have twice the number of outlets (a detailed map comparing store locations has been compiled, and is attached to this marketing plan). Managers at each store of Dippin' generally have 2-3 years' experience in the doughnut industry, and have training in marketing and financial analysis.

In the last year, the market share of retail stores in this industry has increased by 5% for stores located in major shopping centres, and has decreased by 7% for stores in other locations. The families market is the main sector of this industry, followed by the teenage market.

CURRENT MARKET

Physical factors

[New government legislation or policy]



Economic factors

Dippin' Doughnuts is part of the Retail trade: specialised food trade industry, which had an estimated industry income of \$3.45 million last year. Data from the Australian Bureau of Statistics shows that the average income made by retail outlets in this category was \$234 000 per annum. The life cycle stage for this industry sector is the Growth phase, as individuals in Australia have higher taxable income. This industry is very susceptible to changes in interest rates and employment rates.

Cultural factors

[Alternative markets, changing social beliefs and values, family groupings]

Technological factors

New methods for storing doughnuts have recently become available, enabling the business to keep product fresher for twice as long. This extended shelf life technology is currently only known about by us.

THE PRODUCT

Dippin' Doughnuts offers a range of doughnut products. These include plain, pink icing, jam filled, dinosaur shaped, chocolate coated, and cream filled. They also sell a range of soft drinks. The most expensive doughnut to produce is the cream filled doughnut, and this is sold at a higher profit margin. Currently the pink coloured icing doughnut is not very popular and sales are declining. The margin on drinks is excellent, and these do not require preparation time, ensuring they contribute positively to profit margins.

Competitor analysis**People (staff and customer service) and price (additional features):**

- Dippin' Doughnuts has highly trained service staff who complete a four-hour orientation. Managers undertake ongoing management qualifications at TAFE.
- Additional offers are not as impressive as the main competitor – Dippin' has only one offer, which is to give customers who purchase six doughnuts the hole (in dough) from three doughnuts.
- Our main competitor, Holy Dough, has staff who are less experienced, however their special offers include seven for the price of six, and a 'frequent dough-nutter' card where customers receive a 5% discount after purchasing five multi-packs of doughnuts.

Product (quality and choice)

- Dippin' has a selection of twenty different varieties of doughnut on offer. These are all sweet doughnuts, the same shape and size. They vary in flavour and colour. All ingredients used are high quality and fresh.
- Holy Dough has a selection of low fat savoury doughnuts, targeted at the healthy consumer. They have a selection of 12 sweet doughnuts in different shapes, sizes and flavours. They market their ingredients as being 'All Natural'.

- Flakey Pastry sell a range of pastry products. They also sell seven different types of doughnuts, all of which are chocolate or plain in flavour. Two are branded as using organic ingredients.

[Other comparisons: positioning: branding, premises: facilities, ambiance; Type: current or potential, direct or indirect].

SWOT Analysis

STRENGTHS

- Dippin' Doughnuts has excellent store locations in major shopping centres.
- Sound cash flow from the cash only sales
- Our doughnut flavours are changed on a regular basis, and new types of doughnut are being tested

Areas internal to the business that are an advantage and will assist the business to function efficiently

WEAKNESSES

- It is costly to train staff, and the turnover can be quite high as staff members are usually students who move on from study within a few years
- Rental costs are high. It is easy for competitors within the same shopping centres to provide alternatives

Areas internal to the business that are of concern and that may lead to failure, or poor results

OPPORTUNITIES

- Increasing demand from the employers market for easy morning tea supplies
- Interest level from teenagers in new products

External environmental factors that can be used to the advantage of the business

THREATS

- Two competitors
- Increased government legislation for the production and sale of food

External factors that could have a negative impact on the business. The owner wants to try to turn these into opportunities.

TARGET MARKET

Demographic and psychographic analysis

The typical Dippin' Doughnuts customer has a sweet tooth and likes a doughnut to munch on after a meal, or with a coffee. Customers are either aged between 25-45 with a family and purchasing multi packs of doughnuts. Alternatively, they are teenagers who purchase only one or two doughnuts to eat straight away. Both males and females are customers in equal proportions.

Geographic analysis

The typical Dippin' Doughnuts customer lives within a short walk of the shop. Many shop locations are near public transport, such as train stations. Shops are located in mid to low socio economic areas. Multi pack purchases are made as people head to work (catering packs for morning tea) or as they head home (to share with family).

Obstructions to entry

[Likely barriers such as the costs to establish branding, licenses, government regulations, insurance requirements, staffing needs, transport costs and intellectual property costs]

MARKETING GOALS

Dippin' Doughnuts will double the number of outlets in the next five years. As well as maintaining the current average level of sales, we will increase overall sales by ten percent. We aim to increase awareness of our product in our target markets and have a majority of customers as repeat customers who return to purchase doughnuts at least once a fortnight.

MARKETING STRATEGY

PRODUCT	<p>Doughnut products:</p> <ul style="list-style-type: none"> • plain • coloured icing (seven types) • jam/cream/custard filled • six different shapes • chocolate coated <p>Three new flavoured doughnuts and a low fat doughnut are being developed in time for the launch of the new stores</p> <p>A range of soft drinks</p> <p>Well known branding. Packaging available in multi pack and catering sizes</p>
PRICE	<ul style="list-style-type: none"> • plain or shaped = \$2.00 each • coloured icing, coated = \$2.50 each • filled = \$2.80 each <p>Discount of 5% available for purchase of 6, 12 or catering pack of 50 doughnuts. Combination packs priced using individual costs</p> <p>Competitors price is being met on all but the cream filled doughnuts.</p> <p>Drinks are priced at a mark-up of 70% on purchase price.</p> <p>[Profit targets]</p>
PROMOTION	<p>To occur at each new store in the first two weeks of operations:</p> <ul style="list-style-type: none"> • Personal: free samples on counter, special deals and discounts for volume orders • Public relations: Raffle prizes to be offered to local schools for quiz nights, sponsor local sporting teams, special events days in conjunction with shopping centre • Advertising: website with information on the location of individual stores, pricing and special deals. Vouchers in local discount voucher book. Signage in local area for each shop. Online marketing campaign • Branding: staff uniforms, shop signage, napkins, catering pack boxes all to have the logo and toll free phone number



PLACE	Doughnuts will be manufactured at the central Perth premises, and distributed to shop outlets using the business vehicle. Drinks are distributed from the FAL warehouse by their team of drivers.
PEOPLE	<p>Communication and selling skills: Each shop has approximately five part time employees and one full time manager. Part timers have been trained in customer service and money handling. Managers have received financing, operations and marketing training. They study ongoing management qualifications at TAFE</p> <p>Manufacturing capabilities: Two staff members are employed in the manufacturing centre and they are fully qualified bakers. One part time driver has the correct class licence to operate the truck.</p>
PROCESS	<p>Procedure manuals have been developed for:</p> <ul style="list-style-type: none"> • occupational safety • customer service • food handling • customer quotes
PHYSICAL	The website, staff uniforms, shop signage, napkins, catering pack boxes all to have the logo and toll free phone number



ACTIVITIES

Content review

1. Complete the following sentence, using these terms: **planning, market, goals, goods.**
Marketing _____ assist the business in _____ how the business can achieve their aims in relation to the _____ (or services) and the overall _____ .
2. How can a business define its potential market?
3. Define the concepts of 'market' and 'marketing', using examples.
4. Outline how a market can be segmented.
5. Describe potential target markets for the following products and services.
 - A. Cricket equipment
 - B. Car parts
 - C. Luxury hotels
 - D. Physiotherapy services
 - E. Beauty products
6. Distinguish between the following terms:
 - A. Mass market
 - B. Market segment
 - C. Niche market
 - D. Market size
 - E. Market share
7. Why would a business segment the market?
8. Identify the three main characteristics of market segmentation and give examples for each one.
9. Summarise three questions that can be used when constructing marketing goals.
10. List the objectives of market research.
11. Explain the difference between primary data collection and secondary data collection, using examples.
12. Recommend how a small catering business could complete market research for expansion into a new market segment.
13. Demonstrate how marketing data can be analysed, using examples to illustrate your answer.
14. How can a business position its product to negate a crowded market?
15. Summarise the main sections of a Marketing Plan in a table.
16. What external environmental factors will affect the market of a business?

17. Explain the purpose of a market competitor analysis, and the main elements that might be found in one.
18. What is a SWOT analysis?
19. Complete a competitor analysis for your choice from each of the following categories of businesses, showing each response in a summary table.
 - A. A local café or bakery in your area
 - B. A national franchise chain
 - C. A manufacturing company that distributes goods Australia wide
20. What are five questions that could be addressed by a business' marketing goals?
21. Outline the relevance of a marketing strategy.
22. Why is it important to create a timeline when doing costing for a marketing plan?

Group research

1. Research a specific industry sector allocated to you by your teacher.
Summarise the impact of external factors on marketing in this sector, including:
 - A. Physical
 - B. Economic
 - C. Cultural
 - D. Technological

Write a two-minute summary and present this to the class.
2. Complete one of the following interactive quizzes on marketing from the Tutor Marketing website at www.tutor2u.net/quiz/marketing/.
 - A. Marketing mix
 - B. Market segmentation
 - C. Promotion
 - D. Pricing
 - E. Place/Distribution
 - F. Products and brands
3. Summarise how the marketing of a product fits in with other business activities, using the marketing information on the Small Business Notes website at www.smallbusinessnotes.com/. Go to the 'Marketing Your Business' tab.

CHAPTER 6

The Marketing Mix

‘The aim of marketing is to know and understand the customer so well the product or service fits ... and sells itself.’

– Peter Drucker –

MARKETING MIX

A marketing strategy can be developed around the elements of the **marketing mix**. The strategy details how the parts of the marketing mix can work together in order to achieve the marketing objectives that the business has set. The mix is called the **Four Ps**: Product, Price, Promotion and Place. For each element of the mix, the business’ product or service is matched with the target market with the aim of ensuring a competitive advantage. For the purposes of this Course, the **expanded marketing mix** has been defined to also include People, Process and Physical Presence.



Product

The business will decide on the product (goods and/or services) it wishes to market. A ‘product’ is an item that is designed to meet particular needs for the customer.

A consumer will purchase a product that meets their wants and their needs, and different consumers will be attracted to different product aspects. Less tangible aspects such as the name, packaging and branding will appeal to particular customers. The type of service and warranties provided will be important to other types of customer.



Figure 6.1: The ‘product’ element of marketing

Product strategy will change depending on the stage of the product life cycle. Packaging, labelling and branding can be used at each stage of the product lifecycle to distinguish the product from competitors in the market place. These are discussed in a later chapter.

Market growth

In order to gain an advantage over competitors, the business might seek growth in product markets. Product growth strategies include increasing sales of the existing product through improved market **penetration**; developing **new product** for the currently existing market; increasing sales of the existing product by **developing new markets**; and **diversification**.



Positioning

Product positioning encompasses all the methods that are used to create a unique impression of the product in the minds of potential customers. In a crowded market, it is challenging to stand out to consumers, so consistent simple messages about the product are needed. Customers perceive products to have particular attributes, and they compare these attributes to competing products.

Positioning strategies are broadly attempting to differentiate the product. They might claim the product is different to a competitor, highlights benefits or attributes, focus on the characteristics of users, or emphasise price or quality. Positioning strategies can be related to any of the elements of product marketing: features, branding and packaging.

PROCESS OF PRODUCT POSITIONING

1. Decide on the target market for the product
2. Identify the current features of the product
3. Research customer perceptions about the product's features
4. Distinguish where the product is presently located in the market
5. Decide on the ideal combination of product features in the ideal target market
6. Examine the gap between the current product and the ideal

Repositioning a product involves changing the position of the product in the market. This can be needed if attitudes toward the product have changed, if a new market segment is identified for the product, or if the product life cycle has altered. Alternatively, the business might try to reposition a competitor by encouraging consumers to view the competitors product differently.

BUSINESS CONCEPTS

A new brand of margarine has positioned itself as being healthier than the alternative product, butter. It has positioned itself as being different to competing margarines through claims that it has unique benefits for consumer health with added vitamins included.

Price

The pricing process involves setting the price of the product. A good pricing strategy will ensure sales income and meet profit objectives.

The business will need to perform breakeven analysis and other financial calculations to determine the price required to cover costs and meet profit objectives. Additionally the business needs to determine the price the customer is willing to pay and remain competitive in the marketplace. There can be several negative effects of the incorrect price.

If the **price is too high**, the consumer may decide the product is not of high enough quality, or offers enough customer service, to justify the higher price. If the **price is too low**, the consumer may believe the product is too cheap and of poor quality. The reputation of the business might be adversely affected.



Figure 6.2: The 'price' element of marketing

PRICING METHODS

- **Market price:** respond to customer demand and increase price if demand is up
- **Discount price:** lower price to stimulate demand if demand is low
- **Target return pricing:** set price based on budget forecasts and required returns
- **Competitor's price:** meet the price being charged by main competitor
- **Profit margin or Cost plus:** set price based on cost of producing it plus required profit margin

Pricing strategies appropriate to a range of markets

1. Skim pricing

A high price is set because customers are happy to pay more. Generally this can occur when a new product is launched, because consumers who are early adopters of new products or new technology are unconcerned about paying a premium price in order to get hold of the product first. This is a strategy for a **niche market**. The business can build a particular image for the product if it is able to demand a relatively higher price, and this may flow on to being able to afford particular promotional methods. The business can segment itself into a particular section of the market. It is likely that as other competitors enter the market, prices will fall, and the business might move on to other products, or to further distinguishing the product through changes and upgrades.

INNOVATION AND OPERATIONS

A business selling a high quality graphics projector with high performance features can use skim pricing until competitors commence moving into the market. The business will then need to continue to develop the projector with new features and performance abilities in order to keep its niche market and skim pricing strategy.

2. Penetration pricing

A low price is set, because customers will then respond by purchasing more and new customers will start to purchase the product or service. The product needs to be relatively popular; alternatively this pricing strategy may be used because of competitors moving into the same market segment. This is a strategy for a **volume** or **mass market**. A business might be able to afford low pricing when the accessories that come with the main item are sold for a higher mark-up. Caution is required, because competitors might attempt the same pricing strategy, and because the image of the product could suffer at a relatively lower price.

BUSINESS CONCEPTS

A business entering the mobile phone market will set a low price in order to gain market share and penetrate a large volume of the mass market. Over time, as market share is gained, the business can add extra features to the mobile phone and gradually increase the price.

3. Psychological pricing

The price is set based on customer perceptions of quality, convenience, security or satisfaction. For example, 'odd-even' pricing occurs when a price slightly below a whole number value is given. Customers perceive the price to be significantly lower and therefore more attractive.

BUSINESS CONCEPTS

A business prices real estate at amounts in uneven dollars. When a property is priced at \$369 000 instead of \$370 000, consumers will perceive the \$369 000 price was being a much better deal even though it is only \$1000 less.

4. Premium or prestige pricing

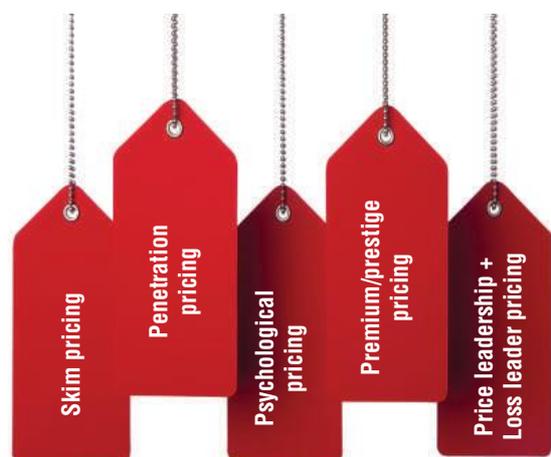
A price higher than competing product prices is set. This gives the business a **niche market** for exclusive and high-end items.

BUSINESS CONCEPTS

A business selling designer handbags will keep prices high in order to attract customers who want the image associated with costly designer goods.

Other common pricing strategies

- **Price leadership:** this is a general strategy which may be chosen by the business as part of its overall strategic plan. The business wants to be seen as the first to introduce any price changes and to set the precedent in pricing for other businesses to follow. Usually only a large business which is the market leader with the **greatest market segment** can set prices for the rest of industry to follow. The business that has such huge market share has the power to set prices.
- **Loss leader pricing:** this strategy requires the business to sell a product or service for below its cost price. A loss is made on that product; however, by drawing customers into the shop they will spend money on other items with a profit margin to be made.



Promotion

The organisation needs to set up a strategy for promoting the product or service to the consumer. 'Promotion' involves the communication of information about the product to the target market, while also attempting to influence the behaviour and attitudes of the consumer. Promotion methods can fall into a variety of different categories.



Figure 6.3: The 'promotion' element of marketing

PROMOTIONAL METHODS

- **Personal selling:** direct selling through viral marketing, door-to-door or telemarketing, Sales staff such as real estate, shoe store or car sales.
- **Publicity:** setting up positive news stories, creating media releases, product launches
- **Sales promotion:** special deals such as frequent flyer, customer loyalty, coupons, samples
- **Advertising:** media advertising, including the internet, print and mass media.

Push and pull promotion



A **'push' promotional strategy** attempts to create demand from customers for the product. Information about the product is disseminated through the distribution chain of wholesalers and retailers. Retailers are encouraged to know as much as

possible about the product and to advocate its benefits. When a 'push' strategy is used, the customer is directly advertised to, and the distribution chain is flooded with the product.



A **'pull' promotional strategy** involves a lot of spending on advertising before the release of a product or service, to create demand from customers for the product or service. When it is released, consumers will request it from retailers and wholesalers.

BUSINESS IN SOCIETY

Mobile phones can be sold through PUSH strategies such as small retail outlets where the retailer is encouraged to sell high volumes of the product, and given incentives to personally promote the benefits. The retailer can be approached personally or through trade shows.

BUSINESS IN SOCIETY

New children's toys are often heavily promoted through advertising and television shows before their actual release for sale as a type of PULL strategy.

Promotional technologies

The internet and digital technologies are a part of our lifestyles and provide us with information, commerce and entertainment. Businesses have seen our use of technologies and have developed promotional strategies to exploit technological capability. An example of this is society's increased use of the internet for news and entertainment. Spending on advertising online is growing and may soon be greater than spending on advertising in magazines and on the radio. In this section, how businesses use technologies to promote their business is explored.

Print, television and radio

These media are funded through selling advertising. Advertising is a promotional tool used by businesses to educate people about their goods, services and brands. If a business is promoting itself by using a sale or special offers, advertising in print media, on television and radio is used to raise awareness. Different magazines, television and radio shows are aimed at different target markets. Businesses buy advertising space on media that are aimed at the same target market. Music players and youth fashion are advertised in music and surfing magazines and websites, for example.

The internet and gaming

An internet Web presence provides a low cost 24-hour 365-days-a-year vehicle for presenting clear and precise brand identity. New product launches are supported by websites, **blogs** and competitions based online and with SMS. These try to generate demand, interest and novelty about a new product or brand. Australian spending on online advertising is growing faster than the traditional media of newspapers, radio and television.



An area of advertising that is growing rapidly is aimed at the 18 to 34 age group. This group is difficult to reach with print and television advertising because they spend more time using the internet and playing games than watching television and reading print media. With Internet-enabled PC and console gaming, advertising is being designed as part of the game. It can take the following forms:

- **Advergaming:** a game that is designed around a particular product or brand, games based on movies or television shows.
- **Dynamic ads:** served to games live during game play, the connection to the internet enables new in-game advertising to be automatically downloaded into the game.
- **Product placement:** involving a product within a game, a drink vending machine, a vehicle, a pizza box.
- **Static ads:** permanently integrated into the game during game development, could be part of a loading screen, logo on a characters T-shirt or on a billboard in a landscape.

Digital point of purchase technology and hypertags

Digital point of purchase technology is an emerging promotional tool. Used widely in the UK and US its use is growing in Australia. It is networked video advertising throughout a store linked to a database. Shops and banks often have a television playing advertisements in the corner but Digital POP takes it to the next level. It has also become another revenue stream for variety stores. Different brands and products can buy time to show their advertisements in the same way as they do on television. Telstra is the biggest user of Digital POP, Nike is using it in their Melbourne store and Woolworths is testing it in Sydney. Uses include plasma screens with advertising content that is updated regularly to support current promotional campaigns and small LCD screens showing Flash animations as part of a larger instore or window display. Users believe these digital tools increase customer traffic, improves brand communication and increases sales.

Hypertags are small electronic tags embedded in an advertisement such as a poster on a bus shelter. When a person sits at that bus stop video, audio, images, animations or calendar reminders are downloaded to their phone using a Bluetooth or infrared connection. Hypertags may be included in a digital point of purchase display. A radio station used hypertags on bus stops in Melbourne to promote their breakfast radio show.



BUSINESS IN SOCIETY

As part of the New Zealand promotional campaign for the movie, *Mission Impossible 3*, players of a game had to register on a website then search the city to download hidden answers to clues. Clues were delivered via SMS and hypertags were installed in 40 bus shelters and street signs. The hypertags also allowed people to download movie-related ringtones and wallpapers for their phones.

Viral marketing

Technologies such as broadband, video-capable phones, the internet and email have enabled the emergence of **viral marketing**. Viral marketing depends upon a multimedia message being passed along from person to person to create awareness and interest for a brand or product. Someone forwards something to their friends, then those friends forward it on to other people and so on. The message can quickly reach more people than an advertisement on television or in a magazine ever could at a much lower cost. Consumers distribute the advertisement instead of a business having to pay for advertising space around the world. The advertisement has more credibility because it has come from a friend with an implied recommendation.

BUSINESS IN SOCIETY

Hotmail used viral marketing successfully to become the world's largest free email service. Every email message that was sent using Hotmail had an advertisement and a link to join the Hotmail service. Every Hotmail customer became an involuntary salesperson simply by using the product.

Another successful example is the internet campaign for the fictional movie *The Blair Witch Project*. In the months leading up to the release of the movie fake blogs and websites were set up to get people talking about this 'true' story. The movie's success was based on the awareness and interest generated by word of mouth and the spooky stories emailed around.

Another example is a short video showing a bear fighting a fisherman for a tuna, which was emailed everywhere because it was very entertaining. Once people around the world were aware of the video John West revealed that they produced and released it.

M-commerce

M-commerce means mobile commerce. It is the use of mobile devices such as phones and personal digital assistants (PDA) to buy products and services. A webpage designed for mobile devices is opened on the phone. Through this webpage goods and services can be purchased and paid for through a linked payment service. It is still in its early stages in Australia. The mobile phone acts like a credit card. Payments can be processed through the billing system of the mobile phone service provider or a linked payment service.

One use of m-commerce involves ordering movie tickets on the mobile phone. When payment is made the customer receives a customer number which is shown at the cinema to get the ticket. Other uses include bus and train tickets, parking tickets and vending machines. A vending machine will have a wireless connection to the phone, payment is made via phone and a message sent to the vending machine which releases the product. SMS voting for reality shows on television and entering competitions via SMS are common examples of m-commerce.



BUSINESS CONCEPTS

The growth of business use of m-commerce has been slow in Australia. But with the developments in smartphone technology and most phones being internet ready, the use of m-commerce is expected to increase. M-commerce is more likely to be successful if it has easy navigation and search and product pages with images and product reviews.

Marketing through social media

By responding to comments and feedback the business can build relationships with customers, and new products and services can be discussed. Social media is multimedia and a business is able to use video, audio and images to build interest and demand for their products and services. Business websites incorporate social media with the use of blogs, forums, competitions and links to social media pages. The more content a business has online the more likely they will be found by internet searches.

A business that has a Facebook page for a product will use Twitter to talk about new content on the Facebook profile and have links to their Facebook and Twitter pages on their business website. Friends and followers of a business could get advance notice of special offers, events and new products. Businesses are including social media in the job descriptions of marketing staff, and hiring people to participate in social media, devise social media strategies and even to pretend to be consumers and contribute positive messages to blogs and forums.

BUSINESS IN SOCIETY

In 2009 the organisers of the Annual Singapore Tattoo Show created a Facebook Tattoo Artistry group leading up to the event. Over 3000 people joined the group. The organisers believe that the word of mouth generated by the group resulted in over 15,000 people attending the event.

SOCIAL MEDIA STRATEGIES

- Create social media profile pages for the business or brand
- Include links to social media pages on the business homepage
- Provide compelling reasons for people to keep returning to the businesses page, eg. competitions, entertaining animations and videos, news and special offers
- Be actively involved – frequently update pages, add status updates daily and respond to posts and comments quickly to maintain interest and encourage participation.



Place

'Place' refers to the method of distributing the product or service to consumers. Distribution channels need to provide **security** for the transport of the product, **incentives** for wholesalers or retailers to improve sales, the least number of **distribution steps** or transfers and, most importantly, must ensure that consumers receive the product in a **timely** manner.

A small business might be able to distribute directly to retailers themselves, simply by approaching each individual business. A large manufacturer would probably distribute product indirectly. They would arrange to have a distributor who organises transport of the product to wholesalers who then channel the product to the retailer. Retailers would then be used to sell the product directly to consumers. The management of inventory at all stages of the distribution chain may also be required.

The use of the internet has changed distribution networks significantly for small businesses, and manufacturers can often access consumers directly. This is lessening the role of some wholesalers and retailers, and replacing some distributors with distribution organisation such as Australia Post.



Figure 6.4: The 'place' element of marketing



A variety of distribution methods are possible, as shown below.

Table 6.1: Identification of suitable distribution channels

DISTRIBUTION METHOD	REASONS FOR USE
Manufacturer or wholesaler to distributor to retailer	The most common model, used when there is wide variety of choices for the product, and a large customer base. The retailer is not able to stock all the varieties available and must frequently restock. For example: sunglasses, home furniture, clothing, shoes
Manufacturer or retailer directly to an agent	Payment of a commission to an agent would be used if the product being sold is quite specialised or new to the market. For example: text books, specialised tools
Wholesalers or distributor directly to consumers	Where there is a small customer base for smaller items. For example: projectors, computers
Manufacturer directly to small retailer	Large items that are difficult to transport and have a dedicated function. For example: Long haul trucks, harvesters

EXTENDED MARKETING MIX

There are three additional elements to the marketing mix, which can be used in conjunction with the 'Four Ps' outlined previously. This expanded model allows for the fact that the traditional 4-Ps model applied more directly to businesses that sold goods. The expanded marketing mix accounts for elements of marketing that are important to service businesses.

People

The 'people' element of the marketing mix is most important for a service business, and can have an impact on a business selling a good. People includes the individual staff members and the employees working in the business who provide a service to the consumer. This requires consideration of the elements of staffing that relate to the market, such as conditions, relevant training and qualifications, and development of communication skills, as well as having the needed manufacturing and selling skills. The business can define its competitive advantage by focusing on its customers, through ensuring that employees are well trained and competent.



Figure 6.5: The 'people' element of marketing

The business should focus on training the people who work in the business so the best customer experience occurs.

Employees of a business might be involved in direct selling, as an agent working on commission, or they could be providing customer service such as in a retail store or technical support. These employees might require training for telephone sales, face to face interaction with customers, or for selling via email over the internet.

Relationship marketing

A business with a clear customer focus is often using the concept of **relationship marketing**, where customers are treated as individuals, and staff in the business build up a connection with customers. By having rapport with customers, the employees of the business can often feel more positive and motivated in their workplace. The customer will benefit because they will receive personalised service, a greater understanding of the benefits and features of the product or service being purchased, and they will then often become a repeat customer. Repeat customers might purchase more features or upgrade a product more regularly because they have a personal connection with the business. They are also more likely to just drop in to the physical shop or to surf to the business internet site, in order to see the latest news, special deals or products. The relationship builds strong customer loyalty.

Customer relationship management (CRM) is discussed in depth in a later chapter.

Process

The marketing mix for a service business can involve a lengthy 'process' of providing customer experience. Consideration of what the consumer is going to be experiencing at every stage of their visit, and how they might choose to interact with the business, is an important part of process.

Processes involve ensuring the business has procedures for correct customer service, provides a great customer experience, always follows up inquiries, and provides customer quotes. The business can differentiate itself from the competition by identifying important points where the customer will interact with the business in some way, and by working hard to improve the customer's experience.

An effective service process encourages the customer to return to the business. They will start to form a relationship with the business and its product, which in turn should increase their customer loyalty to the business.



Figure 6.6: The 'process' element of marketing

BUSINESS CONCEPTS

A consumer attending a wildlife park might enter the park through a gift shop which has to be staffed and presented in a particular way. They might then move through the park and interact with some of the animals as well as attend a show or a display involving people or animals displaying particular skills. This person could then also attend a short wildlife film or use a coffee shop on the premises. Every element of their day-long visit involves a complex marketing process, where the consumer can make different decisions – including the decision to eventually leave the wildlife park for some reason.



Physical

The ‘physical presence’ of the business encompasses all the elements of the business identity that the customer can see. These are aspects of the business such as the design of the shop front, signs, the website and staff uniforms.

Physical appearance is enhanced by the provision of good service, and this will affect the customer experience. It can be augmented with quality service delivery, therefore appearance is relevant. The business defines its competitive advantage through the use of a unique visual business identity in the marketplace.



Figure 6.8: The ‘physical’ element of marketing

Performance

The performance of the business can be monitored through the evaluation of business marketing objectives. When marketing objectives are set, they should include a statement about how they will be measured. Then, when the marketing campaign is over, these measurement objectives can be used as a method of reviewing the success of the marketing goals. By creating clear Key Performance Indicators (KPIs) for each marketing objective, a measurable set of data can be reviewed.

BUSINESS CONCEPTS

A business selling umbrellas has set the marketing objective to increase customer numbers over the three months of winter. The business owner has decided that success will be measured using the following KPIs, related to sales and customer satisfaction:

- A proportional increase in sales numbers: aiming for a 20% rise
- A decrease in sales returns: for this to decrease from 3% to 1%
- Decreased time taken to respond to customer queries: from half a day to one hour

Evaluating sales revenue and sales returns

The business owner can set sales targets with employees and encourage them to achieve the goals. Decreased sales returns can be achieved through a focus on the quality of manufacturing of the product and on ensuring that customers are always selecting the correct product for their needs.

KPIS TO MEASURE SALES

- Number of sales and sales returns
- Number of customer queries in a month or year
- Sales by customer segment, demographic, geographic area
- Proportional increase in sales revenue or decrease in sales returns
- Proportional increase in sales after a marketing campaign or new product/service launch
- How long it takes to process a return
- Percentage take up of discounts or other special sales offers

Evaluating customer satisfaction

The business can develop goals for good customer service and provide encouragement and incentives to employees to provide this. By creating clear KPIs for customer service the business will be able to measure customer satisfaction, as shown below.

KPIS TO MEASURE CUSTOMER EXPERIENCES

- Number of complaints and/or questions
- Number of repeat customers in a month or year
- Number of calls made to customers each week or month
- Proportional increase in sales after a marketing campaign or new product/service launch
- How long it takes to process an order, respond to an email query or answer a phone call
- Warranties claimed

Customer responses can be collected in a number of ways such as through short surveys at the point of sale, written survey included with a product, informal conversations with customers, listening to employee feedback, paying for formal market research, keeping good sales records and the use of online feedback or discussion groups.

ACTIVITIES

Content review

1. Identify the elements of the marketing mix
2. Discuss the main elements of a product-focused marketing strategy.
3. Apply a relevant product growth strategy to each of the following scenarios:
 - A. An orchardist who wishes to increase sales of bananas at local markets
 - B. A baker who is developing a wider selection of cakes to sell in her bakery
 - C. A home stay business run from a farm that wants to also sell native flowers grown on the property.
4. Outline a process that could be used to reposition a motor vehicle (of your choice) in the marketplace.
5. Contrast the effects of prices that are too low or too high on customer behaviour.
6. Define five pricing methods
7. Apply four pricing strategies to market examples.
8. Compare two pricing methods from the list below, explaining which would be best used for a rock climbing business:
 - A. Market price
 - B. Discount price
 - C. Target return pricing
 - D. Competitor's price
 - E. Profit margin or Cost plus
 - F. Psychological pricing
9. Summarise four promotional methods.
10. Compare and contrast the effects of push and pull promotional strategies.
11. Define viral marketing, using examples.
12. Outline how the following technologies can be used to facilitate promotional activities:
 - A. Internet
 - B. Mobile devices
13. Outline the main differences between direct distribution and indirect distribution.
14. How can the expanded marketing mix be applied to service businesses?
15. Explain the importance of good processes to the marketing of a product.
16. What is relationship marketing?

17. Describe how the following elements of the business are relevant to physical presence:
 - A. Signage
 - B. Webpage
 - C. Staff uniform
18. Define a KPI.
19. Create a summary of key KPIs to measure marketing objectives.

Group research

1. Open the marketing plan template found on the Business Victoria website at www.business.vic.gov.au/marketing-sales-and-online/increasing-sales-through-marketing/marketing-plan-template, and adapt the template to fit a sample business in your local area
2. Summarise the following, less popular, approaches to pricing strategies from the Marketing Teacher website www.marketingteacher.com/pricing-strategies and complete the lesson on pricing strategies:
 - A. Product line pricing.
 - B. Optional product pricing.
 - C. Captive product pricing
 - D. Product bundle pricing.
 - E. Promotional pricing.
 - F. Geographical pricing.
 - G. Value pricing.
3. Summarise four different pricing objectives from: www.netmba.com/marketing/pricing.
4. Investigate the application of the marketing mix to service businesses from the Marketing Teacher website at: www.marketingteacher.com/services-marketing.html.
5. Access the 'Marketing Plan Template and Guide' from the Australian Government Business website: www.business.gov.au. Compare this template with a Marketing Plan sourced from the web, or the example given in this chapter. Analyse the samples and decide on the best format for a small business enterprise that is a franchise. Use the 'Marketing Your Business' guide from this same website to complete a Marketing Plan for your selected business enterprise.

CHAPTER 7

Customers and Competition

‘Customers buy for their reasons, not yours.’

– Orvel R Wilson –

THE CUSTOMER

Today’s consumer is time poor and information technology aware. They can quickly make decisions on purchases and it is becoming more challenging for businesses to gain the attention of potential customers. A clear customer focus and awareness of buying motives is therefore essential for business.

Customer focus

A **consumer** is a person, group of people or organisation which uses the products or services of a particular business enterprise. A **customer** is also someone who makes use of or receives products or services, however they use a specific business, returning there frequently and making a habit of using that business.

The customer experience is all of the interaction that the customer has with the business and its product or service, from the initial interest right to the final sale and after sale service.

There are different types of customer, ranging from those who just want to get the best price to those who want an excellent product or service no matter what the price. A customer may be purchasing for someone else, or planning to use the product or service themselves. They may know a lot or a little about what they are purchasing. Customers who use online internet businesses have expectations for the service they receive which are generally related to speed and lower cost.

INNOVATION AND OPERATIONS

A transcription service business, working out of Perth, has customers in every state of Australia. They offer a secure website, where customers can upload electronic files, which are records of meetings or interviews. Within a 24 hour turnaround time, the business has downloaded the recording, transcribed and typed it, and emailed the customer the transcript. This provides a positive customer experience as requirements for lower costs and a quick return are met.



Adding value to a customer's experience

A business can add value by ensuring that employees are well trained and they understand the importance of customer focus. **Customer focus** ensures that the consumer has a positive experience of the business and gains what is required to satisfy their needs from the interaction.

A CUSTOMER FOCUSED BUSINESS

- Understands the importance of a good first impression
- Gives an accurate description of the product or service to customers
- Values customers and listens to what they want, not telling them what the business expects
- Keeps customers fully informed at every stage
- Asks customers if they understand their requirements and invites questions from customers
- Provides options for delivery, payments and other requirements
- Ensures that complaints are followed up and resolved

Customer profiling

Customer profiling involves collecting information about the businesses' customers, who are the consumers wanting to buy their product or service. Consumers are specific about their motives for purchasing and the same product or service does not appeal to every consumer.

To profile customers, the business should define the specific group of customers in relation to the target market, and gather data on a range of elements.

Elements that can be included in a customer profile include:

- demographics, eg. age, culture, income, occupation, marital status
- location
- lifestyle
- behaviour
- buying motives.

A customer profile can be developed in greater detail by understanding **buying motives**. Consumers purchase items for a range of different reasons. Their initial buying motive is usually to satisfy a need or a want. Consumers generally purchase either for a rational or an emotional motive, and their buying patterns can be separated into these two main focus areas.



Rational buying motives

The customer is often aware of specific requirements they may have for the product or service they are buying. Their buying motive is conscious, and there is a quantifiable reason for the purchase.

Rational buying motives include:

- reliability
- durability
- efficiency
- ease of use
- expense.

The business responds to these conscious motives with logical, straightforward marketing that highlights the benefits of the product or service and its main features.

BUSINESS CONCEPTS

Jess was searching online shopping sites for an at-home coffee machine. She found two models that she perceived to be of a similar quality. In the end, she decided to purchase the model that came with after sales service and convenient delivery terms. These are both RATIONAL BUYING motives.

Emotional buying motives

Emotional motives may have more influence on the buying decision than rational motives. Many customers convince themselves that they have rational motives to justify an emotional purchase.

Emotional buying influences include:

- financial gain or loss
- self-gratification
- comfort or convenience
- security
- to feel satisfied.

A business will respond to these motives with marketing that targets a consumer's feelings and wants. Products will have enhanced prestige, or advertisements that include a sense of fantasy and allow the consumer to escape. The emotional influence of advertising can include reminding consumers of the comforts it provides, or appealing to higher emotions of love and freedom.

For example, a car buyer can base their decision on rational motives such as the cars' capacity to hold heavy items, or on emotional motives such as prestige amongst their social group or perceived power to attract the opposite sex.



BUSINESS CONCEPTS

Owen is planning the purchase of a new scooter. His final decision is based on an advertisement that he has seen for a particular model and make that claims he can 'ride free and enjoy life' on the scooter. This is an EMOTIONAL BUYING motive.

Trends and fashions

Consumers' buying decisions are influenced by the range of options available, and the attributes presented with these options. Consumers are faced with a dilemma in trying to make the choice that suits their needs, and the increase in use of information technology allows consumers to access information and compare products at a fast pace.

Customers will therefore fluctuate as they change their mind and swap brand loyalty. If the business can encourage the customer to continue their habit of purchasing their product or service, they will have managed to move through the 'noise' of other competitors and position themselves well in the mind of the customer. By being aware of trends and fashions, the business can keep **customer loyalty**. Conversely a business that is the market leader may be able to influence trends such that it dictates the fashions that consumers will follow.



A business identifies a market trend and the associated demand for products and services and caters to the behaviour of those customers. For the business this involves identifying and setting up long term sales, customer loyalty, and income patterns. The value of identifying (and identifying the opportunities in) a market trend is the chance to earn income over the time of the trend; the trend may develop into a niche market or a mass marketed product.

It is valuable to respond to and exploit market trends because of the potential return for the business from meeting the needs of the identified customer.

BUSINESS IN SOCIETY

The market trend of owning a personal device to play music on has grown to these becoming a "must have" item and a part of many people's lifestyle. Businesses that catered to the trend first then are well placed in the market as the demand grows.

RECENT TRENDS IN THE RETAIL SECTOR

- Customisation of product by customers for their entire niche market
- Demographic shift to the 'baby boomers' as a huge percentage of the market
- Ethical shopping
- Electronic customer tracking, such as through radio frequency identification devices
- Self service, such as self check-in at airports
- Sector mixing, such as supermarkets selling petrol

THE COMPETITOR

Previous chapters discussed the importance of product positioning and how this relates to the competitive marketing environment. To be able to position a product, the business owner should analyse as much as possible about competitors' products. This can be done using competitor profiling.

Competitor profiling

Competitor profiling requires the business to collect information about competitors who are producing a similar good or service. A lot of information may not be available in the public domain, especially if the business is not a public company.

A basic competitor profile can be developed by doing a SWOT analysis. This will show the internal strengths and weaknesses and the external opportunities and threats for the competitor.

Another simple competitor breakdown was included in an earlier chapter of this unit. A simple competitor analysis is a table comparing main competitors along a range of elements as shown in Table 7.1.

Table 7.1: Simple competitor analysis

ELEMENT	BUSINESS	COMPETITOR A	COMPETITOR B
Location			
Opening hours			
Interior			
Perceived quality			
Customer capacity			
Shop front			
Promotions			
Street advertising			
Product			
Price range			
Staffing			
Licenses			

A complex competitor profile can be divided into analysis of management, marketing, operations, human resources and financing. For each of these, the competitor needs to be described.

Competitor's business profile:

- What is the competitor's mission statement and what does it reveal about the strategic plan of the business?
- How is the ownership of the business structured?
- Is anything known about how the business was set up?
- Who are the main customers?
- Who are the business advisors?

Management:

- Who makes the decisions in the business?

Marketing:

- How is the competitor positioned in the market?
- What is their target market and do they have a niche market?
- What is the branding of their product or service?
- How much customer loyalty does the competitor achieve?
- What is their product range?
- What pricing strategies do they use?
- What marketing strategies do they use?

Operations:

- Are any element of their product development, or potential research, evident?
- How do their business processes work?
- What risk management strategies might they employ?
- Do they have any advantages of location?
- How is the product or service distributed?

Resources:

- What are their human resource needs?
- Describe their known physical resources.

Financing:

- What is known about how the business is financed, assets it owns and so on?



CUSTOMER RELATIONSHIP MANAGEMENT

Every business needs to manage customer relations by providing good customer service. The attraction and retention of customers is important because, of course, without customers the business cannot function. There are several major customer service processes that can occur in a business – these do not apply to all businesses all the time. Managing customer experiences is important because when it is done well, it should result in customer **loyalty** and repeat business.

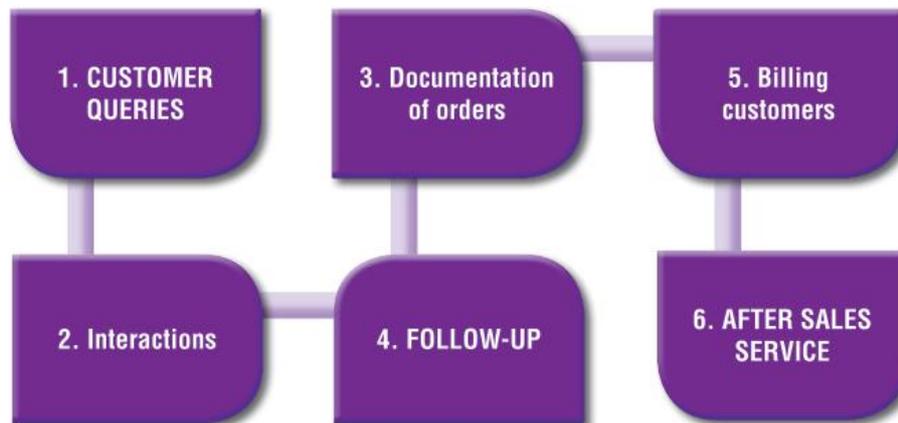


Figure 7.1: Customer service processes to be managed

I. Customer queries

Customers will make queries about the product or service that the business is selling, and staff must be confident to assist them. Information can also be provided to customers in written form and there is a range of documents that might be produced for this purpose. Web based information would include online shopping, the electronic submission of queries, and catalogue information. Paper based information could include refund and complaint policies, technical specifications, instruction guides, user manuals and general advertising.

To ensure that queries can be clearly answered, it is important to follow these guidelines.

Responding to customer queries:

- Use simple, clear language and minimise jargon.
- Explain technical terms and abbreviations.
- Ensure a ready supply of documents to be handed or mailed to customers.
- Aim the documentation at the specific target market so that it is appealing and interesting.
- Ensure information is up to date and print the date of publication on all user manuals.

- Ensure information is geographically relevant and applicable to location.
- Warranty and other contractual information must be automatically given to the customer even if they do not really want it. This assists with returns and complaints.

2. Interactions

The face to face interactions between customers and staff are of vital importance because this is the presentation of the business to its most important stakeholder. These interactions occur over the counter, with wait staff, inquiry desks, information counters, front reception desks, booking desks, shop checkouts and more.

There are important stages in the face to face interaction, no matter how quick this interaction is, that make the difference between a good and bad customer experience.

BUSINESS CONCEPTS

Brigida is an insurance officer who works at the claims desk. When assisting a customer who had recently had a terrible house fire, as well as organizing her insurance payment Brigida listened carefully to the customer describe her concerns and asked targeted questions, thus uncovering a concern the customer had with the replacement of specific items of furniture. Because she was efficient without rushing the customer, Brigida was able to add additional information to the insurance claim which ensured the customer's individual requirements were met.

INNOVATION AND OPERATIONS

Adalberto is the customer service officer at the information desk in a large shopping centre. He has been trained to respond to typical questions posed by most customers and has a good range of pamphlets and information brochures at his disposal to hand to customers. Whenever he assists a customer, he does not just hand them the information but opens the brochure and goes through it, pointing out the location of the shops that the customer is inquiring about.



Figure 7.2: Good and bad face to face interactions

Telephone conversations are different to face to face interactions because the customer does not have the non-verbal cues of the employee to rely on for information. The person answering the phone needs to be trained in correct telephone manner and provide fast accurate assistance. The business should ensure calls are answered quickly so the customer is not waiting on the other end of the line for a long time, and transferred to the correct employee rapidly. If a message is taken it is important that the call is returned within a specified time.

Each customer must be treated individually, and this can be problematic when they cannot be seen. It is difficult to relate to someone via the telephone compared to when they are seen face to face. If the employee answering the phone is efficient and friendly they will create the right first impression with the customer.

BUSINESS CONCEPTS

Cayetano is the receptionist at a school and answers all incoming calls. He knows all important extension numbers by heart and is able to transfer a caller quickly to the correct department, firstly announcing the caller and then ensuring a connection is made before hanging up the phone.

3. Follow-up

Frequently, after a customer has visited the business in person, or called, or used the website, some form of follow up will be required. A timely and targeted letter or email will be appreciated by the customer, though a standard form letter or volumes of spam-like email will not.

It is important that the follow up meets the need expressed by the customer, is sent to them in a timely manner and is sent to the correct address. Confirmation of the customer's requirements, where to send the information and when it is needed by should occur at the time that the customer's query cannot be immediately answered. If the information cannot be obtained immediately the customer needs to be given an idea of how soon it will be available. In the case of a quote, most customers would expect a response within a few days.

When the information is sent it should include a covering letter or email, not include additional information unless that is directly relevant to the customer, and have detailed information on contact people and places to make any queries. The business should ensure that the customer is followed up again within a week to see if they have made a final decision or require any more details.

BUSINESS CONCEPTS

Fen is an electrician and has just visited a customer to give them a quote for the installation of a new surround sound home theatre system. One day later she emails the customer with the itemised quote for the cost attached and a contract for the work to be done. She then follows this up with a phone call to arrange pick up of the signed contract and to agree on an installation date.



4. Documentation of orders

It is essential for customer orders to be confirmed in writing, containing all essential details such as a reference number, customer details, exact order details, additional information for delivery and installation and contractual information. The other very important area is that customers remain fully informed for the whole time that the order is being processed. Customers might be waiting for the order for a specific delivery date, they could have to take time off work, and so it is vital that any delays or contractual changes are communicated expeditiously.

The ordering process can be effective for the customer if some important principles are followed.

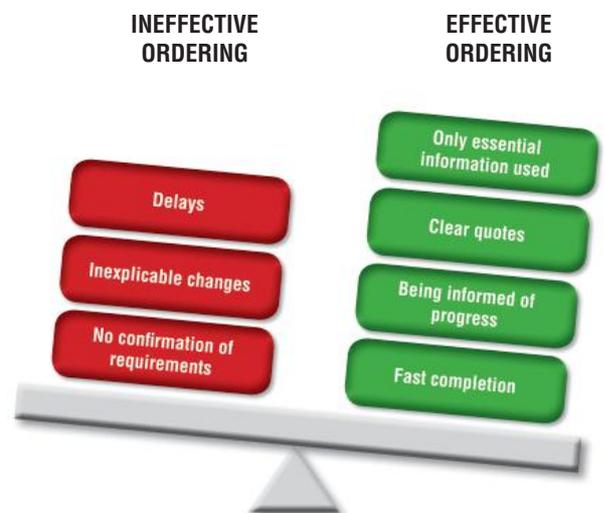


Figure 7: Effective and ineffective ordering processes

INNOVATION AND OPERATIONS

Jian is in charge of the distribution warehouse for a furniture manufacturer. Whenever he receives a delivery docket for a customer order it has a requested time and date for delivery. He always calls the customer the day before the delivery to confirm the date, and if a delay in delivery occurs because of manufacturing hold-ups or other problems he always ensures the customer is informed ahead of the delivery date.



5. Billing customers

Customer billing can be one of the more stressful areas of business, especially if there are issues with unpaid accounts and overdue debtors. If the business has an efficient customer friendly process that is transparent and clear, this will help to minimise the potential stress that can be caused to employees who have to follow up on accounts.

By sending out clear invoices or statements of account on a regular basis, ensuring that payment discounts and deadlines are clear, and providing a range of bill payment methods, the business should have provided the customer with a positive billing experience.

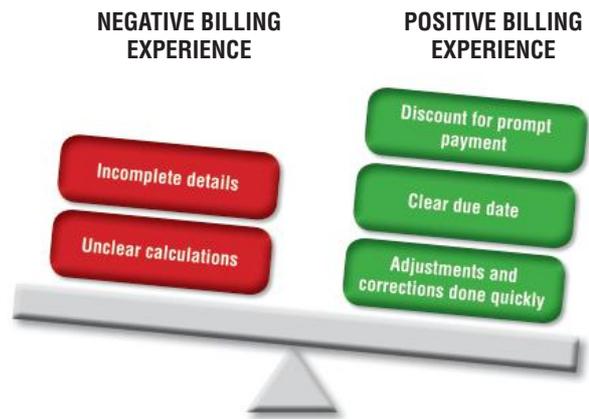


Figure 7.4: Negative and positive billing experiences

BUSINESS CONCEPTS

Racy has just received a bill from a tree lopper who has trimmed three trees on his property. The bill is unclear, as it does not show how the final total was calculated. The only detail is a one line statement saying 'Various branches and cleaning up of a number of trees, plus removal of leaf litter'. Racy realises that one tree has not been lopped. He now has to go through the annoying task of having the problem corrected and debating which trees might have been included in the original quote.



6. After sales service

It can be challenging for a customer to **return** an item to a business or to request **repairs**, because they might be concerned about their lack of expertise or the situation that lead to the return. It is important to make the customer feel reassured and to explain the repair to them as much as possible or to their level of interest in the repair.

When a customer initially purchases a product they should be given information about any warranties or guarantees, and the process to follow if a return or repair is needed.

When a customer brings a faulty product to the business they need to be listened to carefully to understand the problem and how it occurred. Customers should be given an idea of the employee's expertise in repairing an item or replacing a returned item, they need to be given a time frame for the repair or return to be finalised, given reassurance that there is concern for their problem, and given advice so that the problem does not occur again. They must be advised what is going to happen, how long it will take, and any costs involved, especially in relation to any contractual warranty or guarantee.



A business with good **complaint management procedures** can turn a potentially negative situation into a positive one for the customer. Dealing with complaints instead of ignoring them or hoping they will go away will lessen the likelihood that a more formal complaint will be leveled against the business, so dealing with complaints is a significant part of employee training.

The business must provide the forum for customers to be able to report concerns easily, to be acknowledged quickly – usually in person or via telephone or email – and to feel they were listened to carefully.

Good customer service means that the employee will take careful details of the problem, and ask questions of clarification to ensure all information is correct. They should thank the customer for sharing their concern and acknowledge them patiently. If a letter has been received it is best to speak to the person who wrote it to clarify what occurred. When details have been recorded, they should be read back or summarized for the customer to double check their veracity.

Staff who deal with customer complaints need to be able to sort out the problem and provide the solution. It is no use to a customer if staff merely apologise and say they cannot do anything about it. It is more likely that the situation will escalate if a solution is not found.

By focusing on the solution and keeping the customer informed of what is happening to resolve the problem the business should be able to resolve most customer complaints satisfactorily.

BUSINESS IN SOCIETY

Kia works as a waitperson in a restaurant and has just received a complaint from a customer who has complained because their three companions were served their main course half an hour before their own main course arrived. This resulted in their dinner companions waiting for too long and their food became cold as they did not expect the fourth plate of food to take so long, they then commenced eating and were finished before the fourth plate arrived. Kia has the authority in her position to apologise, offer free coffees and report to the maitre'd of the restaurant that the customers should be given a discount for the inconvenience.



Customer relationship technologies

A customer relationship management strategy builds strong relationships with customers. Customer relationship management software is a tool to implement the strategy. It is a form of business process management but focuses on customers and customer service, not the business as a whole. The software gathers customer information from orders, sales, complaints, enquiries and online surveys and it can record details of customer activity on a website. This information is centralised and reports can be produced to help staff understand customer demands and trends, respond to needs and demands, and personalise goods and services. Technology can also provide a 'self serve' business model where customers choose products, place orders and make payments using an automated online shop front without human interaction.

BUSINESS CONCEPTS

One brand of CRM software can collate information from online surveys, sales information and contact details and automatically generate a list of customers, their contact details and what they are likely to buy.

Communication technologies based on the internet give a business the ability to communicate globally and to send and receive documents, video and audio and to promote their products or services to potential customers around the world.

Documents can be emailed instead of sent through the mail to **save time and postage costs**. Importantly, internet based communication technologies save time. Messages and files can be sent and received in an instant. This means that problems can be solved and deals worked out within hours instead of days or weeks. Less time spent on communicating means more time can be dedicated to improving customer service.



Email systems can be automated to sort emails into folders and to extract email addresses. Many email systems include calendars, appointment diaries and reminders that can assist staff to meet deadlines and work more **efficiently**. Filters can be set to prevent spam reaching the inbox. Staff will not have to spend time checking and deleting spam. Costs to business from spam range from the time lost to delete spam, to the cost of receiving and storing the spam, and the costs associated with maintaining a computer network that can handle large amounts of emails.

Staff can communicate with other staff, suppliers and customers around the world by including information on a website and using email. Instant messaging gives a more **immediate interaction** than email and people can be invited in to create a group discussion. This technology can be used instead of the more costly videoconference or people having to travel to attend a meeting. Similarly a business intranet could have forums for staff to discuss operational issues.

A business can keep a list of customer email addresses. **Regular communications** like newsletters and reminders can be sent to the email list. Feedback can be gathered from customers. A business can collect email addresses from invoice details, website entries or a guestbook on a website.

A mistake made by businesses is to focus solely on the technology, to assume that by signing with an ISP and setting up a website success will follow. To make the most of the internet a business operator may have to **change the way the business is set up and run**. A danger is that money and time will be invested in technology but it may not fit the business methods, skills of staff or the way customers use the business.

Short message service (SMS)

A source of income used by business is SMS. Competitions and surveys are conducted using SMS. It promotes the business, maintains contact with customers and the business makes money with each SMS. Businesses can send personalised messages to promote special offers and sales. Messages can remind customers about appointments and to make bookings. It can support business activity and SMS has created business opportunities. There are many businesses in Australia providing services to manage business use of SMS. They can design an SMS campaign, design the messages and provide bulk SMS. Technology allows a business owner to write and send bulk SMS from a computer.

Customer relationship management software

Customer relationship management (CRM) software is used to integrate all communication and information involving customers into a single system. A simple example is a database recording customer contact and purchase details. More comprehensive systems automatically generate invoices, customer statements and reminders, update stock levels and produce detailed histories of customer purchases and communication. CRM software can also record how customers use a business website. This gives managers detailed information to use for decisions and planning. Communication with customers can be personalised by using the information collected. Personalised emails, SMS, newsletters, special offers and invitations can be generated.

Social media

Social media profiles, blogs and forums are used to communicate directly with the target market. This provides primary data for market research and product concepts and marketing strategies can be tested. Consumers will maintain interest in a business, problems or complaints can be resolved, and advertising is better targeted.

Social media is a common forum used by customers who are **early adopters** of products. These customers are interested in experimenting with the latest and newest items. They want to be the first to try a new product, and to brag about their experiences.

BUSINESS IN SOCIETY

A US software company surveyed 301 heavy internet users and found that 66% of visitors who arrive at a web site and are dissatisfied with it or have a bad experience while visiting it rarely return. Many businesses may have a website that is not integrated with their business, and badly designed and maintained which actually does more harm than good. The survey found that the main causes of visitor dissatisfaction are poor site navigation, slow download speeds caused by the excessive use of graphics, animations and video, and a lack of personalisation features. A website must be part of business strategy rather than an afterthought or a static advertisement. The impression a user gets from exploring a website will influence their opinion about the business itself.

The business needs to manage its relationship with these customers through good customer service, as outlined earlier in this chapter. A business can provide incentives for early adopters by making it easy to access new products, and by ensuring it is easy for them to 'spread the word' about new products over the internet and social media. The business should make these customers feel special by valuing their opinions. They could also offer financial incentives, such as paying customers to 'trial' a new product, and publish their thoughts. Early adopters should be given special support and product features. Early adopter programmes are based on relationships.

Another way to use social media to build customer relationships is **crowd sourcing**. Crowd sourcing is when a business uses their target market to test concepts and strategies instead of just relying on consultants or in-house marketing staff. If a business wants to build awareness and potential sales for a new product they will involve the target market in product and packaging design through social media. A business could run a competition where people post their suggestions for product names, flavours, features and improvements. This builds interest as people follow the competition and comment on posts and it creates the impression that the business values their customers. The target market believes that they have had input into the product.

Customer feedback

Customer feedback is often invited by businesses and it is necessary to reflect on this feedback and use it in a proactive manner. Customer suggestions are a valuable feedback mechanism and can include something as simple as a feedback form on the bottom of an invoice, an online form on the business website or a whiteboard set up in a shop for customer ideas to be quickly scribbled down and shared.

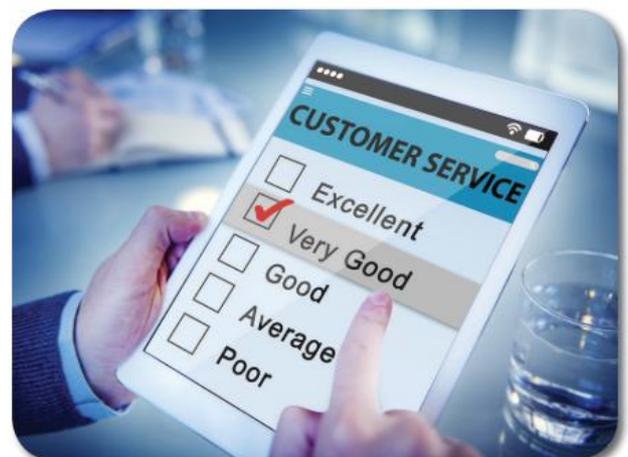
A business that has a service culture is customer focused and listens carefully to customer needs. The customer service procedures should be an integral part of the business and staff rewarded for excellent customer service. Mechanisms for regular useful feedback from customers will greatly assist with these outcomes.

BUSINESS IN SOCIETY

A car company promotes new car models by giving early adopters a free one-month trial of the car. In return for this trial, the customer agrees to post daily updates about the car on their social media pages, and receives a discounted price on a new car.

BUSINESS CONCEPTS

Jetstar spends 40% of their marketing budget on social media strategies and has used Youtube and Twitter for promotions such as a '5th birthday 2 cent fare' sale exclusively on Twitter. Jetstar believe that social media gives them instant direct access to their target market and it is much less expensive, with a greater reach, than advertising in print and on television. Other businesses using Twitter and Facebook include Panasonic, Dell, Westpac and Telstra. Many use Twitter to provide after sales service to customers.



ACTIVITIES

Content review

1. Describe the main characteristics of a customer focused business.
2. What is a customer profile, and what would be included in one?
3. Complete a customer profile for the following products:
 - A. Fizzy cola drink
 - B. Removalist company
 - C. Pilates classes
 - D. Staplers
4. Compare and contrast rational buying motives and emotional buying motives.
5. Summarise the main consumer buying motives in relation to current trends and fashions.
6. List strategies for managing customer loyalty.
7. How does customer profiling enable a business to determine customer needs and expectations?
8. Describe how to use a competitor profile to determine a competitor's:
 - A. Product range
 - B. Prices
 - C. Marketing strategies
9. How has the internet improved communication with customers?
10. Define customer relationship management (CRM)
11. Describe examples of good customer service.
12. What are the advantages of customer communication technologies based on the internet?
13. How can a business use SMS?
14. Explain how a business could use customer relationship management software.
15. How can a business best manage relationships with early adopters?
16. Why is customer feedback vital for managing customer relationships?
17. Outline how to use the following strategies for managing customer relationships:
 - A. Customer loyalty
 - B. Early adopter incentives
 - C. Communication technologies

Group research

1. Access the Australian Free Business Tips website at <http://freebusinesstips.com.au/> and complete the Customer Focus quiz.
2. Research the concept of 'customer relationship management' using websites such as:
 - Customer Relationship Management News for Industry: www.crm-daily.com/
 - Customer relationship management (CRM) by Tom Mochal_ <http://articles.techrepublic.com.com/5100-10878-11-6119704.html>
3. In a slideshow, report or brochure describe how the following businesses can benefit from using customer relationship management technologies.
 - a family owned corner deli
 - a petrol station
 - a farm
 - a clothing outlet
4. Go to www.bussms.com to view how SMS can be used for customer relationship management. Click on 'Click here' under 'What we offer'. Then select 'some examples of how our clients are using Business SMS today'. List some benefits of using SMS.
5. Collect a variety of magazine or newspaper advertisements, and analyse these in a small group. Complete the following:
 - A. Identify the consumer buying motives selected by the advertisers.
 - B. For one product, identify different EMOTIONAL buying motives that might have been appropriate and design a new advertisement that would appeal to one of these new motives (and new target market).
 - C. For one other product, select a RATIONAL buying motive and design a new advertisement for this new target market.
 - D. Which advertisement would be most effective and why?
 - E. Complete a customer profile for one advertisement.
 - F. Complete a competitor profile for another advertisement.

CHAPTER 8

Organisational Structures

‘Surround yourself with the best people you can find, delegate authority, and don’t interfere as long as the policy you’ve decided upon is being carried out.’

– Ronald Reagan –

ORGANISING FOR SUCCESS

Organisational structures can enable the business to successfully meet its mission and goals. An innovative business owner will structure the business so that employees are encouraged to **work together creatively**, the **management structure is as flattened** as possible to enable idea generation, timely **reporting and control mechanisms** are utilised, and a successful **team work approach** is possible.

The business can set up simple structures and procedures in order to ensure it has the best opportunity to meet goals. In the area of management, all businesses have a range of possible approaches to their organisational structure ranging from the traditional hierarchical approach to a more decentralised and flattened or team approach.



Figure 8.1: Innovation in organisational structure

LEVELS OF MANAGEMENT

An organisational chart illustrates the structure of a business organisation and the relationship between different roles. The level of each individual or group on an organisational chart indicates their importance relative to each other. Groups on the same level are all of equal importance in the organisation’s hierarchy. Generally, most organisations classify organisational charts into three main groups.

The three main levels of an organisation are:

1. **Top:** generally this is the board of directors or the chief executive officer (ceo) or general manager.
2. **Middle:** usually consists of managers or supervisors.
3. **Front line:** these are the employees who work directly on the product – perhaps on an assembly line, or directly with customers – perhaps as sales staff.

In a large business organisation, human resource management has equal importance with a number of other departments, and in a traditional hierarchical structure it will be on the same level as other areas, as illustrated in the following diagram.



Organisation charts illustrate these factors within the organisation:

- **Accountability:** Who does each individual report to in the hierarchy?
- **Distribution of responsibility:** Who has the power to make decisions about the organisation?
- **Coordination between positions:** How does communication occur across the organisation?

The lines connecting each section of the chart show the relationships between individuals and groups. This shows the positions of jobs relative to one another, but does not provide details of job responsibilities. The **formal line of command** is shown by the lines connecting each position. Dotted lines can also be used to show relationships where there is no direct line of command, however instructions can still be given.



Figure 8.2: Organisational chart showing human resource management

Features of organisational structures

Every business, no matter its size, must consider how it is designed to enable efficient communication and achievement. As businesses grow and become more complex, their organisational structures must change. Design features to consider include the chain of command, span of control, responsibility, accountability and delegation.



Chain of command is how the hierarchy of the business is set up so that each person has authority over other people and is responsible for a specific section of the business organisation. In a large organisation, the chain of command will move from the CEO down to general managers, then supervisors, then front line employees.

The **span of control** is the number of employees who work directly for a manager. In traditional organisations, this number is generally quite low, so a manager or supervisor might have a span of control over approximately ten employees. More recently, with the introduction of information technology into the business world, a manager's span of control is more likely to be up to one hundred employees. Less traditional organisations have been 'flattened', making the notion of span of control less relevant to their analysis. More complex organisational charts reflect this change away from traditional hierarchies.



Traditional organisational charts are based on showing the hierarchy of an organisation. This illustrates responsibilities and lines of communication. Each person in an organisation is usually given a particular amount of **authority**, which is the formal power associated with the position they hold. Authority is not usually related to who the individual is, rather it is connected to the place held within the organisation chart. The person is also given a certain level of **accountability**, and is responsible for ensuring specific tasks are done and objectives are met.

Modern business structures tend to rely on **delegation** to achieve business goals. Effective delegation occurs when a manager or supervisor is able to assign authority to an employee who becomes responsible for decision making. The accountability for the work still remains with the manager who delegated it, however the decision making authority has been shifted to a different level of the organisational chart hierarchy. Successful delegation grows the skills and competencies of the staff member.

Simple organisational charts

Individual managers and employees together make up a business organisation. It is the employees, be they supervisors or front line employees, who make sure the objectives of the business are met, and it is important to structure the business in the best way possible for this to happen.

Business structure can be shown in a summary diagram, called an **organisational chart**. At a simple level, this shows the responsibilities and lines of communication between each part of the organisation.

Traditional organisational charts are usually in the form of a pyramid, thus each of the four types of chart illustrated on the following pages would have teams of employees working in each part of the organisation, each reporting to line managers above.

This traditional **hierarchical style** of organisational structure typically has:

- several layers of management
- a lot of information directed downward to employees at lower levels
- major decisions being made at the top levels
- a clear chain of command and span of control.

For example, a large manufacturing organisation might have many management levels from line managers on the manufacturing floor, to their superiors in geographically located factories, to the state or national level management levels. Due to its size, there would be many policy and procedure manuals, which employees would be expected to be knowledgeable about and to follow. This organisation would also have most decisions being made by top level state and national managers and part of the policies would include a clear outline of the responsibilities of each position, and who each individual employee must report to. This is a hierarchical structure.

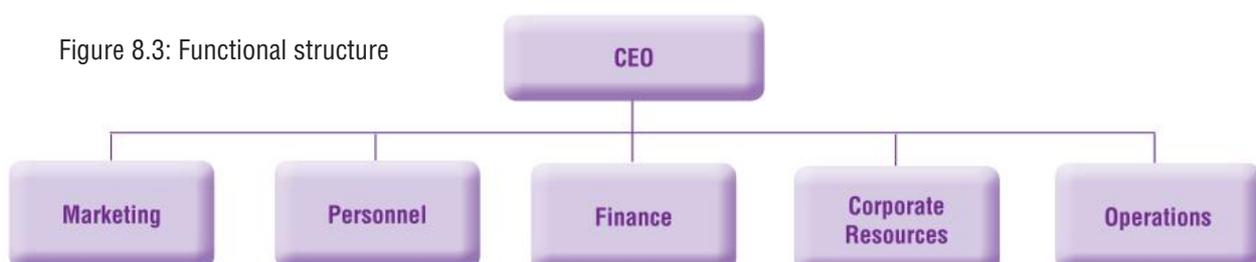
The four main types of hierarchical organisation structure are shown below.

1. Functional structure

The business organisation is grouped into areas according to what is done in that area of the business, Similar tasks are together, and this is useful when specific, similar products or services are being made.

In this type of structure, every person, or unit, becomes very good at their part of the process, known as **task specialisation**. Employees usually have clear career pathways and the chance to develop a high level of skill in their area. In contrast, some employees may find this structure to be too rigid and inflexible, and there could be the temptation for managers to become centred on one area of the business, to the detriment of other areas.

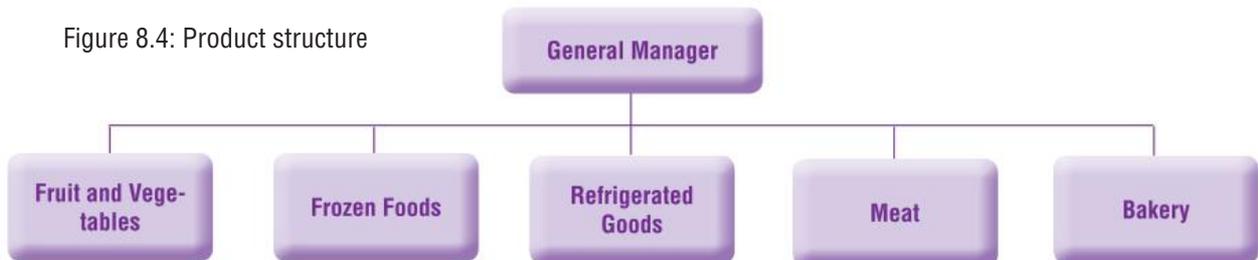
Figure 8.3: Functional structure



2. Product structure

The organisation is grouped into areas according to the individual products being sold. This structure allows the organisation to make decisions relatively quickly, and to locate all personnel related to each area together. It may have disadvantages related to the spreading of overhead costs over a larger area, and some work may be duplicated.

Figure 8.4: Product structure



3. Divisional or geographic structure

Each section of the organisation functions as a self-contained unit, and might be either functional or product based. The central office of the organisation usually provides human resourcing and financial services at a central location. This should allow each division to respond more appropriately to local community needs and requirements. It should also assist with lessening competition between areas of the business.



Figure 8.5: Divisional structure

4. Customer structure

Each section of the organisation is focused on providing for the needs of a specific group of **customers**. This means that the needs of individuals are more likely to be met, and the organisation can group customers on the basis of the value they provide to the business. Unfortunately it may result in spreading overhead costs over a larger area, work duplication and conflict over allocating resources; fighting within the business over resources instead of working together to achieve goals.



Figure 8.5: Customer structure

Expanded organisational chart

Organisational charts can contain a lot of detail. It is possible to show the position of every employee in the organisation. A functional structure can be expanded to show more detail about one of the areas – the example below shows (in red) how the Marketing Division of a company is structured.

This detailed branch of the organisational structure shows who each employee reports to, and who is working at the same level of the organisation. If the other four areas of the organisation (Personnel, Finance, Corporate resources and Operations) have similar structures, then this organisation would be said to have **four layers in its hierarchy**.

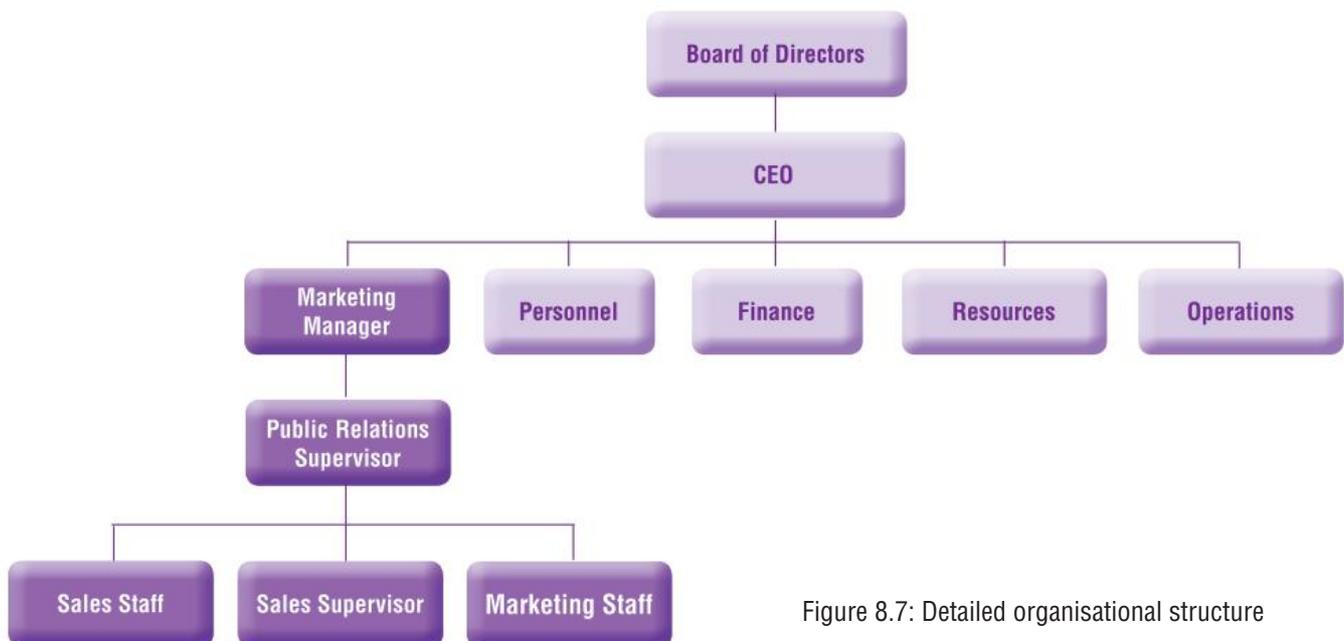


Figure 8.7: Detailed organisational structure

CHANGING THE ORGANISATIONAL CHART

All types of complex organisational management structures require an understanding of levels of management, chains of command and span of control.

Organisational restructuring

When a business decides that its internal structure requires changing, the managers need to decide how major the change will be, and how this change will be implemented. Change can be major (or transformational) or minor. A major, **transformational change** will often involve a complete restructuring, new systems, altered workstations or new technologies. **Minor change** only affects operations and will generally affect a few employees. It could require a technological change such as new software on a few computers, or new customer relations technique such as using the phone instead of the fax.

Major structural change in a business usually involves the reorganisation of relationships within the business. The organisation might choose to move from one of the traditional hierarchical structures to a **flatter structure** such as a matrix or team organisation. When the organisational chart is to change, there are several aspects that might be considered, such as employee empowerment, teams, flatter structures, diversification and outsourcing.

1. Employee empowerment

Empowering employees is all about ensuring that there is a two way relationship between managers and employees. In many business environments, organisations must rely on intangible factors such as knowledge and intellect, which can only be obtained from the people within the business.

Empowering employees means that every individual is trusted to make decisions to some degree. Everyone is encouraged to give feedback, and to make changes as required. The level of employee empowerment can range from encouragement to assist with decision making to allowing individuals to make the decision.

2. Teams

Teams are groups of employees working together in the same division, or on the same project, within the organisation. Teams can be 'virtual' – in that a group of employees can communicate via email and telephone in order to achieve a result. Each team is united by a common purpose, and has a specific aim to achieve. Team members need to be adaptable and they must be encouraged to be innovative and encourage the generation of new ideas. Teams need to be able to communicate and resolve conflicts. One version of teams present in organisations is the **quality circle**, which creates suggestions for improvements in safety, manufacturing processes and other areas important to the business.

3. Flattening the organisational chart

Many organisations remove the middle layer of management which is shown in some organisational charts above. As these positions are removed, the front line managers and employees become more responsible and accountable as work is delegated to them.

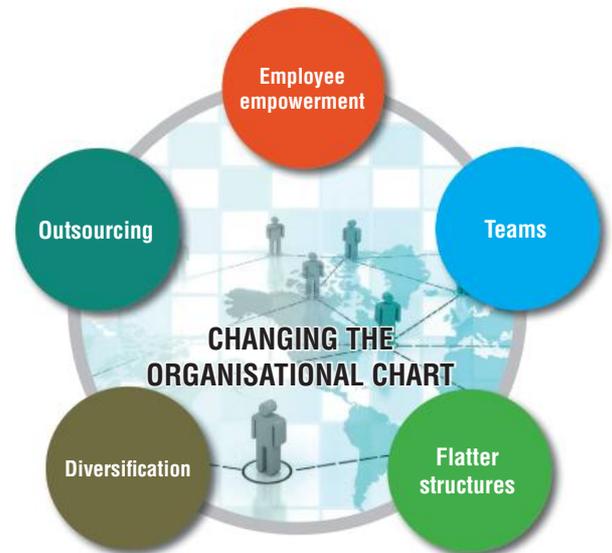


Figure 8.8: Changing the organisational chart

INNOVATION AND OPERATIONS

The employees at Furniture Traders are encouraged to assist with decision making. Every piece of furniture that is manufactured by factory floor staff is subject to their own quality control and inspections, and employees regularly meet with managers to discuss potential improvements to the manufacturing process.

BUSINESS CONCEPTS

The accounting firm Tayllor and Twiggs has teams working within its different divisions, such as auditing, taxation, insolvency and business development. Each team has its own purpose and goals.

The use of teams is generally increased in an organisation that is becoming flatter, as well as the development a less formal chain of command and a much broader span of control. Generally the working environment is one which encourages innovation by asking employees to share 'best practice', consider quality control, be supportive and focus on continuous improvement of the product or service.

4. Diversification

Diversification involves either the expansion of existing products and markets or the creation of totally new products or markets.

A business might consider diversifying by undergoing one of the following:

1. Creating a new product or service for existing markets
2. Selling to a new market
3. Producing a new product for a new market

5. Outsourcing

Outsourcing involves offering contracts to workers who are not part of the organisation, to complete precise elements of work. A business might commonly outsource office cleaning or specific engineering projects. Usually outsourcing is used for parts of the business that are not considered essential to the core goals or mission.

Generally, when an organisation changes from one of the traditional hierarchical structures, it will become more of a matrix, team or a network structure, affecting all these elements of teams, diversification and empowerment.

BUSINESS CONCEPTS

The CEO of the retail business Susies has revised the organisational structure to remove one layer of management and double the number of staff reporting directly to them. This is an increase in the span of control of the CEO and the creation of a 'flatter' organisational chart.

INNOVATION AND OPERATIONS

A chocolate bar manufacturer specialising in caramel flavoured bars aimed at adults might diversify and create a new product for the existing chocolate bar market, which is a variation on its already well-know bars or a new flavour. Alternatively, if the decision is made to sell to a new market they may move into the teenage market by rebranding their existing product.

BUSINESS CONCEPTS

The cleaners at Perth School are not directly employed by the school, they are managed by another business, the Squeaky Clean, who have a contact with the school to provide a particular level of cleaning service.

COMPLEX ORGANISATIONAL CHARTS

The traditional hierarchical structure of organisations is not responsive to the more recent requirements for businesses to be flexible and respond to change. More complex organisational configurations have developed as a result of the need for organisations to be more adaptive and innovative. These configurations include the matrix, team and network structure.

Matrix

This type of organisational structure works well when the business needs to respond in a flexible manner to different **projects**. A project is a specific plan of action, bringing individuals together temporarily, aimed at completing a piece of work with its own unique results. The management of the organisation is divided into function managers and project managers. Each project manager takes charge of a project, and brings together specialists from different areas of the organisation to complete the work.

The traditional functional structure does have its advantages, for example standardisation is possible across each function (or area), plus there are more specialists concentrated in each area. Unfortunately, this can result in some rigidity, in that each time a new project is attempted within the organisation, the functional area can be too inflexible and not communicate well. A matrix structure enables the business to use expertise from across the whole organisation and rely on the best people possible. It ensures that the best possible decisions are made, and is flexible in that other specialists can be involved as required. The whole business organisation should find that the communication and cooperation between individuals across the entity is improved.

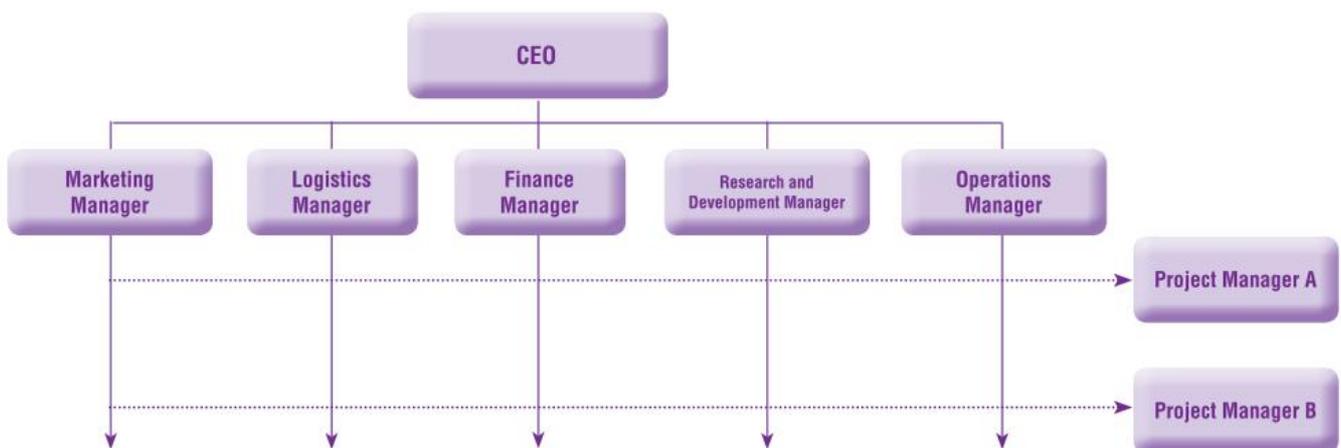


Figure 8.9: Matrix structure

Logistics is the management of resources as they move through the business organisation, from production all the way to the retailer. Research and development is the investment by the business in new innovations, often in technology.

Network

This type of structure involves the business doing one part of the business function, and coordinating other businesses to provide all other areas that it needs. A business might manufacture a product only, and contract other businesses to provide its financial record keeping, marketing, distribution and human resourcing. This type of business is very flexible and responsive to changes in the environment, and can work globally as well as through the use of technology.

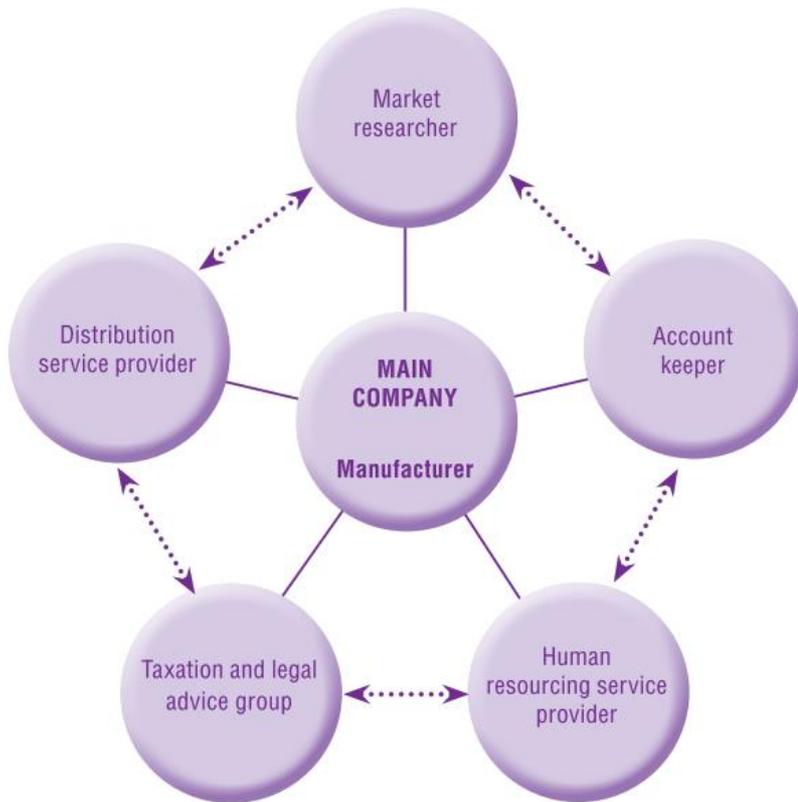


Figure 8.10: Network structure

BUSINESS CONCEPTS

Phillipa works in an IT electronics company, and has recently been appointed as project manager. In preparation for her role, she prepares a summary of the team members she requires to take part in the project, then she selects individuals with the right expertise from across the organisation. These people join her team for the project period and focus on the specific goals to be achieved.

**Team**

When a business decides to not use the traditional hierarchical style of organisational structure, they move to a more **flattened** and **decentralised** structure. They will usually develop some form of team approach to the management of the business, where employees are **empowered** and layers of management are removed, with the aim of improving **communication**, encouraging **cooperation**, speeding up **decision making** and generating **innovative business solutions**. The main advantage of this method is that the team is **self-directed** and has a specific goal. The inclusion of individuals from across the organisation should break down communication problems between areas. Concerns with this structure would relate to potential personality clashes, conflict which may not be resolved, or poor management.

A team works in a similar manner to the project outlined in the matrix form of organisational structure. The business will group together individuals with expertise in different functional areas who will work toward a goal. All levels of the organisation should be included in the team. Usually employees from the areas of marketing, operations, finance, logistics and human resources are required.

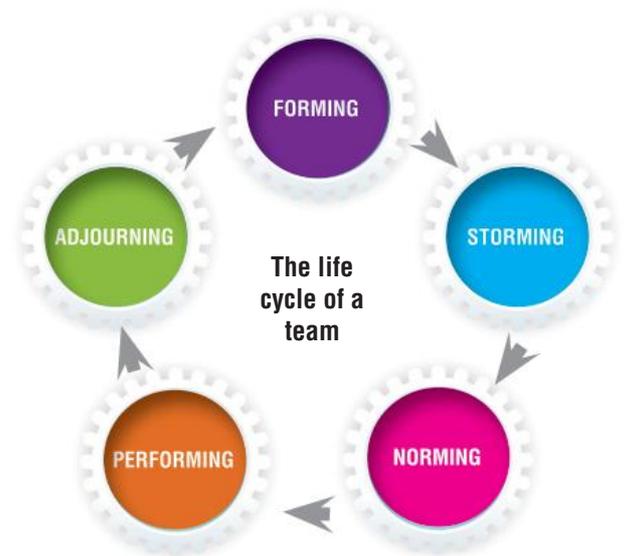


Team approach

The business needs to **define** the projects to be managed by each team, **select** team members, outline each member's **role** and then monitor their progress through the **stages of development** of the team. These stages are often referred to as the life cycle of a team.

The life cycle of a team can be broken into forming, storming, norming, performing and adjourning. As this cycle develops, the challenge for the leader of the team is to encourage team members to develop in their team role, to ensure the more positive elements of team roles are emphasised and that communication between all team members is optimised.

When the team is **FORMING**, the team members are getting to know each other. They need to establish individual abilities, and leadership of the team involves providing direction and guidance about the goals of the team. At the **STORMING** stage the team members find it difficult to get started on the project and there may be some resistance to working together as they are establishing their roles within the group. The team leader's direction and focus might be called into question by team members and they need to keep the group focused on its goals. The team then moves to **NORMING** where members establish group 'norms'. The leader will be able to become more of a facilitator and coordinator at this stage, as there will be more efficient input and interaction between group members, agreement on how the team can work and on priorities in relation to the project. At the **PERFORMING** stage the leader can step right back and allow team members to become empowered and responsible for their work as they take on responsibility for the outcomes, goals and final output of the group. Finally in **ADJOURNING** the team members have achieved their goal and so the group will break up and team members will move on to other projects and other teams.



BUSINESS CONCEPTS

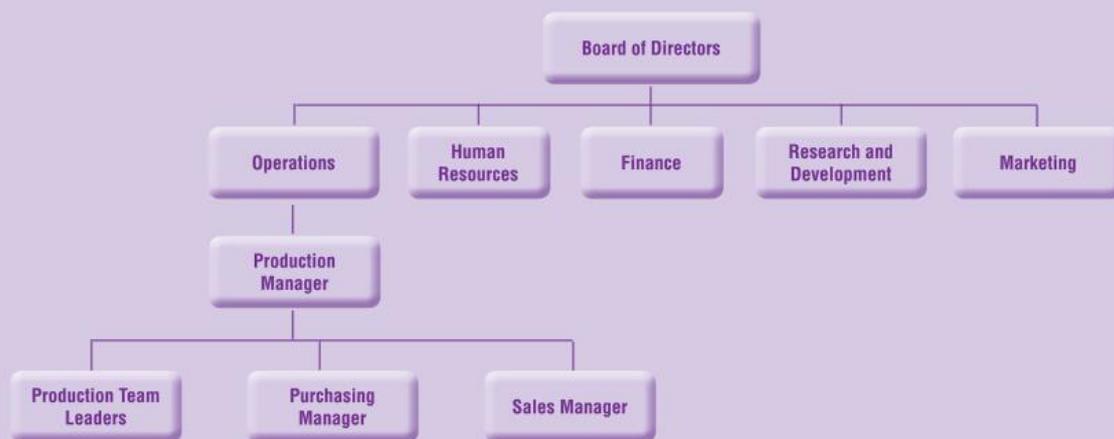
Famous chef Jamie Oliver bases his team building approach at his London restaurant, Fifteen, on the four stages: forming, storming, norming and performing. He believes the approach brings trainee chefs together to form cohesive teams.



ACTIVITIES

Content review

1. What is an organisational chart?
2. Explain the meaning of the following terms: hierarchy, accountability, responsibility.
3. What is an expanded organisational chart?
4. Define the concepts 'chain of command', 'span of control' and 'delegation'.
5. Interpret the information shown in the following chart. Include an explanation of the chain of command and span of control for the production manager.



6. Select a business that sells its product at a national level. For this business, describe each of the following levels of management:
 - A. Top
 - B. Middle
 - C. Front line
7. Outline the main characteristics of a traditional hierarchical style of organisational structure.
8. Create a table comparing the advantages and disadvantages of the four main types of simple organisational structure.
9. Consider your local supermarket as if it were a microcosm of a large organisation. Draw a product structure organisational chart for the supermarket.
10. Create a simple organisational chart for a business that you are familiar with. Include at least two levels of management. Is the structure functional, product, geographic, customer or something else?

11. Describe how a large national business could undergo transformational change to a flatter structure using each of the following techniques:
 - A. Employee empowerment
 - B. Teams
 - C. Flatter structures
 - D. Diversification
 - E. Outsourcing
12. Summarise the life cycle of a team.

Group research

1. Locate the organisational chart for a large service organisation, such as a parliament, a museum, a university or medical facility. Print a copy and analyse the likelihood that a team, matrix or network organisational structure is being used.
2. Collect information about the management structure and goals of a large organisation that is designed in a hierarchical style.
 - A. Design an organisational chart to represent the following:
 - Main responsibilities
 - Lines of communication
 - Chain of command
 - Span of control
 - B. Summarise the goals of the organisation, paying particular attention to those related to efficiency and customer service. Would the organisational structure assist or hinder these goals?

SECTION C: PEOPLE

CHAPTER 9

The Employment cycle

‘The only way to get people to like working hard is to motivate them. Today, people must understand why they’re working hard. Every individual in an organisation is motivated by something different.’

– R Pitinor –

THE EMPLOYMENT CYCLE

The employment cycle consists of the stages in organising all aspects of employment of staff, from deciding on the staffing needs of the business and recruitment, through to the termination process.

The employment cycle involves a number of stages, the completion of which should lead to a happy and productive workplace, with employees who enjoy their work.

The human resource management process involves the four areas of acquisition, development, maintenance and separation.



Figure 9.1: Human resource planning process

- **Acquisition** encompasses predicting the business’ need for staff and attracting the best employees to meet the goals of the business.

- **Development** involves inducting new employees into the business and providing ongoing training as employees and the business develop and grow.
- **Maintenance** requires the business to continue to offer employees the conditions and support needed to retain them in the workplace.
- **Separation** is the final stage of the process, where employees leave the business.

ACQUISITION

Acquisition involves predicting the business' need for staff and attracting the best employees to meet business goals. The acquisition process includes evaluating staffing needs, analysing jobs, recruiting and selecting employees.



Staffing needs

The business needs to plan for staffing needs, and must ensure that all requirements are identified. The human resources manager must consider how to predict the possible business requirements, and likely market supply, of suitable employees.

The business can forecast its requirements. This will ensure that managers are less likely to be caught by surprise when employee turnover alters. Requirements that may be precipitated by a change to the individual business include retirements, promotions, personal leave, potential production process changes, predicated expansion or contraction of sales. Requirements that can impose change from outside the individual business are the economy, social changes, cultural impacts, technological innovation and the political climate.

The business can forecast likely supply. Information such as the number of people graduating from relevant tertiary courses, movement of employees within the business, and past trends in attrition will assist in this. Succession planning for the likely replacement of employees will assist in planning.

BUSINESS CONCEPTS

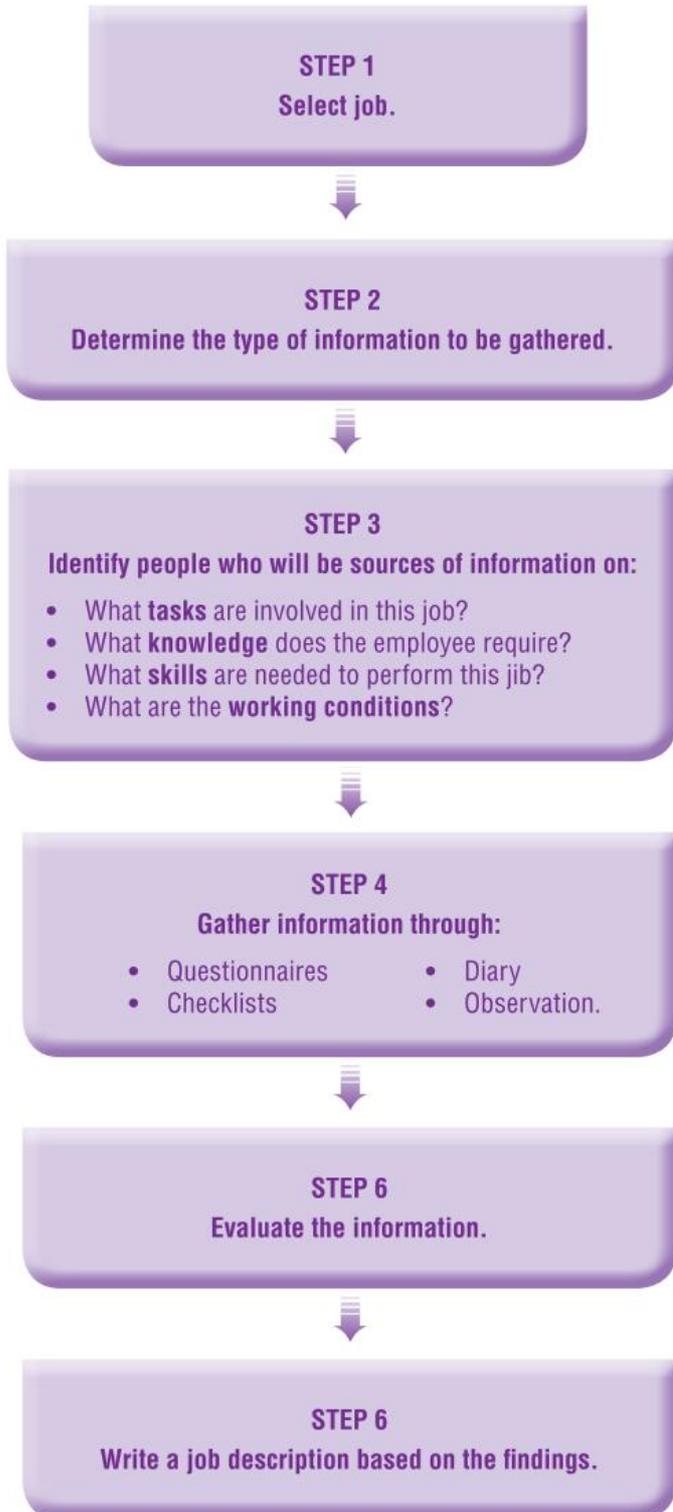
A liquor store chain is planning to open new branches in three Perth suburbs. The manager must plan for staffing turnover from retirement and promotion, as well as the impact of the expanded sales levels from more shops, and current changes to the political and legal requirements for a shop selling alcohol.

Job analysis

Job analysis involves identifying and describing a job. This includes the tasks, knowledge, skills required and working conditions. A **job description** is the result of job analysis.

Job analysis enables the human resources manager to ensure that the work place is equitable, that employees are fairly paid, and that any changes in the workplace environment or job description can be taken into account.

In order to analyse a job, the manager will firstly collect a range of information related to the job and the employee who is to perform the work. Information is gathered from employees or the job holders, through an interview process a survey, or informal conversation.



BUSINESS CONCEPTS

Clinton is the owner of a chain of comic shops. In completing a job analysis of the shop assistant position required in each store, he gathered information about tasks, knowledge, skills and working conditions.

- Tasks: receiving, barcoding and shelving new stock, processing purchases, cleaning store, setting up window displays.
- Knowledge: content and history of various comic book characters, able to research and find requests.
- Skills: computerised cash register use, customer service.
- Working conditions: standing and sitting at a counter, stacking shelves, lifting boxes.



Figure 9.2: Job analysis

Job description

Job descriptions are detailed outlines of work involved in a particular position within the business. Every business should have a role or job description for each position to ensure that each employee is fully aware of their role and responsibilities. When recruiting new staff the **recruiter** is able to refer to this to match the applicant to the job.

A job description includes:

- Title
- Aims or objectives of the job
- Specific tasks and duties of the job
- Relationship of the job to others in the business
- Skills and knowledge, including minimum educational standards required
- Equipment used when performing the job
- Structure of the department
- Salary range
- Organisational chart outlining where the job fits

BUSINESS CONCEPTS

When an application is received by a manager for a vacant position, he or she can match the skills and knowledge of the applicant to those outlined within the job description. If there is a match then the applicant will be called in for an interview.

BUSINESS CONCEPTS

The minimum skills and knowledge listed in a job description for an reception assistant include a professional telephone manner, the ability to operate a multiple line telephone system, endurance to sit at a desk all day, legible hand writing for message taking.

Elements of a well designed job description

Questions answered by a well-designed job description

- Why does this job exist?
- Where does it fit into the business? How does it relate to other jobs?
- What is expected? What is affected, and what is the nature of that effect?
- What specialist skills are needed?
- What has to be managed, and what managerial/supervisory skills are needed?
- What level of human relations skills is needed?
- What is the structure of the job? What instructions, procedures or goals define what the employee has to think about?
- What are the boundaries of the employee's authority to make decisions?
- What are the most difficult parts? What kinds of challenges arise? How demanding is the problem solving required?

It is the responsibility of the employer to provide the employee with a job description outlining **essential** information. The employee has the right to request a job description if he or she has not been provided with one. The employer and employee must keep track of changes in the work role as jobs change for various reasons.

Changes may take the form of skill requirements, job process or time line for completing a task. Over time job descriptions need to be reviewed and amended to reflect the changing nature of the particular position.

Job analysis, which involves identifying and describing the job in relation to the tasks involved, knowledge required and working conditions, is the initial step in the acquisition of employees for the business. Following job analysis, the next step is recruitment and the preparation of the skills, knowledge and attitudes to look for during an interview.

Job design

This is the process of creating a position or changing an existing job. A job should be designed to meet the skill and knowledge gap identified in the business and includes duties, pay and opportunities that will attract quality applicants.

This analysis and planning will help a business to identify the right skills and knowledge and the right people by answering the following questions:

- Will the job description meet the business needs?
- Will the job contribute to the achievement of long term goals?
- Are there any legislative requirements, for example qualifications, licences?
- What recruitment policies and procedures apply?

RECRUITMENT AND SELECTION

The staff selection process is where a business matches people to its operational requirements. Recruitment involves advertising positions, attracting applicants and conducting interviews to select the most suitable employee. This process firstly involves a manager or a recruitment officer evaluating resumés from applicants. They then select a set of people who have potential to fulfil the requirements of the job. Applicants are contacted and invited to attend an interview session.

Sources for recruitment

When recruiting, the organisation can source for the position by appointing staff within the organisation or by introducing new personnel. The two sources of recruitment are:

1. **Internal recruitment:** identifying individuals within the business who have the required skills, knowledge, and motivation to fill the role.
2. **External recruitment:** sourcing new people from outside of the business.



Table 9.1: Sources of recruitment

SOURCE	ADVANTAGES	DISADVANTAGES
Internal	<ul style="list-style-type: none"> • Less cost • Managers know the applicants well already 	<ul style="list-style-type: none"> • May have to fill the position of the person who is given the job • Limited choice of applicants
External	<ul style="list-style-type: none"> • Can recruit people with fresh ideas • Can pick from a bigger pool of applicants 	<ul style="list-style-type: none"> • Can be costly • May have to spend a considerable amount of time teaching the new recruit about the LSO and how things are done



Figure 9.3: The recruitment process

To attract applicants from external sources a business may use a recruitment agency or place an advertisement. The job ad may be online or in the classifieds of a newspaper. Job advertisements need to provide the following information to potential candidates:

- Job title
- Job status – permanent, contract, part time, casual
- Pay rate or range
- Required skills and knowledge – may be split into essential and desired
- Contact details and application process
- Application closing date

BUSINESS CONCEPTS

Layla is a human resources manager and in the early stages of the recruitment process for an accounting position at her organisation. She is reviewing applications to choose a set of applicants who can be called in for an interview. At this stage she reads each resumé to identify applicants with the skill and knowledge requirements highlighted in the job description. Following this matching process the applicants with the most common skills and knowledge that satisfy the needs of the job are contacted for an interview. Suitable applicants complete employment tests and have their referees contacted. The final result is to offer the position to one applicant.

Resumés

Resumés are a source of information for recruiters. A resumé contains vital information about the applicant. This might include personal details such as age, gender, marital status (though these are not legally required) and other information such as academic qualifications, work experience, and achievements. A resumé is the primary information source about the personality, capabilities and strengths of the applicant.

SECTIONS OF A RESUMÉ

1. Personal details
2. Job criteria – address these by outlining relevant skills and knowledge
3. Qualifications
4. Employment summary/Previous experience
5. Professional development and learning undertaken
6. Referees

**Interviews**

The interview is usually a personal meeting between the applicant, or interviewee, and the recruitment officer or interviewer. During this session the interviewer finds out information by asking relevant questions. Questions need to be relevant to the job description, and might ask the interviewee how they have previously handled specific work situations. The interviewer must not be discriminatory in their interview technique and the questions that are asked. The requirements of anti-discrimination and equal employment opportunity legislation are covered earlier in this book.

BUSINESS CONCEPTS

Chad is preparing to conduct an interview to appoint a new accountant to Chad's Accountants, a popular accounting firm in the goldfields. It is important that the new recruit be competent, self-driven, time manager and a team player. To seek out information about each applicant, questions are used as follows:

- Why would you like to join the firm?
- What will you offer?
- Describe a situation showing your experience in accounting.
- What are your time management strengths?
- What do you see as a weakness and how do you overcome this?
- Tell me about a situation where you have worked in a team.
- Describe a complex problem that you have solved using accounting software.
- What do you aim to achieve in career goals?

Chad will make decisions about who is more suited to the position and the business.

**Referees**

An important stage of the recruiting process involves contacting the referees who are willing to speak about the interviewee. This allows the interviewer to ask questions of someone who has worked with the interviewee in some previous capacity.

BUSINESS CONCEPTS

Darcy is processing a set of job applications, and has narrowed the field to two applicants. He calls the referees listed on the applicants' resumés, and has a conversation with them on the phone where he asks them to describe their experiences working with the applicant.

Employment tests

Written tests that evaluate an individual's skills, knowledge or personality may be used. There are many arguments for and against the use of such tests, and one concern is that they do not necessarily indicate how an employee will perform when they are actually in their job role. Another type of test is a simulation, where the applicant must show how they react in a specific situation or for a task. This type of test should give an indication of how an individual might be able to perform in their job role, however they are expensive to perform.

BUSINESS CONCEPTS

Emma has applied for a job as a teaching assistant at a special needs school. As part of her application process, she must attend the new workplace and complete a questionnaire which is designed to find out how she reacts under stressful working conditions.

Selection

Deciding which candidate should get the job can be difficult. It is a decision that has a substantial impact on a business and may involve people with similar skills and experience. Decisions must be made on merit and what is best for the business.

A process such as that shown in

Figure 9.4 could be used to provide a decisions making process that is consistent. It will also provide good information to assist in making selection judgements.

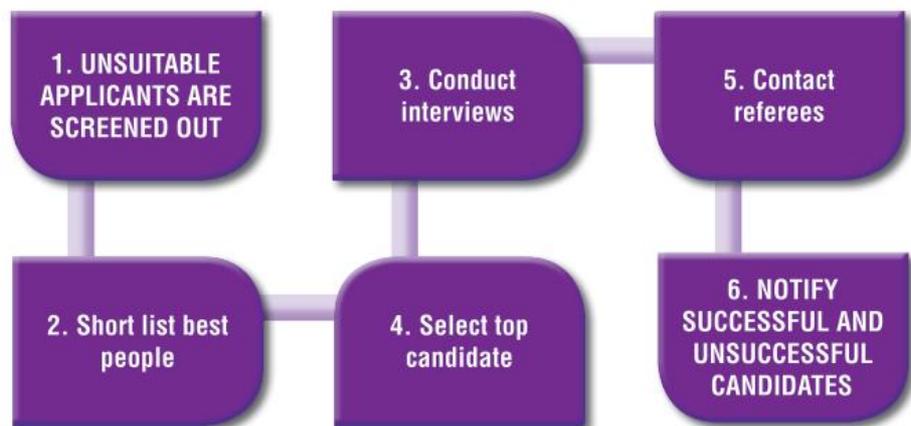


Figure 9.4: The selection process

DEVELOPMENT

Development encompasses the induction of new employees into the business and providing ongoing training as employees develop and advance in their careers.

Induction

The induction of a new employee involves making the employee familiar with their workplace, to ensure they start their job in the best manner possible and to provide essential information about the new workplace. A good induction ensures that the employee feels welcome and that they can see how their work or career goals fit with the organisational mission and culture. It also ensures that occupational health and safety are clear, as well as emergency and accident procedures.

Possible items to include in staff induction

- ✓ Organisational history, ethics, mission statement
- ✓ Organisation structure: departments and people
- ✓ Maps and locations
- ✓ Emergency procedures, security, hazard and accident reporting
- ✓ Grievance procedures
- ✓ Career paths, training and development, performance review process, any mentoring
- ✓ Awards and incentive programs
- ✓ General administration
- ✓ Restricted area access, passes
- ✓ Policies on information technology use and access to personal data
- ✓ Dress code
- ✓ Policies for lateness, holidays, sickness
- ✓ Pay, personnel systems
- ✓ Protective equipment, issue of tools and equipment
- ✓ Kitchen and bathroom
- ✓ Tour of facility

BUSINESS CONCEPTS

The safety induction for a construction site employee includes a number of elements. All employees are required to complete a Construction Safety Awareness White Card. They are inducted on the use of personal protective equipment (PPE) including hard hats, safety glasses, steel cap boots and high visibility clothing. Instructions are also given for emergency procedures including who to contact, the muster point, and hazard cleaning locations and processes. Areas of access including security and where visitors to the site would have limited access are introduced.



Training

Training is the set of activities required to ensure that an employee has the required knowledge and skills to perform their job role. Development is broader, and is the possible activities that the employee can undertake to learn more about their role and the business. The process to be followed requires the establishment of business requirements, then of staffing needs, followed by training priorities and then the final formation of a **training and development plan**.



Figure 9.4: Creation of a training plan

Business requirements

The human resources manager needs to consider the organisational goals, and where staff training can assist in attaining these goals. They will consider whether targets are being met, the response of customers to current levels of service and the satisfaction levels of employees in the workplace.

Some areas of the business might benefit from staff training because the quality of the product or service can be improved, or efficiency of production processes increased. The business will have KPIs in many of these areas, and the manager can consult with other managers about the level of training that would support achievement of these KPIs.

Staff requirements

The next stage requires consultation with staff. Current employees can be surveyed or interviewed about their training needs. This can also form part of the regular performance review process. Staff current knowledge and skills should then be compared with required knowledge and skills.

Training priorities

The manager can then identify specific training courses or on-site experience needs for each staff member. In choosing priorities the manager will need to summarise the number of employees and cost of each option, then make decisions about which programme to go ahead with.



Training and development plan

The final step is a detailed outline of the courses and in-house training chosen, its location, dates and the employees who will participate. Different methods could include formal courses, informal on the job training, simulation activities, case studies, electronic presentations or direct instruction.

MAINTENANCE

Maintenance of employment requires the business to continue to offer employees the conditions and support required to retain them in the workplace. Employment packages, agreements and contracts cover the pay and entitlements provided to the employee. Performance management will occur in order to ensure employees are rewarded and recognised for their efforts.

Employment packages, agreements and contracts

When acquisition and development are completed, the human resources department must ensure that each employee has the maximum incentive to remain working for the business and performing their best. The aim here is to ensure that organisational goals are met through productive happy employees who have low absenteeism, high job satisfaction and low staff turnover.

There are many benefits that can be offered to employees and these can be either financial or non-financial.

An **employment package** is a set of benefits that are offered to an employee along with their rate of pay. Financial benefits can be salary, superannuation and fringe benefits including entertainment, car, information technology, expense account, housing, mobile phone and so on. Non-financial benefits could include flexible working hours, child care at the workplace and staff facilities such as working/office space.

Different types of **agreements** might include an award, collective agreement or workplace agreement (the latter are being phased out). Australian workplace relations law is currently in a transition phase. An individual transitional employment agreement (ITEA) is an agreement available while the change occurs to a new workplace relations system. This is an individual written agreement between the employer and an employee setting out the conditions of employment, detailing rate of pay and work hours. There is a 'no-disadvantage test' used to ensure it does not disadvantage the employee when compared to a collective agreement or award.

The job **contract** is an agreement about the conditions of employment made between the employee and employer. It is legally binding and will cover pay rates, leave entitlements and working hours. Casual employees are generally engaged by the business to fulfil seasonal work or for irregular jobs. Part-time continuing employees have fewer hours than someone who is doing the same job full time, and full-time employees are engaged for regular work at least 35 hours per week.

EMPLOYMENT CONTRACTS



A **fixed term** employee is usually replacing an employee who is on leave, and a **probationary** employee is on trial for a period of time. For these two categories, termination of employment requirements do not apply.

Performance management

Performance appraisal is the provision of feedback on an employee's job performance. This provides the employee with the opportunity to identify where they are performing well and where they need to improve.

These appraisals can be done formally or informally. Informal appraisals can include verbal comments and feedback. The formal process of providing feedback to employees on their performance is 'performance appraisal'.

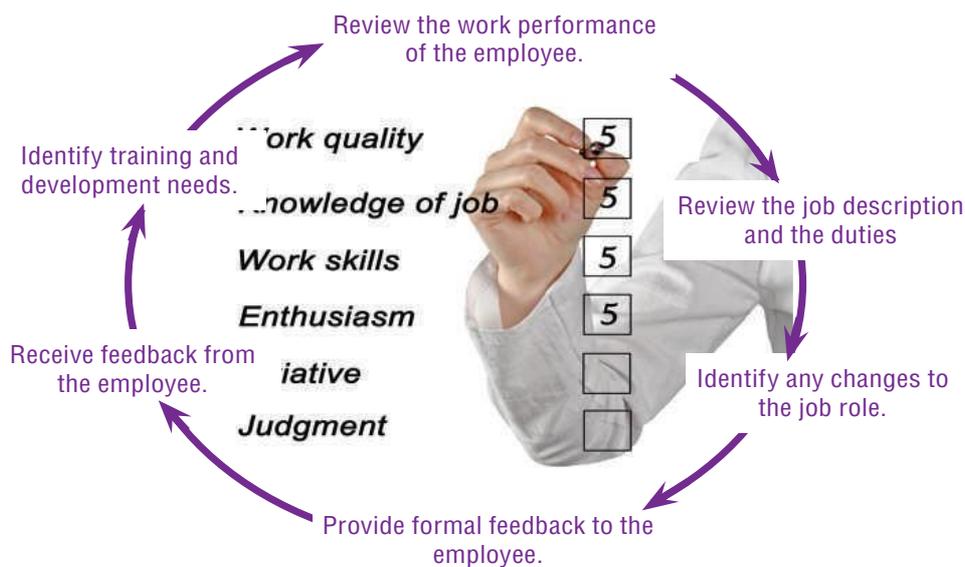


Figure 9.5: Performance review process

Performance appraisals are conducted on a set cycle. Generally they are done on a six monthly basis or annual basis. Some performance reviews are followed by salary reviews, bonuses or a promotion.

Aims of performance appraisals

A performance review is undertaken by the human resource department to assist and motivate employees. This review presents an opportunity to identify changes in the job role, changes in working conditions and knowledge requirements. Training and development to assist the employee can be provided as a result.

Performance appraisals also provide a time line to assess the performance of the employee and in relation to the organisation's needs. It is a time to reflect on the employee's performance and reward them.

Conversely, performance reviews reveal to the employer any problems in the employee's performance. If this has occurred, the employer can raise issues with the employee. This will provide both employer and employee the opportunity to develop strategies to improve performance.

BUSINESS CONCEPTS

Cooper is employed as the accounts manager in a large organisation. His role has expanded in the last year changing from reporting and administration to preparing budgets, accounting reports and forecasts for the business. After six months of these extra new responsibilities he was anxious about his effectiveness in his role and how effectively he was performing. His stress levels increased as a result of the amplified work load but lack of increased time or pay.

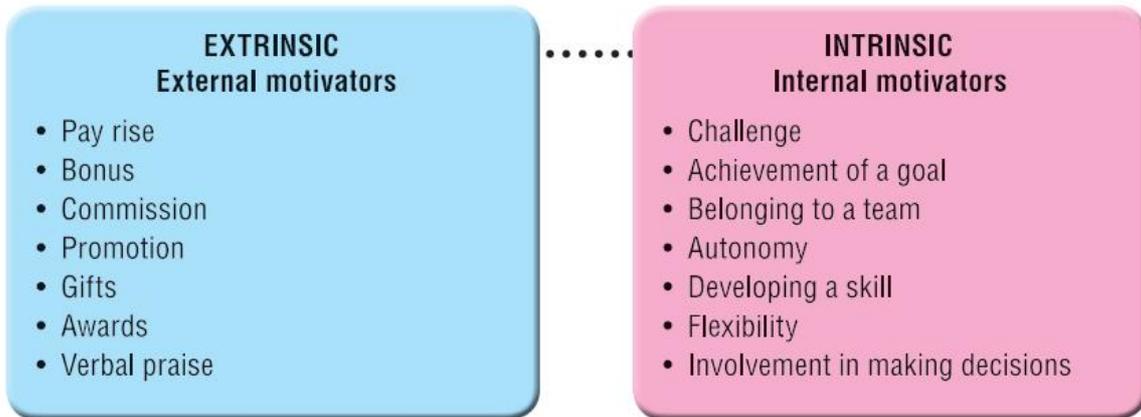
The human resource manager conducted a performance management review with Cooper. In response, changes in the job role were identified and he was provided with necessary training, a revised job role and responsibilities and pay structure. The changes ensured Cooper is a happy committed staff member who believes he is contributing to the success of the business.



Performance reviews provide a **win-win situation** to the organisation and employee. This is because the organisation is developing and retaining an employee who knows the organisation and is committed to it. On the other hand, for the employee, receiving training and support along with promotions and rewards, improves commitment and their relationship with the organisation.

Rewards and recognition

An effective performance management programme considers the recognition and rewards provided to employees. These can be categorised as:



Intrinsic and extrinsic motivation refers to whether the reason for doing something is for the love of doing it or for what is given in return (or a combination). Intrinsic and extrinsic rewards are whether the reward originates from within the person doing the activity or is given to them by the business.

Reward systems must encourage the desired behaviour in employees and ensure that the reward recipient feels that they are a valued member of the business.

Motivation is further covered later in this Unit, in the discussion of human resource motivation theories.

BUSINESS IN SOCIETY

Jackson is motivated to perform well in his sales job because he enjoys interacting with clients (intrinsic reward) and will receive a bonus if he reaches a performance management target of a specific number of sales, which he believes is quite attainable (extrinsic reward).

SEPARATION

Separation is the final stage of the human resource planning process, and is heavily affected by legislation. It requires the business to plan for both voluntary separation, such as employee retirement or resignation, as well as involuntary separation through retrenchment or dismissal.

- **Retirement:** is the point in time when an employee stops their full time or part time work. There is no longer an official retirement age, and people in Australia tend to retire in their mid fifties.
- **Resignation:** this is when an employee quits the business organisation they are working for. There are a number of reasons for this and so an **exit interview** is recommended whenever an employee resigns.
- **Retrenchment:** occurs when an employee's job has become redundant, or there is not a high enough level of work in the business for their position to be viable. This can occur because of structural changes to the business or technological changes. Redundancy can be voluntary (an employee nominates themselves for redundancy) or involuntary (when a position is no longer needed due to financial circumstances or operational requirements).
- **Dismissal:** occurs when the business needs to end an employment contract with an employee because of some problem with the employee's job performance. There are legislative requirements for fair dismissal. Dismissal regulations vary depending on whether the employee is temporary, on probation, permanent or casual.



Exit interviews

An exit interview is conducted soon before an employee completes their notice period and leaves a workplace. It is an opportunity for the employee and the business to discuss their experience in the workplace and for the managers to identify improvements to the business. What is learnt from exit interviews can be used to retain staff in the future.

Employers use exit interviews to find out:

- the reasons why the employee is leaving
- steps the employer could have taken to keep the employee
- the state of workplace morale
- what the employee liked about the company
- what could be improved to assist employees to do their jobs.

Example questions include:

- What factors led you to accept a job with our company?
- How has your perception of those factors changed during the time you've been here?
- What is your primary reason for leaving?
- What triggered your decision to leave?
- Did your job duties turn out to be as you expected?
- What was most satisfying about your job?
- What was least satisfying about your job?
- What would you change about your job?

Exit interviews may be conducted as a questionnaire, an online survey or an informal face to face meeting.

Voluntary and involuntary separation

Separation can be either voluntary or involuntary.

1. Voluntary separation

Voluntary separation occurs when the employee chooses to leave the workplace. There are several reasons why they might choose to make this decision.

- **Retirement:** this is when an employee decides to give up work for good.
- **Resignation:** reasons for resigning might include *workplace* issues such as personality conflicts; dissatisfaction with manager; or ineffective co-workers, or *personal* reasons such as working hours; lifestyle choices; ill health; or needing to take care of a family member. An employee might also leave for *career* reasons such as an improved position or good job offer in another business.
- **Voluntary redundancy:** if a job is no longer viable for the business, they might offer employees the opportunity to take up a redundancy package. This provides them with a sum of money for leaving the business.

EXAMPLE

Markita owns a failing manufacturing business and is finding that, with declining sales, she is going to have to reduce her full-time workforce to prevent the business going under completely. She has gathered financial records showing the losses made over the last financial period, and has calculated how much money the business will save through a redundancy. She has made the decision to offer voluntary redundancy to her staff. This is because she is aware that some of her staff are considering moving on and this might be of assistance.

2. Involuntary separation

Involuntary separation occurs when employment is terminated and the employee has not made the decision to leave the workplace. Separation can be involuntary because of **retrenchment**, which occurs when there is not enough work for the business to continue to provide employment. It might be because of **redundancy** which exists if the duties of a specific job are no longer required due to insolvency, bankruptcy, technological changes or business restructuring. Finally, it could be because of **dismissal** due to poor work performance.

Redundancy

To ensure that employment termination through redundancy is fair and lawful, the employer must follow correct procedure. Firstly they have to draw up their criteria for redundancy. Then they should consult with employees to establish clearly that the employee will not be able to perform other work and to explain the reasons for the involuntary nature of the redundancy. This includes clarifying issues around why the job is no longer needed in the business. The Fair Work Act states that it is not a genuine redundancy if it would have been reasonable in the circumstances for the person to be redeployed within the business. The employee must finally be given formal written notice and a remuneration payout.

Dismissal

An employee may be given a warning before their employment is terminated. In order to ensure that a dismissal is fair, the employer must follow procedural fairness, as summarised in Figure 9.6 below. After being given a verbal caution, the employee should be given a warning in writing which outlines the points of concern, how they have responded, the behaviour and standards expected and a date for final re-assessment of the employee's situation. The consequences of non-improvement are also required to be communicated.

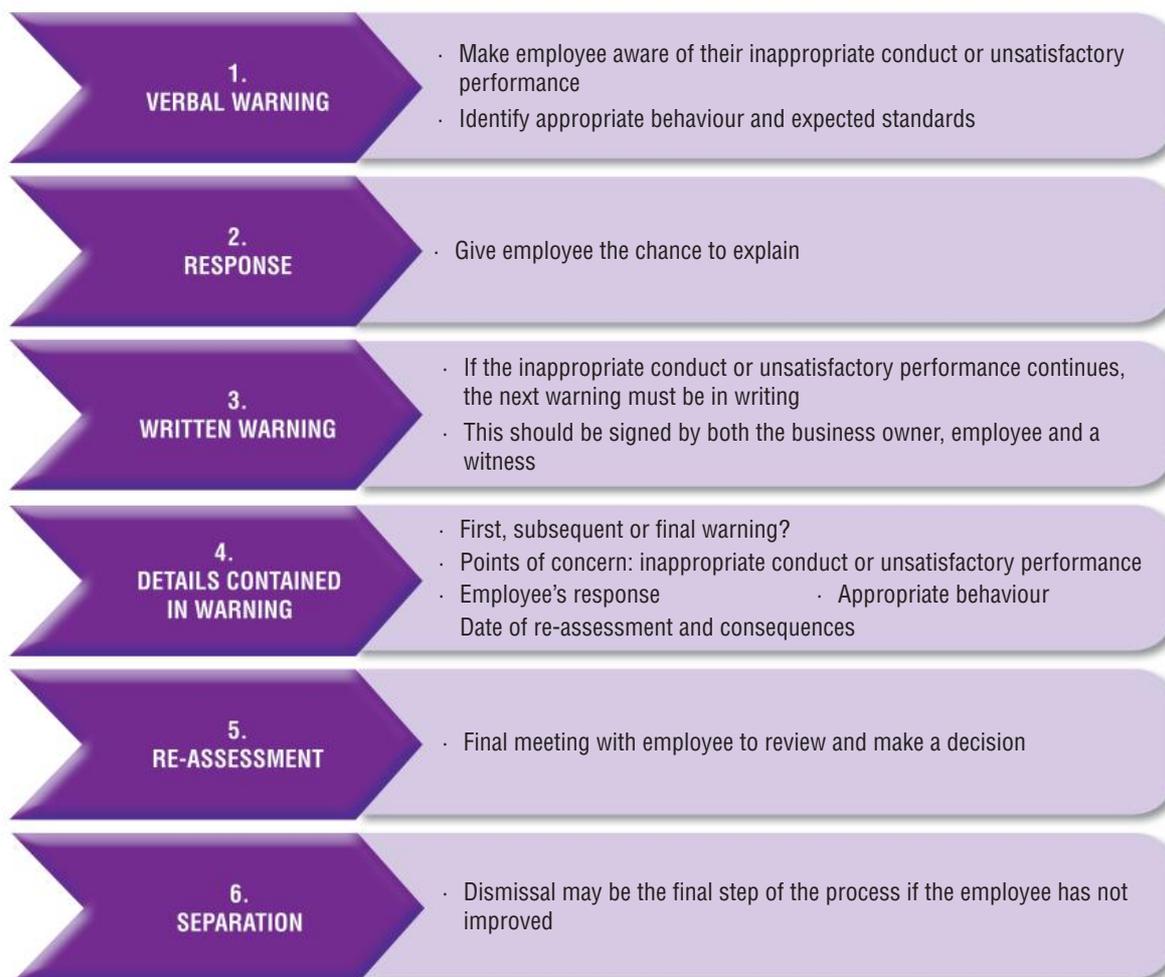


Figure 9.6: Warning procedure for involuntary separation

ACTIVITIES

Content review

1. List the four stages of the employment cycle.
2. What is involved in the maintenance stage of the cycle?
3. What is involved in the acquisition stage of the cycle?
4. What is a job description?
5. List the six stages of job analysis.
6. What are the two sources for recruitment?
7. Explain the two sources a business could use for recruitment.
8. List the four stages of recruitment.
9. What are referees used for?
10. What is an induction?
11. What is involved in the development stage of the cycle?
12. What is an employment package?
13. Outline three forms of employment contract.
14. What is involved in the separation stage of the cycle?
15. Describe two reasons for separation in the employment cycle.
16. Draw a diagram showing the process to be followed when an employee's contract is terminated.
17. Define four entitlements that employers must consider when terminating an employee's contract.
18. What are the major transition issues in termination management and how should they be dealt with by the employer?

Group research

- I. Part of the role of a human resource manager is to employ the most suitable candidates to promote the business and assist in its growth. Work in groups to complete these questions.
 - A. Outline the four elements of the employment cycle.
 - B. Discuss characteristics of a reward system that a business may use to motivate its employees.
 - C. Discuss the importance of induction for new employees in a business.
 - D. Describe why training is important for long term success.
 - E. Discuss how anti-discrimination laws have an impact on the employment cycle.
 - F. Describe how human resource policies can have an impact on the public image of a business.

SECTION D: ENVIRONMENTS

CHAPTER 10

Business in Society

‘Since the purpose of business is to satisfy existing desires, or stimulate new ones, if everyone were genuinely happy, there would be no need for business any longer.’

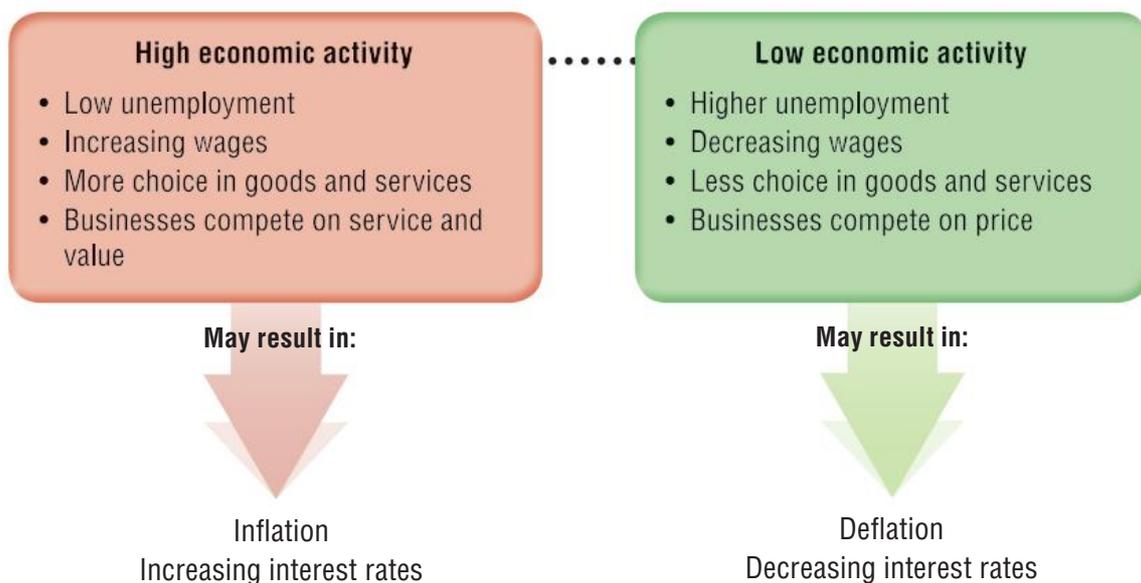
– Mihaly Csikszentmihalyi –

SPENDING PATTERNS

Money makes the economy go round. Businesses rely on consumers but many businesses such as suppliers, financial planners, utilities, cleaning and security businesses rely on business customers. Spending patterns change depending on whether the economy is strong or weak. Spending patterns are also influenced by lifestyle needs and consumer preferences.

Economic activity

The level of economic activity determines the wealth of a community and a nation.



An indicator of the impact of economic activity on spending is consumer confidence. Consumer confidence is measured by the Consumer Sentiment Index. The Index is based on a survey of over 1,200 Australian households. It is calculated as an average of five factors that reflect consumer opinions about:

- their household financial situation over the past year and the coming year
- anticipated economic conditions over the coming year and the next five years
- how affordable it is to buy major household items.

It shows how people feel about the economy and their personal financial situation. Consumer confidence have an impact on how people spend money. If consumer confidence is high, consumers will be spend more on goods and services. If confidence is low, consumers will save more money, use more money to pay off debt and buy fewer goods and services.

If local and national economic activity is strong, people will feel secure in their jobs and believe they will have stable income. This increases confidence and spending. Consumers are more likely to use debt for purchases because they are confident they will be able to pay it off. If the economy is weak, people will be worried about their jobs and part-time and casual workers may work fewer hours. This makes them less confident to spend money.

Consumers need to spend money to keep an economy going. Buying goods and services, and spending money on holidays and entertainment means that people will keep their jobs and businesses make profit. If an economy is weak, low consumer confidence can further weaken the economy because consumers will spend less money. Businesses will try to stay profitable by reducing staff hours and numbers. This decreases consumer confidence and affects spending patterns.

One change in spending patterns is the substitution effect. If the economy is weak, consumers will still try to buy what they normally do but will look for cheaper alternatives, for example home brand groceries and mince instead of steak. Businesses will choose cheaper suppliers, reduce casual hours and increase the workload on permanent staff.



BUSINESS IN SOCIETY

Consumer confidence in Australia decreased to 92.90 in May 2014 from 99.73 in April. This was due to people being worried about their finances after the federal government announced spending cuts and new taxes in the budget.

Social norms

Norms determine what behaviours are interpreted as right or wrong, good or bad. Norms are the rules of a society for behaviours that are considered acceptable and expected the standards of a culture. Norms also describe the lifestyle choices of people in a community, how they interact and their habits. For a person to be identified as being in a group or a target market they will conform to certain norms.

Examples of social norms that have an impact on spending include:

- Easter – chocolate gifts, travel and family meals
- Australia Day – parties, merchandise
- change to an anti-smoking attitude in the community
- an aging population spending on retirement and health needs.

Norms: a standard or pattern of social behaviour that is typical or expected in a group.

In the past the main motivators behind spending decisions were price and convenience. Now consumers spend their money based on decisions about such things as the ethics of the business, its environmental strategies and its involvement with the community.

In the market today products are similar, prices are similar and spending decisions are difficult because of the huge amount of choice. Consumers will buy from businesses that share their values and have a good public image.

In Australia the social norm is for the wife to control household finances. This is why many businesses spend money on advertising products to the 'busy mum' and include female role models and celebrities targeted at women.

Peer pressure comes from people wanting to live up to social norms. If a person's friends wear certain brands or have a certain phone, they will want to buy those products. The cliché of 'keeping up with the Joneses' is a strong influence on spending patterns. Getting caught in a competition and always comparing cars, clothes, gadgets, holidays and so on influences spending patterns. It is said that it makes people buy things that they don't need, with money they don't have to impress people they don't like. Spending more on expensive brands and luxury items may lead to cut backs in essentials and substituting cheaper alternatives and increased debt on loans and credit cards.



BUSINESS IN SOCIETY

Another example of a norm is the celebration of a 21st birthday with a big party. Businesses will promote their services such as limousines, decorations and entertainment in terms of their suitability for a 21st party. It is the norm for high schools to have a ball for their senior students that involve spending on clothing, beauty services and photography.

PROMOTING UNHEALTHY PRODUCTS

While some products are unhealthy and result in high costs to the community, they remain legally available and businesses sell them to earn income. They are legal but governments regulate their sale and marketing to try and minimise the harm they do.

As the consumers of unhealthy products die and get sick, the businesses must replace them with new users to keep making money. The aim of regulations is to protect children from being influenced by the advertising.

Alcohol

The Alcohol Beverages Advertising Code (ABAC) is a code of practice developed by the alcohol industry. Children's Television Standards and the Commercial Television Industry Code of Practice (CTICP) restricts alcohol advertising to from 8.30 pm to 5.00 am and to from 12.00 pm to 3.00 pm on school days. Alcohol advertising is also regulated by the ACL and the ACCC.

The aims of ABAC are to:

- stop all advertising that will encourage children to drink
- stop the promotion of irresponsible and excessive drinking.

ABAC is a code set up and funded by the alcohol industry. It is criticised for being powerless. If an alcohol supplier does not sign up to the code they are not regulated by it.

Although there are rules restricting alcohol advertising during children's programs, live sport telecasts are exempt. Alcohol companies sponsor most sporting competitions and events in Australia. During the telecast alcohol promotion is clearly on view.

The ABAC does not cover social media. Children can be exposed to alcohol advertising through social media pages, online videos, interactive games and mobile phones. A recent example is the 30-second beer advertisement before a child can start playing the My Little Pony game on a Bratz website.

Under the *Food Standards Australia New Zealand Act (1991)*, it is compulsory for labels on alcoholic drinks to indicate the alcoholic strength and the number of standard drinks contained in it. There are no requirements for any form of health warning or nutritional information.

Businesses that want to sell alcohol online, by mail and through a shop must be licensed. In WA a liquor license is applied for through the Department of Racing, Gaming and Liquor. It is illegal to sell alcohol to someone aged under 18.

BUSINESS IN SOCIETY

A complaint was made about an advertisement for a product that contained 28 individual alcoholic shots in a bucket. The shots have bright colours and include 'Pancake', 'Banana Split' and 'Chocolate Éclair'. The packaging and naming appeals to children and encourages excessive drinking.

Tobacco

Tobacco is also a legal product with devastating health consequences. Governments have strict laws about marketing and promotion to protect children from being encouraged to smoke. Laws and tobacco taxes are designed to also discourage adults from smoking. Since 1992 it has been illegal to publish or broadcast tobacco advertising. Online advertising has been illegal since 2012.



A study by Edith Cowan University found a 30% drop in impulse tobacco purchases since WA banned the display of cigarette packets in shops in 2010.

Since 2012 cigarettes packets have been required to be plain packaging. Research shows that plain packaging will:

- emphasise the health warning messages
- limit the use of packaging to persuade people that smoking isn't harmful
- reduce the attractiveness of the tobacco packaging to children.

BUSINESS IN SOCIETY

The tobacco industry used the terms 'light' and 'mild' to promote some cigarettes as being safer. In 2005, the ACCC stopped the use of these terms because it was deceptive and misleading. In 2006 all tobacco sponsorship of sport was banned in Australia.

Fast food

Fast food is very affordable and it promoted to families as an easy, cheap and fun way to eat. There are rules regarding advertising during children's television times which has an impact on how and when fast food can be advertised. The peak viewing period for children under 14 years old is between 5.00 pm and 9.00 pm when fast food ads are also most frequent. There is industry self regulation, but like the alcohol code of practice it is ineffective.

Advertisements cannot be directed at children and must promote a healthy lifestyle. The requirement to show a healthy lifestyle is why unhealthy food products are often advertised with children playing sport or dancing, or in a lunch box next to fruit.

Advergaming: games online or on phones that are designed to expose people to product logos, brands and products for long periods of time to increase recall and buying preferences.

Children are exposed to fast food marketing through television, movies and electronic games, prizes, competitions, sponsorship, billboards and on the internet including **advergaming**.

Fast food businesses are required to display nutritional and kilojoule information.

There is strong lobbying by health and community groups for governments to restrict or ban fast food marketing and promotion to try and decrease consumption.

BUSINESS IN SOCIETY

Kellogg's¹ explained that their ad showing children fighting over who would get the LCM bar is an example of 'energetic physical activity'.

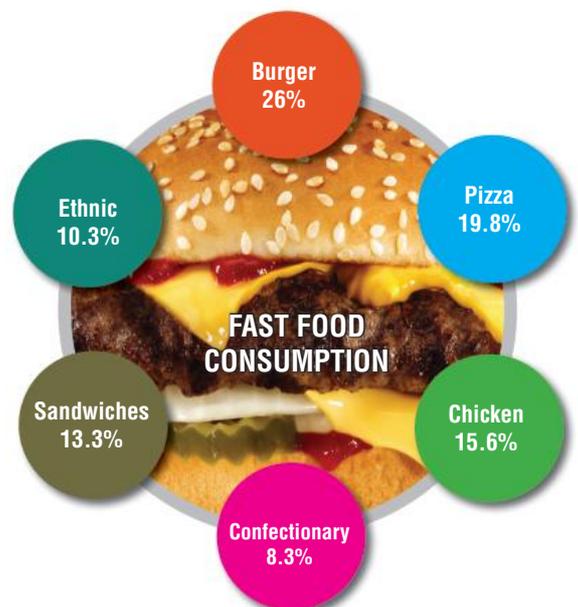


Figure 10.1: Fast food consumption in Australia

1 www.kelloggs.com.au

ACTIVITIES

Content review

1. What are some signs of high economic activity?
2. What are some signs of low economic activity?
3. What is consumer confidence?
4. How is the consumer sentiment index calculated?
5. How can economic activity have an impact on consumer confidence?
6. How can social norms impact on spending?

Group research

1. Choose an unhealthy product. Research the economic contribution of unhealthy products. How many people are employed related to the product? What is the revenue and taxation contribution from the product? Do businesses selling the product contribute to the community, for example by donations or sponsorship?
2. Group discussion or debate:

Students will form pairs or small groups. Assign an unhealthy product to groups and whether they are positive or negative. Positive groups research why the products are on sale and the benefits to consumers, business and the national economy. Negative groups look at the unhealthy aspects, the impact on consumers, society and the national economy and why they are highly regulated.

A discussion or debate is conducted to explore the issues surrounding each product and whether and why they should remain as legally available products or be banned.
3. Design advertisements for unhealthy products that are realistic. Realistically portray what they do and how they work. It could be a parody of current advertising or a warning ad to try and educate people about why they should not use the product. The advertisements can be videos, storyboarded animations, a series of print ads or a combination.

CHAPTER 11

The Legal Framework of Business

'To succeed in business, to reach the top, an individual must know all it is possible to know about that business.'

– J Paul Getty –

EQUAL EMPLOYMENT OPPORTUNITY (EEO) ACT 1987

Equal opportunity is about making sure that everyone has fair and equal access to employment, education and services and that our society is free from discrimination and victimisation. It is unlawful to discriminate on grounds that include:

- age
- family responsibility
- gender history
- impairment
- marital status
- political conviction
- pregnancy
- race
- religious conviction
- sexual orientation
- spent conviction.

There are other federal laws in place that prohibit discrimination enforced by the Human Rights and Equal Opportunity Commission; *Age Discrimination Act (2004)*, *Disability Discrimination Act (1992)*, *Human Rights and Equal Opportunity Commission Act (1986)*, *Race Discrimination Act (1975)* and *Sex Discrimination Act (1984)*. In WA the Equal Opportunity Commission enforces the *Equal Opportunity Act (1984)*. A complaint form can be downloaded from their website.

If an employer or employee breaches the law they can be ordered to sit down with a conciliator and talk things through with the other party, pay a penalty and make a written apology.



Some breaches are also crimes, such as sexual harassment, and criminal proceedings may result. Unlawful dismissal occurs when someone is dismissed from a job based on grounds that are prohibited. For example, if someone is sacked because they are pregnant, have a spent conviction or have had gender reassignment surgery the employer has acted unlawfully.



It is a good idea for an employer to have an equal opportunity policy showing what is unlawful, the complaints process when something happens, and the consequences of acting unlawfully. An employer should review all business processes such as recruitment and selection, promotions and pay to make sure they aren't discriminatory. For example, application forms and interview questions cannot ask about sexual preference, marital status, religion or pregnancy unless there is a clear, genuine requirement for the job.

But just having a policy is not enough for an employer to avoid legal liability for harassment and discrimination in their workplace. Employers have a legal responsibility to do everything 'reasonably practicable' to eliminate harassment and discrimination. 'Reasonably practicable' means that employers must take all reasonable steps to prevent discrimination. The legislation does not give set rules for what is reasonable and practicable. It depends on the situation and the employer. What is reasonable for a large national company may not be reasonable for a small local business.

Reasonable steps include: having a clear anti-discrimination policy, consequences for breaching the policy, EEO in new staff inductions, a clear complaints process for staff, workplace training; and EEO awareness campaigns (posters, brochures).

If an employee harasses or breaks the law and the employer has not done enough to prevent it, the employer can be vicariously liable. This means that an employer is seen to have contributed to the incident because they have a workplace where employees think that discrimination is acceptable or will go unpunished.

For example, an employee may make racist jokes about another employee in the workplace or at a work social event. If the employer does not have a clear EEO policy and takes no action over the incident, it may be seen that the employer is vicariously liable. The employer will face a penalty along with the employee.

Table 11.1: Responsibilities of employers and employees

Employers	Employees
<ul style="list-style-type: none"> • Provide a workplace free from discrimination and harassment • Have policies regarding EEO • Apply EEO principles • Provide advice and training about EEO in the workplace • Have a clear complaints and disciplinary process for discrimination • Take action when incidents are reported • Keep up to date with changes in EEO laws • Regularly review and update EEO policies 	<ul style="list-style-type: none"> • Treat all co-workers equally • Respect cultural and social diversity among employees and clients • Follow employer policies regarding EEO • Report incidents of harassment and discrimination to the employer • Participate in EEO inductions and training • Use an employer's complaints process

OCCUPATIONAL SAFETY AND HEALTH (OSH) ACT 1984 (WA)

The *Occupational Safety and Health (OSH) Act (1984)* established the Commission for Occupational Safety and Health. The Commission reviews and improves the Act, Regulations, Codes of Practice and Guidance Notes. The OSH Act details legal duties for employers and employees. Its aim is to prevent workplace accidents and injury.

The legal framework for work safety and health is shown here.

Sections 19 and 20 of the Occupational Safety and Health Act impose general duties of care on employers and employees so everyone in a business is responsible for the prevention of accidents and injuries. The duty of care requires employers to provide a safe and healthy workplace and provide safety equipment and training. It also requires employees to follow health and safety guidelines and to report hazards so they can be rectified.

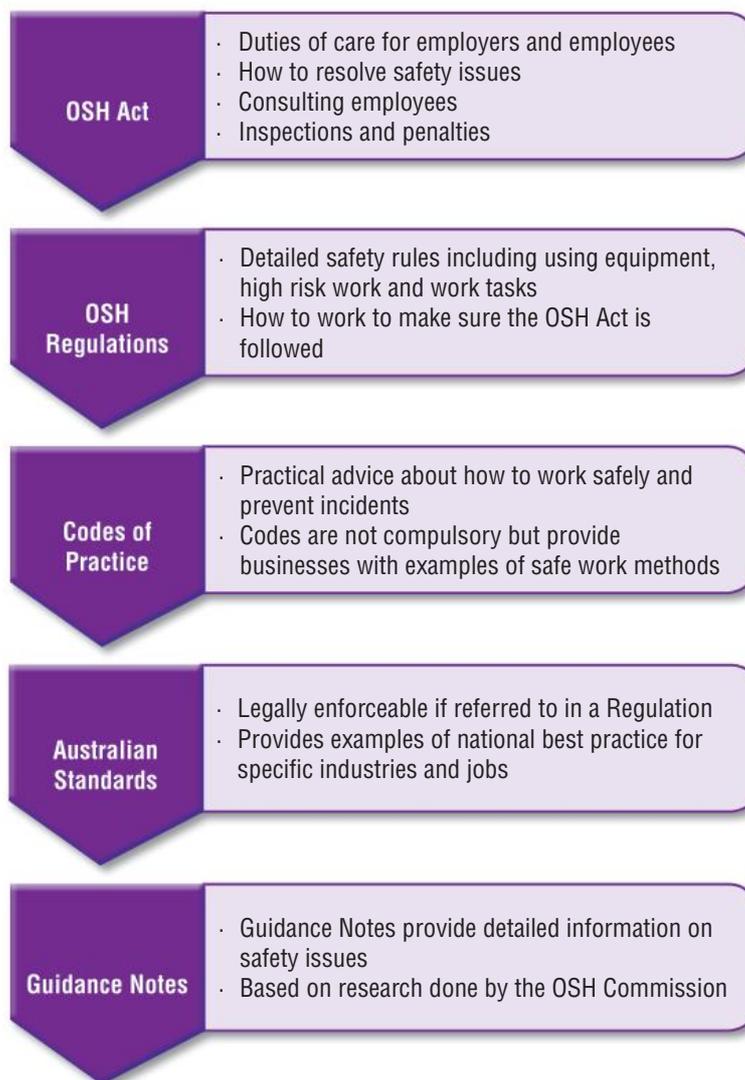


Table 11.2: Duties of care

Section 19 Duty of care of employers	Section 20 Duty of care of employees
<ul style="list-style-type: none"> • Do not expose employees to hazards in the workplace • Provide information, instruction, training and supervision to maintain safe work practices • Cooperate with safety and health inspectors • Provide protective clothing and equipment 	<ul style="list-style-type: none"> • Take reasonable care for their own safety and health at work and to avoid harming the safety and health of other people • Employees must follow the safety and health instructions given by their employer • Employees must report all workplace injuries and hazards • Employees must use protective clothing and equipment as instructed when required

IMPACT OF GOVERNMENT POLICY

An important role of governments is to build a fair and safe community for all people. One way they do this is to set laws and regulations about how businesses interact with customers, employees and the community. Governments have to balance the needs of businesses to make profit with what is good for the community.

Businesses can be involved in the process to develop regulations. They may make submissions to committees and talk to agencies and members of parliament to explain what they want. This process is called lobbying. We will examine three areas of government policy that have an impact on business.

Trading hours

State governments set regulations about trading hours. The regulations set opening and closing times. The next step is to deregulate trading hours so business owners and managers have the freedom to trade when they wish. Although trading hours are not compulsory, businesses feel they must open if their competitors are going to and they may miss out on sales.



Governments consider the need for business to operate longer to increase sales and the impact trading hours have on employees and their families.

In WA the *Retail Trading Hours Act (1987)* regulates when retail businesses can trade in the metropolitan area. Trading hours for restaurants, cafes and takeaway food shops are not covered by the Act. The Act was amended to allow retail shops to open on Sunday between 11 am and 5 pm and most public holidays. Trading hours were also extended on week nights.

Businesses face additional costs if they open for longer: staff wages, cleaning, electricity and buying stock. Other costs that may be affected by changes to trading hours include:

- penalty rates for staff working longer hours and on weekends
- marketing to customers to advise them of longer trading hours
- increased costs paid to shopping centre owners such as cleaning, advertising and security.

Small businesses may face financial difficulty if the extended time does not result in increased sales. It may be the case that sales are spread over the week instead of a sales increase. Some small businesses open for five or six days a week to try and reduce costs.

Trading hours' regulations also change for different types of businesses. Petrol stations and small retail shops such as delis, clothing shops and small grocery stores are deregulated.

BUSINESS CONCEPTS

Businesses pay workers penalty rates to compensate them for working on weekends, late nights and public holidays. Now that trading hours have been extended and have become standard, it is being argued that these penalty rates should be abolished.

They can open 24 hours a day 365 days a year. Small retail shops are those family owned businesses that employ less than 18 people. Special retail shops such as pharmacies, nurseries and newsagencies can open from 6.00 am to 11:30 pm, every day of the year.

The minimum award rate for a worker in a restaurant or cafe is about \$16.80. Penalty rates are paid for work time on Saturday and Sunday shifts and for working after 10 pm. Penalties are also given for public holiday work.

Employees must have a legitimate reason for refusing to work on Sundays or late nights, such as family responsibilities. Employees are protected by unfair dismissal laws from sacking an employee because they refuse to work on Sundays.

Product labelling

The main issues for labelling are ingredients, health and safety information, genetically modified food and country of origin. Labels provide the following information to consumers:

- ingredients and nutritional profile
- use by date
- manufacturer details
- instructions for use
- country of origin.

Labels also are an important tool for promoting and advertising the business and its brand.

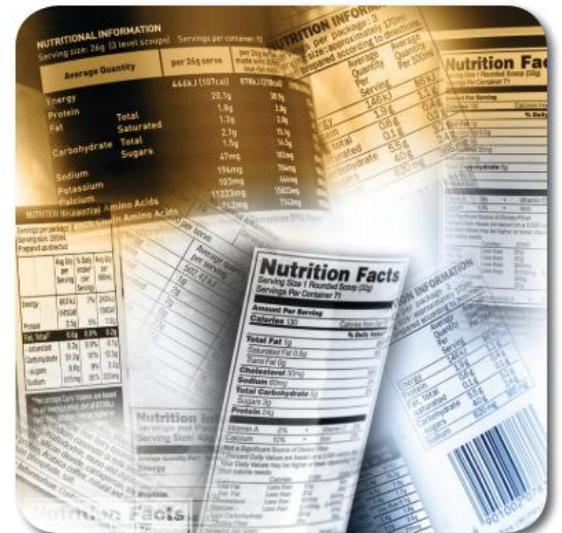
The *Competition and Consumer Act (CCA) (2010)* sets rules for product labelling and prohibits businesses from making false or misleading claims about the place of origin of products. The Act requires that labels give the following information to consumers:

- mandatory consumer product information
- industry specific regulations
- customs information which is required for some imported products.

If product labels are inaccurate or missing ingredients consumers are exposed to health risks. They may be allergic to an ingredient that is not listed.

Under the Competition and Consumer Act the mandatory labelling requirements for cosmetics include:

- Ingredient information should be available to consumers at the point of sale.
- Listing of product ingredients must be on the container or packed with the container.
- Ingredients need to appear in descending order calculated by either mass or volume.



BUSINESS IN SOCIETY

A haircare importer in Australia did not include formaldehyde in the list of ingredients of its hair straightening products. Testing found formaldehyde levels at 50 times greater than the safe limit. The ACCC found that the labelling was false and misleading.

If a product is imported it still must meet Australia's labelling requirements. This may mean a business will need to print its own labels to comply with the Australian law.

Advertising to children

Young children do not have the cognitive ability and experience to understand advertising. Children five years old and younger don't understand that commercials are trying to sell them something but by seven years of age they begin to understand that ads are not the same as news or programs. By the time children are 11 or 12 they are aware of the purpose of ads.

An issue that is of great concern to a lot of people is advertising to children. There are community groups and health advocates trying to persuade governments to implement regulations restricting and banning junk food advertising to children. Junk food businesses are lobbying governments to persuade them not to restrict advertising because they believe that will result in decreased income and profit.

Children's Television Standards (CTS) classify television programming as C (children) or P (preschool). Advertising broadcast during or directly before or after C and P programs must meet requirements set out in the CTS.

The CTS do not allow advertising during P programs and limitations are placed on commercials during C programs. A maximum of five minutes of commercials are permitted in every 30 minutes of C program. CTS 30 states that 'No advertisement may mislead or deceive children'.

The CTS sets other requirements for advertising concerning; the presentation of prizes, competitions and free gifts, and the use of popular characters. Alcohol cannot be advertised during P and C programs. Advertisements for children must not encourage discrimination or prejudice towards groups or people, or encourage children to be unsafe. The CTS prohibits businesses to focus on a toy, gift or prize as the reason to buy a product. A chocolate drink company was recently found to be in breach when their advertisement focused on the free DVD in each box as the reason to buy the product. Fast food businesses commonly use a movie or toy related gift to promote their children's meals. It becomes a breach if it is done during P and C programs.

Children see over 6000 junk food and confectionary advertisements a year, which is at least 17 per day. In addition there are sports sponsorships, online games, cartoon characters, toys and celebrity promotions advertising unhealthy food to children.

A breach of CTS is embedded advertisements, where characters or hosts of a children's television show promote a product. CTS 9 states that a presenter may not recommend, sell or endorse a product nor encourage children to use it.



CTS 22 states that an advertisement during a C and P program cannot use a character or person out of the C and P program.

Advertisers and food manufacturers know how 'pester power' is useful. They know that if their advertising targets children they will nag their parents until they buy the products. Children don't have the experience and understanding of media and advertising and they are easier to influence and mislead. The purpose of rules about advertising to children is to protect them from being exploited by businesses.

INNOVATION AND OPERATIONS

Cartoon characters on cereal boxes are watching you! The eyes of cereal mascots are designed to be looking down at the angle that children will be looking up. The idea is the characters will have eye contact with children as they walk past the boxes on supermarket shelves and encourage the child to want to buy it.



ACTIVITIES

Content review

1. What is the aim of equal employment opportunity legislation?
2. Consider the following case study information and apply this to the questions that follow.

A selection panel in your business is discussing a candidate who has the required educational background and work skills and has performed well in selection testing. The candidate is a sole parent with three school-aged children. The selection panel believes that she is not a suitable candidate as she is likely to need regular time off because of family responsibilities.

- A. What advice would you give the selection panel? What legislation applies to this and all selection processes?
 - B. What actions could the candidate take?
 - C. What is meant by the term 'equal opportunity'? What is the purpose of the Equal Opportunity Act?
 - D. Explain the ethical dilemma faced by an employee on the selection panel.
3. What does the Occupational Safety and Health Act 1984 of WA aim to do?
 4. What is the purpose of OSH Regulations?
 5. What are guidance notes?
 6. How do trading hours policies have an impact on business profit?
 7. What are two examples of information found on product labeling?
 8. What are P and C programs?
 9. Why should advertising be regulated in P and C programs?
 10. What is the purpose of the OSH Act 1984? What are some of the employer and employee responsibilities?
 11. What is purpose of the EOA Act 1984? What are some of the employer and employee responsibilities?

Group research

1. Monitor the advertising during children's television program time. Use the template provided to make a list of examples of where advertisements or programs may breach the Children's Television Standards such as:
 - A. An advertisement showing an unsafe activity or unsafe use of a product that may encourage children to do something dangerous
 - B. An embedded advertisement in a childrens' TV show
 - C. Using a toy or free gift as the focus of an ad for a food product

ADVERTISING TO CHILDREN BREACHES

Write a description of the advertisement and tick the box to indicate the possible breach of CTS. Use a table such as the one below.

Advertisement	A. Unsafe	B. Embedded	C. Prize/Gift

2. After students have formed small groups of two or more, assign one of the topics below. Groups will have time to research the topic and develop arguments and examples. Then groups on the same topic will compare information and build a case for their side. A group discussion or debate can be run to explore the issue.
 - Longer trading hours are normal so we don't need to pay workers penalty rates.
 - Longer trading hours affect family life and workers need to be compensated
3. Use the 'Equal Employment Opportunity' information on the Australian Government Business website: www.business.gov.au, and the Human Rights Commission website www.humanrights.gov.au, to create an educative brochure about one of the following elements of workplace discrimination:
 - A. Age
 - B. Disability
 - C. Race
 - D. Sex
4. Select an area of workplace safety that is relevant to a small local business. Group members should brainstorm the main OSH issues in that workplace. Use the WorkSafe website: www.worksafe.com.au and the Safe Work Australia website: www.safeworkaustralia.gov.au, to develop a summary table showing how to prevent the five main OSH issues.

CHAPTER 12

Protecting Intellectual Property

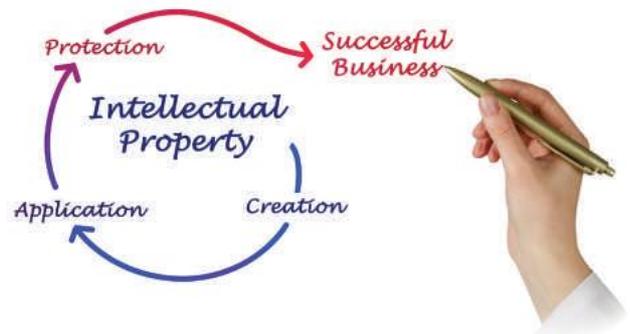
'Intellectual property has the shelf life of a banana.'

– Bill Gates –

WHAT IS INTELLECTUAL PROPERTY (IP)

Intellectual property (IP) describes what comes from ideas, innovation and creativity. For example:

- a new invention
- a brand
- a design
- a process
- a recipe
- an artistic creation such as music, graphics or images.



If a business has a manufacturing process; image; proprietary knowledge developed over years of experience and research; a device; or a slogan and logo that is recognised globally it has a competitive advantage.

If any business was able to use it the competitive advantage would be lost. A business manager or operator should use strategies to protect intellectual property from being used by competitors.

Innovation is encouraged by IP protection because the inventor is able to make their innovation a success and prevent it from being copied.

THE PROTECTION OF INTELLECTUAL PROPERTY

Once intellectual property is protected and ownership registered the owner can take legal action to stop other people from using it and can license or sell it to others.

IP Australia began with Australia's patent office 1904 and is responsible for the registration of intellectual property and conducts hearings about disputes over infringements.

IP Australia can assist businesses by protecting five types of intellectual property:

- design
- copyright
- patents
- trademarks
- domain name.

Design

A design is what gives a product a unique visual appearance; its shape, ornamentation, pattern or configuration. If a design is registered a business has the legal basis to try and stop other people copying it and an exclusive legal right to use it is formalised.

To be registered a design must be:

- new and not previously published or publicly used and
- distinctive and not similar to any existing designs.

Registration is valid for five years and can only be renewed once.

The *Design Act(1906)* and the *Design Act (2003)* regulate the protection of designs.

INNOVATION AND OPERATIONS

Design registration has been used to protect a portable cooler, bed linen, swimwear, a folding chair, metal fencing and a toy building block. You can take action even if someone has used the design even with small changes.

Copyright

Copyrights apply once someone creates an original work. The creator does not have to register their work or apply for copyright. Copyright gives the owner the exclusive legal right to copy, perform, broadcast and publish the work. Copyright lasts for 70 years. If a business earns revenue from selling content, music, books or magazines their products need to be protected. If copyrights are not defended any business can take market share and sales away by making a copy and selling their own version. There should be copyright notices on business websites, publications and products to remind people that it is protected and to give details of how to obtain permission to use it.

Relevant legislation includes the *Copyright Act (1968)* and the *Copyright Amendment (Digital Agenda) Act (200)*.



Patents

A patent is an exclusive legal right to use a device, substance, method or process. If someone invents a device or process they can apply for a patent. If the application is approved the patent gives them the legal right to stop other people from making their own version or copying the process without permission. In Australia a patent lasts for 20 years. For international protection patents must be obtained from individual countries. In the application the item being patented must be described in detail. Patents are public records so a competitor can look at the patent to see how your device or process works. The *Patents Act (1990)* regulates the protection of patents.

INNOVATION AND OPERATIONS

Coca Cola have never patented their formula for Coke. The patent would reveal the formula the company has kept secret from competitors. It remains a trade secret.

Trademarks

A trademark can be a letter, number, word, phrase, sound, smell, shape, logo, picture, aspect of packaging or any combination. When a business uses an original trademark for the first time it becomes an unregistered trademark. If a trademark is registered it gives a business the legal right to control its use. Registration gives the owner legal rights and recognises that it is valuable to the business. Trademarks can include brand names, acronyms of a business name, a logo, colour combinations used as a theme by a business, and shapes such as a soft drink bottle. An unregistered trademark has TM next to it and [®] when it is registered. If a business has not used their trademark in three years it may be deregistered. The protection of trademarks is regulated by the *Trade Marks Act (1995)*.



BUSINESS CONCEPTS

Cadbury fought a long court battle to try and trademark 14 shades of purple. Cadbury's position is when Darrell Lea used purple in the packaging of their confectionary it might cause customers to confuse their products with Cadbury products. In 2006 a court rejected the trademark applications but Cadbury have appealed the decision.

Domain name

A domain name is an address on the internet and forms the part of email and website addresses to the right of the @ symbol. It is as important as a business name because it is an identifier for a business and the way customers can find the website. If someone copies your domain name some customers will go to their website instead of yours.

A domain name is registered with the Australian Domain Name Administrator and gives you a license to use the name for two years. A formal complaint can be made to the Australian Domain Name Administrator if you think someone is using your domain name. In 2008 the laws governing domain names were changed in Australia. People registering a domain name will no longer have to have a company or business registered to prove a link between the name and business activity. And people will be able to register more than one related domain name.

These forms of protection are applied for through IP Australia. In the case of trademarks, there is the Madrid Protocol which provides international protection. The Protocol saves businesses the time and expense of registering their trademark in every country. A single application will provide protection in all member countries.

TAKING ACTION TO PROTECT YOUR IP

If a business has intellectual property and another business seems to be using it, the first thing to try is to discuss it with them. Make sure the other business is aware that they are using protected IP and ask them to stop. If an informal approach does not work a more formal one is required.

A 'letter of demand' or 'warning off letter' uses the threat of legal action to try and stop the use of protected IP. If a written warning doesn't work court action is the next option. A temporary injunction can be applied for them to immediately stop the use of the IP. If successful the temporary injunction gives a business time to demonstrate to the court the legal rights of the business, the damage done by the unauthorised use of IP and apply for a final injunction.

Penalties include up to five years' jail and fines of \$50,000 for an individual and \$250,000 for a company. If copyrights are successfully defended it means that the pirated goods become the property of the holder of the copyrights. The infringer will have to pay damages to account for income earned and profits made with the copied goods and hand over all of the remaining products.

Review Australia¹ noticed that there was another business selling a dress that was similar to their registered design.

They initially sent a warning letter requesting them to stop selling the dress. The business continued to sell the dress so Review took legal action.

The judge found that the other design was substantially similar to the registered Review design. There was no convincing evidence that the other design was original.

The judge awarded additional damages because the business continued to sell the dress after they were warned about the IP infringement.

Review design registration 307186



Innlife 'Lili' dress



1 review-australia.com

ACTIVITIES

Content review

1. What is intellectual property?
2. What are three examples of IP?
3. What legislation regulates design IP?
4. Describe two methods that can be used to protect intellectual property.
5. Why would a business not want to patent their product?
6. Why is defending copyright important?
7. What are the advantages and disadvantages of using a patent to protect an innovation?
8. A successful fast food business has a competitive advantage due to their recipe that has been a trade secret for years. The industry has become more competitive recently with some competitors challenging its hold on the market with very similar products.
 - A. Describe what the business could do to protect its intellectual property.
 - B. Discuss any issues that may arise from the forms of intellectual property protection.

Group research

1. Identify any safety and health information that is displayed in your classroom or workplace. Who are the safety officers? Where are the first aid supplies? What is the evacuation plan?
2. Over a typical week list the ways you might infringe copyright laws in your studies, work and leisure time.
3. Have a look around your classroom, workplace and home. Draw all the trademarks you can find.
4. Access the IP Australia website: www.ipaustralia.gov.au, and go to 'Get the Right IP'. Research how to apply and register intellectual property rights. Each group member should research a different type of IP: patents, trade marks, designs, domain names or business names. Bring your research together and decide which type of IP is most appropriate for a new small business enterprise, and under what circumstances.

SECTION E: MANAGEMENT

CHAPTER 13

Marketing Strategy

‘Yes, I sell people things they don’t need. I can’t, however, sell them something they don’t want. Even with advertising. Even if I were of a mind to.’

– John O’Toole –

MARKETING STRATEGY

When a business has identified an opportunity to fulfil the needs of current or future customers, through the production of a specific product, it can then turn to planning its marketing strategy. The marketing strategy can only be commenced once the business has identified customer needs and determined it is capable of meeting these needs.

Market research was covered in a previous chapter. Research provides the basis for planning the marketing strategy. It will provide information about the target market and current positioning of the product.

Purpose

The aim of a marketing strategy is to plan how to allocate the marketing resources of the business. It outlines the customer focus and guides how the business is to market to customers. As a strategic plan, it relies on the businesses mission and goals, which influence the vision contained in the marketing strategy.

Features

The features of marketing strategy are all interdependent and all influence each other.



Figure 13.1: Features of marketing strategy

The businesses' **brand** is the basis for how customers should feel about the business and its product. It provides a focus for the strategic intention of interaction with customers.

The market **segment** is the group of customers that the business will sell to. This is dependent on the strategic intent of the business. For example, the business might be a high volume producer, or an exclusive service provider, or a middle of the range customer friendly manufacturer.

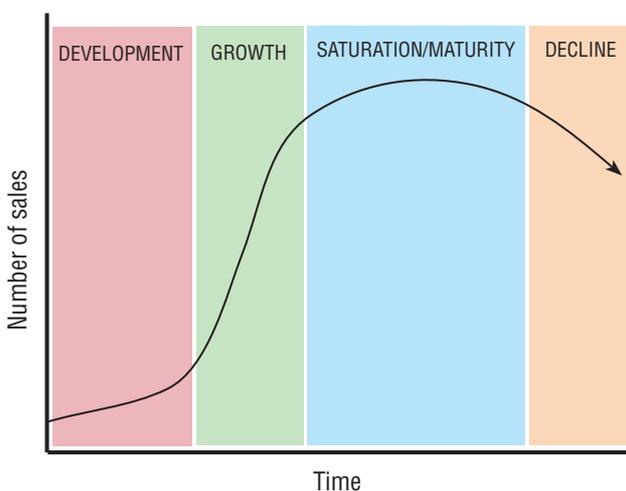
The **targeting** of the product is relevant because the business might have more than one product, and therefore more than one target market. The business must decide what its strategy is in this area. For example, does it wish to target a number of market segments or is it targeting a specific niche market? The business will group potential customers so that it can target marketing plans at each collection.

The business must decide on the **positioning** of product in the mind of the customer. This requires planning the unique benefits of the product and assessing how it differs from competitors. For example, the brand position might be one of quality, of features, or services provided. The business could decide to position the product close to competitors by emphasising similarities, or could decide to position it away from competitors by emphasising uniqueness. The business must research the perceptions that potential customers have of the product.

PRODUCT LIFECYCLE STAGES

Every product that is introduced to a market will go through different stages over time. A product may have a very short lifecycle, of only a few months, or may have a long life of several years. As a product moves through each stage, the business will need to consider changes in the marketing mix.

The stages of a product's life are summarised in Figure 13.2. This compares the amount of sales that are made in each stage of the life cycle. A product will have the most sales in the 'maturity' stage of the life cycle.



BUSINESS CONCEPTS

The decreasing market for pinball machines and arcade games reflects the fact that they are currently in the 'declining' phase of the product life cycle. However, the market for vintage and novelty machines installed in the home has enabled resurgence in one niche area of this market. Vintage pinball machines are becoming popular and are in the growth to maturity stage of the product life cycle.

Figure 13.2: The product life cycle



Figure 13.3: Product life cycle stages

Marketing strategies for stages of the product lifecycle

1. Product

Packaging, labelling and branding can be used at each stage of the product lifecycle to distinguish the product from competitors in the market place.

Packaging

The business will package a product to market it by ensuring it is appealing to the consumer, and to improve the appearance of it being a high quality item. The package can distinguish the item from other brands, make the product more easily identifiable for the customer, and be eye-catching and therefore more recognisable to consumers.

Packaging can be used for three main purposes, as follows.

- 1. Primary packaging** is used for an item that is being sold to the consumer at the place of purchase; for example, the glass bottle to hold a drink or the blister pack used for tablets.
- 2. Secondary packaging** is around a group of items, and is often used to place those items on the shelves at the place of purchase. It does not have to be included with the product for the product to work; for example, a cutaway box used to hold chocolate bars or small tins of fish on a supermarket shelf.
- 3. Tertiary packaging** is used for the handling and transport of a number of items or grouped items in order to prevent damage. It does not include road, rail, ship and air containers; for example, plastic wrapping used to keep multipacks of soft drink together on a palette.

Packaging purposes

- ✓ Protect from spoilage
- ✓ Prevent spills
- ✓ Security for expensive items
- ✓ Preserve perishable items
- ✓ Divide items into portions
- ✓ Marketing
- ✓ Branding
- ✓ Provide information



Branding

A brand is a name, symbol or design that is used to identify a product or service and differentiate it from competitors. The business will brand their product to ensure consumers can identify the brand, feel confident about it, and remain connected to it.

Brands are highly valued, and their reputation is protected very carefully. This reliance on brand recognition and consumer loyalty results in **product differentiation** through the branding and labelling.

A brand is created in order to make the product appear unique. There are several ways to distinguish a brand from others in the market, as shown in the following table.

Branding for product differentiation

- ✓ Convenience
- ✓ Labelling information
- ✓ Quality service/warranties
- ✓ Better features
- ✓ Environmental features
- ✓ Value for money
- ✓ Improved results

Table 13.1: Parts of a brand

PART	EXPLANATION
Jingle	A short and catchy phrase or song is associated with the product
Font	The brand name or an abbreviation can be shown using a unique font, created for the product
Colour	Some brands even attempt to have a specific colour copyrighted to them, in order to appear individual
Sound	In the multimedia world of today, the business can have a unique noise or music associated with the product
Graphic	Attention grabbing pictures or symbols will assist with the visual appeal of the brand

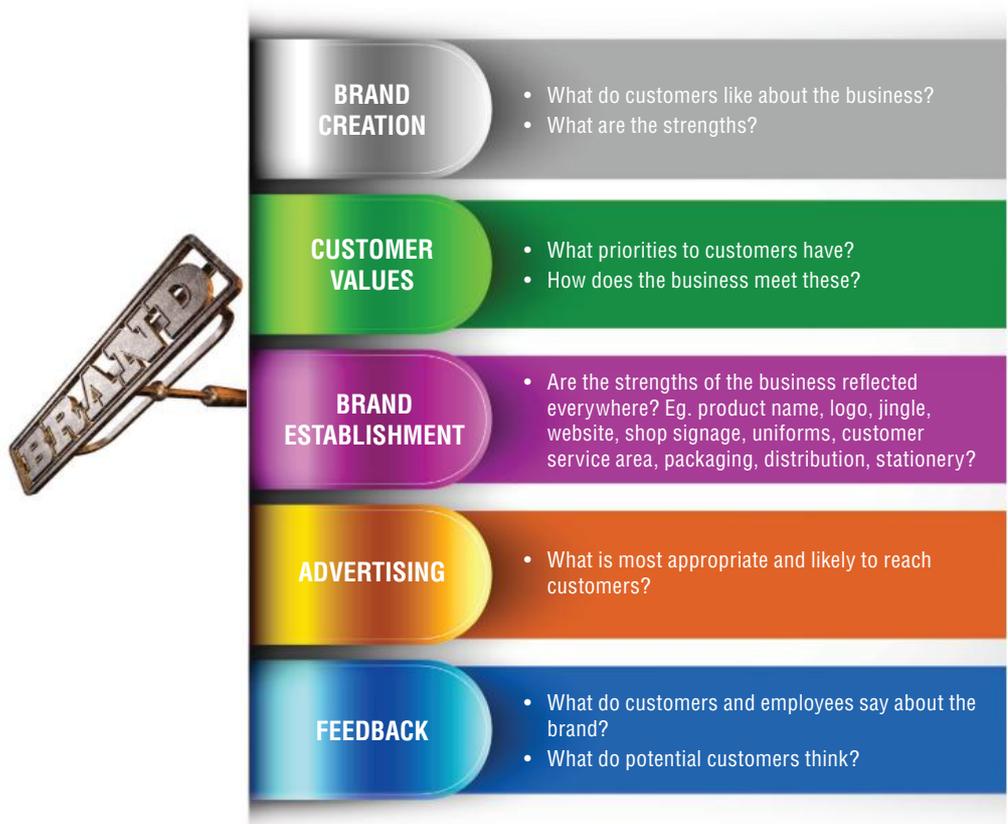


Figure 13.4: Branding strategies

2. Price

In the early stages, low penetration pricing or niche skim pricing is used to break into the market, which has very little competition. Market share needs to be built.

Then price leadership or market pricing would be utilised to really penetrate the market and improve growth. Market demand will be increasing.

As market growth starts to even out, prices will probably fall as profits would be decreasing. More competitors will be entering the market and competing on prices.

When sales start to fall, price cutting is often required.



3. Promotion

In the early establishment phase, heavy promotion is used because of low consumer awareness. The business will aim to inform consumers and attract them. The target market is 'early adopters'.

As the market expands, competitors will arrive and the product will have market recognition, therefore promotion aims to improve brand awareness. The target market is new potential buyers.

As market growth slows and new rivals enter and leave the market, persuasive advertising that differentiates the product from competitors is required. The product could be repositioned to attract new consumers. The target market could vary at this stage.

When the market starts to shrink, very little is spent on marketing. Generally the business will retain loyal customers or move to discontinue the product.



4. Place

In the early stages, distribution is limited and focused. It is aimed at consumers who have shown interest in the product.

With growth, the business can increase the number of retailers and distribution points to make the product easily available.

As growth slows, the business will continue to distribute in a concentrated and thorough manner. Distribution is intensive and competing with other products for shelf space.

As sales decline, the business will cut back on distribution. As profits are declining, distribution costs will need to decrease.



Table 13.2: Marketing strategies for different stages of the product lifecycle

PRODUCT LIFECYCLE STAGE	PRODUCT (Including packaging and branding)	PRICE	PROMOTION	PLACE
Development	Establish brand recognition and new/unusual packaging	Low penetration pricing or niche skim pricing	Aimed at product awareness and education of consumers, high advertising costs	Cautious, selective distribution
Growth	Additional features added, and potentially shown on labelling	Market pricing as demand should be increasing	Aimed at a wider market and to build a customer base	Increased distribution channels as demand increases
Saturation	Enhance features and differentiate from competitors through use of changed design and benefits	Competitor pricing to meet competition	Aimed at differentiating the product from others	Maintain distribution
Decline	Either maintain the product by making major changes or discontinue the product	No change if a niche market is now being met, or lower if discontinuing	Only for the brand that is being continued	Only distribute to profitable channels

BUSINESS CONCEPTS

A frozen vegetable manufacturing business that has had many years in the Australian market recently changed the packaging of their products. The change to a newer, more modern look was accompanied by a marketing campaign emphasising the tradition of excellent quality and the newness of the upmarket package. This is an example of packaging changing because a product is in the maturity stage of the product life cycle.

Product extension

As the product moves into the 'decline' stage of the product life cycle, there are many options for the business to consider.

These include:

- Reduce costs and distribution and just market the product to loyal niche customers.
- Discontinue the product.
- Extend the life of the product by extending the maturity stage.

Strategies to extend the life of the product before it declines revolve around attempts to retain the current customer base, or diversify into a new market or customer base.



BUSINESS CONCEPTS
 Three-dimensional televisions are in the DEVELOPMENT phase of the product life cycle, blue-ray discs in the GROWTH phase, DVD's the SATURATION stage and compact discs are currently in the DECLINE stage of the product life cycle. Interestingly, long playing records (LP's) are in the EXTENSION phase within a niche market.

Figure 13.5: Extending product life cycle



ACTIVITIES

Content review

1. Identify the main features of a marketing strategy.
2. What is the purpose of a marketing strategy?
3. Define the term 'product positioning'.
4. State the meaning of 'market segmentation'.
5. Compare and contrast the four stages of the product lifecycle.
6. Discuss different marketing strategies for a product at the maturity stage of its life cycle, under the heading:
 - A. Packaging
 - B. Branding
 - C. Labeling
7. From a marketing perspective, what is the purpose of packaging?
8. Explain how a business can use branding for product differentiation.
9. Select two different food products that are currently in the marketplace. Using Table 13.1: Parts of a brand, outline how each part of their brand is used to market these products.
10. Summarise five different branding strategies
11. Discuss how price, promotion and place change between the development and growth stages of the product life cycle.
12. How can a product's marketing be extended beyond the decline stage of the product life cycle?
13. What options does a business have when a product moves into decline?
14. Apply marketing strategies to each stage of the product life cycle for the products:
 - A. Sunglasses
 - B. Online cloud storage
 - C. Websites offering downloadable TV programs and movies for hire
 - D. Running shoes

Group research

1. Find a website that lists the most innovative products or most innovative companies for the current year. Select two of the products (goods or services) from one site. Write a report showing:
 - A. Each stage of the product lifecycle for the selected products
 - B. The application of marketing strategies to each stage (for one or both products.
 - C. A comparison of the differences in product life cycle between the two
2. Complete the marketing quizzes on the Tutor 2 U Marketing site:
www.tutor2u.net/quiz/marketing/
3. Brainstorm an innovative new business idea. Access the 'Business Life Cycle' section of the Small Business Development Corporation website:
www.smallbusiness.wa.gov.au. Use the information on the website in conjunction with the information in this chapter, to analyse the feasibility of your group's business idea. Clearly outline marketing strategies for each stage of the lifecycle.

CHAPTER 14

Business Plans

‘Management is efficiency in climbing the ladder of success; leadership determines whether the ladder is leaning against the right wall.’

– Stephen R Covey –

INNOVATIVE BUSINESS PLANNING

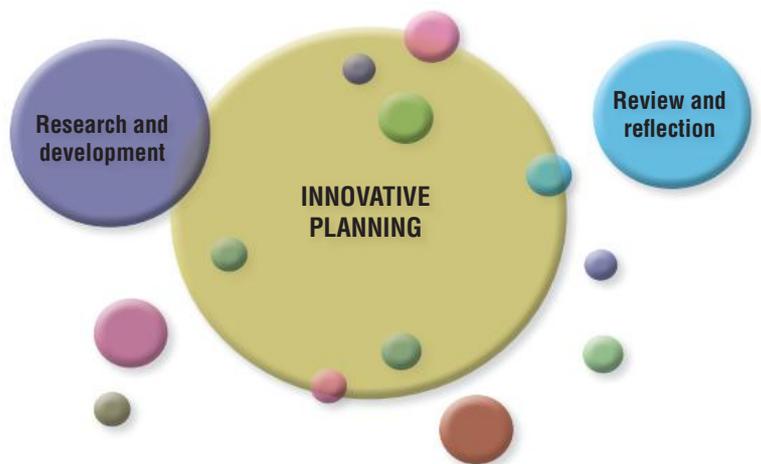
A successful business is the result of innovative practices and the business owner or manager has a key role in planning, organising, leading and controlling the business toward this success.

Innovation involves the development of renewed, entrepreneurial products – both goods and services. **Innovation** requires the improvement of an already existing product, whereas **invention** is the development of a completely new idea. Exploring new innovations is fundamental to a business in improving its operations, increasing customer satisfaction, ensuring employee loyalty, improving profitability or efficiency and discovering efficient new methodologies.

There are two main ways to encourage innovation in the workplace. **Research and development** is one method that can be used. A second method is **continuous review** and reflection of the business.

An innovative business owner will seek new ways of being competitive in the crowded marketplace, trial new products or services, and seek to develop niche markets.

Innovation...
An idea influenced by entrepreneurial activity



Recent Australian government priorities¹ for business innovation:

- ⦿ **Resource industries:** Australia's vast land areas are seen to have potential
- ⦿ **Space and astronomy:** Australia can provide research free of radio-interference, a location in southern hemisphere, and access to satellite facilities
- ⦿ **Finance and risk management:** the high private savings and superior risk management skills in the population would enable this
- ⦿ **Marine industries:** the potential of Australia's huge extended continental shelf.

Success and innovation

A business is successful if it achieves its mission and goals. The business environment must encourage innovation. An entrepreneurial business owner understands that it is important to cultivate innovation and creativity in their business. This business is one where creativity is encouraged in employees and people are able to try new ideas. Innovation is an outcome of an entrepreneurial business, and businesses can succeed and gain competitive advantage from their ability to be innovative.

Successful innovation

An innovative business will provide conditions to employees that encourage creativity and experimentation. The criterion for successful innovation is that some form of improvement in the product or service can be utilised. For example, the product or service might be safer, more convenient, more attractive and so on. For this to occur, the business needs to have a culture of innovation, as follows.

A CULTURE OF INNOVATION

- ☛ Change is encouraged
- ☛ Improvements are valued by leaders in the business
- ☛ Problems are identified and shared amongst employees
- ☛ Communication between customers, suppliers and the business is open
- ☛ Resources to assist in generating ideas are accessible.



Causes of business failure

A business can potentially fail because of a lack of understanding or preparation in one of the key areas of the business goals, marketing, operations, finances or resourcing. Failure can be accentuated by external factors such as the economic environment, government requirements and technological changes.

¹ Review of Australia's National Innovation System, January 2008.

The Queensland Government has reported that levels for failed start-up of businesses range from 50% to as high as 80%.² They have found the following common causes for small business failures:

- **Lack of market potential:** if the market for the products or services is too small or specialised.
- **Lack of capital:** if a business is under-capitalised, survival prospects are poor as sufficient cash is required for the initial months of operation.
- **No business plan:** it is imperative that a business have a Business Plan. This sets goals for sales, growth and expenses, and budgets.
- **Unanticipated competition:** the business must know more than the anticipated market, it needs to survey the strengths and weaknesses of likely competition from other business.
- **Uncontrolled growth:** there can be too much success for a new business; if the business expands too quickly and without a careful plan in place, this will affect the quality of products or services.
- **Poor location:** for retail businesses in particular, a prominent, easily accessible location is critical. Elements such as traffic flow, parking, the neighbourhood and other nearby businesses have a huge impact on success.



Factors that inhibit the success of an innovation:

- Lack of demand
- Poor technology or support for the idea
- Lack of viable research and development
- Costs being so high that a competitive price is not feasible
- Lack of market research
- Poor competitor knowledge
- Inadequate management skills to develop or sell the innovation.

PLANNING FOR SUCCESS

Business planning can contribute to the success of an innovative business. An innovative business owner will plan so that they **anticipate the issues** that will arise upon entering their market, develop **guidelines for the operations management** of the business, determine **future prospects** for their product, anticipate **resource needs** and know their expectations for the **feasibility** of the business venture. In order to provide direction for the business it is wise to prepare a business plan.

² www.smartsmallbusiness.qld.gov.au, accessed November 2008.

A business plan is a detailed outline of goals and how future operations, financing, management and marketing will assist in achieving those aims. A business plan is often prepared when a new business is being set up. It might also be required when further finance is being sought, or if the business owners require detailed information about the future strategic plan of the business.



1. Executive summary

The executive summary will contain an overview of the entire business plan, as well as a clear explanation of the purpose of the plan.

Possible business plan purposes are to:

- assess the long term viability of an existing business
- obtain further finance for the expansion of the business
- establish a completely new business
- plan for the future in a proactive manner.

The executive summary can also include information on the **current position** of the business and the expected **future outlook** if the business plan is implemented.

2. Vision statement and mission

The vision statement, mission statement and business goals are the first section of the business plan. This is because of their importance in setting the scene for the rest of the information, and because they give a focus for all other elements of the plan.

An overview of the **strategic plan** could be added in this section. The business's strategic plan is a long term plan aimed at the achievement of a goal or goals. It is aimed at designing a broad picture of the future of the business, and at giving employees a focus. Strategic plans usually define the organisational goals.

In order to set the **mission statement** of a business, managers must consider the main products or services that the business is providing to the market. They will describe the mission of the business in relation to these products or services. A mission statement is usually internal to the business, and it sets measures for the stakeholders within the business such as employees and managers.

Mission statement

The mission statement should address:

- markets
- employees
- customers
- entrepreneurship
- innovation.

Goals should be
SMART goals:
specific,
measurable,
attainable,
realistic and
time-bound.

The **vision statement** contains guiding beliefs and values for the business. It is communicated both internally to employees, and externally to customers, suppliers and investors. The vision statement is the 'big picture' for the future of the organisation.

3. Profile of the business

The business profile includes a range of elements. The name, address and ABN of the business is listed here if it is an already existing business. Other sub-sections may include the business concept, ownership, competitors, clients/advisors.

- **Business concept:** describes how the business was set up (if it already exists) or the amount of capital required to set up. The main activity of the business is given in detail, and the product (good or service) to be sold is outlined. A positive outline of the competitive advantage that this product will give and how this meets the needs of current and future customers is included.
- **Business ownership:** will outline the type of business – sole trader, partnership or company. It will include a summary of the curriculum vitae of each owner, including their previous business experience and education.
- **Competitor breakdown:** will give a summary of the industry that the business is working within, the location of the business, and a competitor breakdown.
- **Clients/Advisors:** includes details of any of the businesses major clients or advisors.

Business concept

The business concept section should provide:

- a description of the product
- a market summary and customer description
- an analysis of potential income and profits
- an assessment of potential risks.

Competitor breakdown

A competitor breakdown will be a simple table that compares the business with its main competitors along a range of elements. Table 8.1 provides a sample breakdown that would not be used for an online business or large company, but for a small business or single franchise with a shop front.

Table 14.1: Sample competitor breakdown

ELEMENT	BUSINESS	COMPETITOR A	COMPETITOR B
Location			
Opening hours			
Interior			
Perceived quality			
Customer capacity			
Shop front			
Promotions			
Street advertising			
Product			
Prices range			
Staffing			
Licenses required			

A competitor analysis, targeted at the analysis of marketing, was included in an earlier chapter.

4. Marketing plan

The marketing plan outlines all the activities that must be undergone in order to meet the requirements of product, price, promotion and place.

The marketing plan can include:

1. Current position in market
2. Market research, barriers to entry and competitor analysis
3. The product
4. Target market analysis
5. Marketing goals
6. Marketing strategy
7. Marketing mix
8. Costing

NOTE: A detailed marketing plan is contained in an earlier chapter.

A SWOT analysis should also be included.

SWOT analysis

A SWOT analysis summarises the strengths, weaknesses, opportunities and threats to the business.

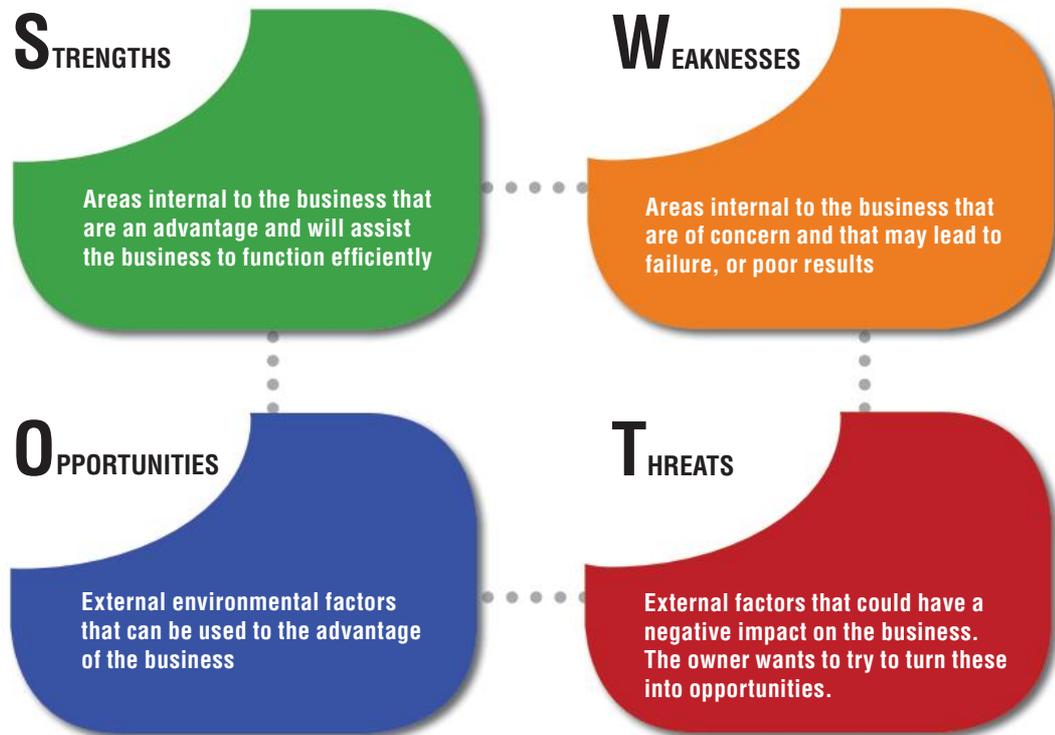


Figure 14.1: SWOT analysis

5. Operations strategy

The operations management strategy is a summary of how the business will undergo the production process. There are a number of sub-sections, depending on the type of business.

All businesses would need details of location, pricing strategies, internal controls, and risk management strategies.

A **trading/merchandising business** would require a summary of inventory needs. This includes the main suppliers, plans for the storage and display of stock, and any distribution needs. Decisions need to be made about turnover targets and reordering of stock.

A **manufacturing business** would require more specific information in this section, such as production process requirements, building size and capacity, more inventory details for raw materials and finished goods, and details of manufacturing equipment required.



6. Resources strategy, including human resource management

Human resources need to be detailed. This includes the main responsibilities relating to each individual employee, training, insurance, and new staff requirements. Human resourcing needs are examined in detail in another chapter of this unit. In summary, this requires planning for the current and future needs of staff.

HRM plan

An HRM plan should address:

- staffing requirements
- recruitment and selection
- training, development and induction
- performance management
- staff relations
- separation.



Physical resources are the assets that the business requires. The main assets required in the shopfront or for a virtual shopfront, must be priced and listed. A time plan for the purchase and replacement of assets that will have depreciated rapidly needs to be included.

7. Financial plan

The financial plan is the most important part of the Business Plan, as it contains information on the anticipated earnings. There are a number of forecasts (or budgets) that would be made in this section, all aimed at predicting the likelihood of success for the business. It is vital that all estimates are made as carefully as possible.

Sales and purchases forecasts

Forecasts are predictions, based on past results of the business, that aim to predict the amount of sales that will be made, or purchases required, for the next year of business. A new business would make a forecast based on research into the target market and industry area.

The business would consider likely seasonal fluctuations. For example an ice cream retailer would probably expect higher sales in summer and a fruit retailer would only be able to purchase fresh citrus fruit locally at specific times of the year.

The business will consider likely changes and trends in the market. For example, if environmentally friendly transport is becoming more in demand a car retailer might predict higher sales of small hybrid cars and lower sales of large four wheel drives.

EXAMPLE: SALES FORECAST

Ulma has calculated her sales forecast based on the previous year's results and her research into industry predictions that indicate there will be a 5% increase in demand for umbrellas next year. Her market is seasonally driven as she does not sell beach umbrellas or similar, only large wet weather umbrellas.

Sales forecast for Ulma's Umbrellas

MONTHS	Jan-Feb	Mar-Apr	May-Jun	Jul-Aug	Sept-Oct	Nov-Dec
Sales for previous year	5	10	67	102	45	3
Sales forecast for this year	6	11	71	107	47	3

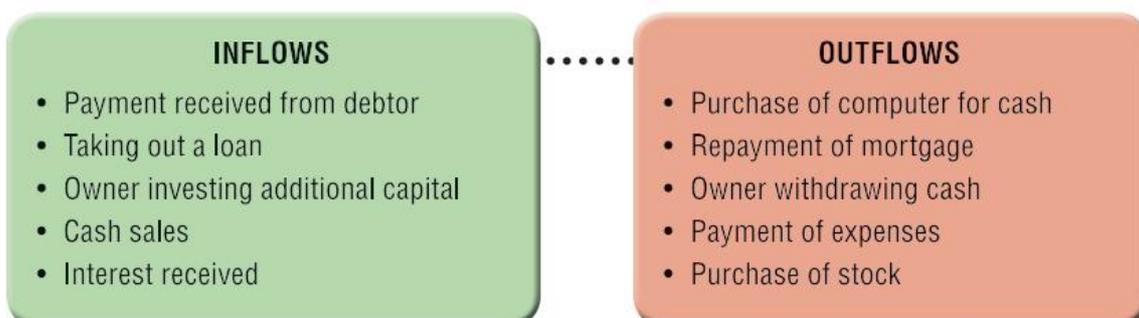
Projected Income Statement

A business will show income and expenses in the form of an Income Statement, also called a Profit and Loss Statement or a Statement of Financial Performance. A projected Income Statement gives important information about the profit or loss that the business is predicting it will earn, and the financial performance over the next period of time.

This financial statement is composed of two main elements: income and expenses. **Income** is money received by the business, for example Sales, Fees and Interest. **Expenses** are payments or costs incurred by the business, for example Cost of sales, Rent, Wages, Internet, Water rates.

Monthly cash flow

The Balance Sheet and Income Statement provide important information about financial position and performance. They do not, however, indicate whether the business is receiving cash in time to be able to pay out cash. **Profit** is the excess of income over expenditure for a business. It is calculated in the Income Statement. **Cash flow** is the amount of cash entering and leaving the business. It is shown in the Statement of Cash Flows, and can arise from transactions involving any of the five elements of financial statements: assets, liabilities, equity, income and expense. Examples of cash inflows and outflows are listed below.



The finances of a business generally revolve around either **profitability** or **liquidity**. Profitability is the ability of a business to earn money from its investment in assets and equity. Liquidity is the ability of a business to repay short term debts on the date they fall due.

Break even analysis

Business owners must make decisions about the setting of prices in order to obtain a good return or profit. Cost-volume-profit analysis, or **break even analysis**, is used to determine how costs and profits are affected by changes in the volume of production. A business will calculate the volume of a product that must be sold at a specific price to 'break even', or in other words to completely cover costs of the product.

Percentage mark up is the difference between the cost of a product and its selling price. A business may be a retailer who purchases items from a wholesaler, or a manufacturer who purchases raw materials and prepares a product for sale. For both types of business, there is a similar process to be undergone in order to decide on the percentage mark up. The business owner must decide how much each item costs and add on the percentage mark up to decide the sale price of the item.

$$\text{Mark-up} = \text{Cost price} \times \text{Percentage}$$

Selling price can depend on the number of items that can be manufactured or sold. To work out the number of items required in order to cover costs, or in order to make a particular profit, a business can calculate the break even point.

$$\text{Selling price} = \text{Cost price} + \text{Percentage mark up}$$

Break even point is the number of sales, or the dollar amount of income, where all expenses are covered and neither a profit or a loss will be made.

$$\text{Contribution margin} = \text{Selling price} - \text{Variable costs.}$$

$$\text{Sales required for breakeven} = \frac{\text{Fixed costs}}{\text{Contribution margin}}$$

$$\text{Sales required to make specific profit} = \frac{\text{Fixed costs} + \text{Profit}}{\text{Contribution margin}}$$

Note: Budgets, Balance Sheets, and Profit and Loss Statements (Income Statements) are covered in a later chapter.

ACTIVITIES

Content review

1. Discuss the following quote.

‘Businesses do not plan to fail, but they can fail to plan.’
2. Create a summary table which explains the purpose of each of the following sections of a Business Plan:
 - A. Executive summary
 - B. Vision statement
 - C. Mission statement
 - D. Business concept
 - E. Operations strategy
 - F. Marketing plan
 - G. SWOT analysis
 - H. Financial plan
 - I. Human resource management
3. Elena Par is developing a business profile for her new business which will create internet and intranet websites for sporting facilities such as gymnasiums. Her previous experience in this area is a recently completed graphic design degree. Her friend Bob Incredible who is a qualified fitness instructor is considering joining the business. Research two likely competitors of this business, and complete a profile that includes the following:
 - A. Business ownership
 - B. Vision and mission statements
 - C. Competitor outline
4. Complete a SWOT analysis for a local business.
5. Milo is planning to open a small manufacturing business, making gelato and icecream, selling this product through three retail shopfronts in Perth. Complete the operations management strategy section of her Business Plan.
6. Research the physical resources that would be required to set up a mobile car servicing business or a mobile pet washing business. Use the internet to find out how much each would cost to either purchase new, purchase second hand or lease. Complete the financial plan section of a business plan for this business.
7. What is the purpose of a HRM plan for a new business? Define each element of this plan, and create a brochure to explain to business owners the importance of this type of planning.

Group research

1. Summarise five examples of SWOT analyses from the samples found at www.marketingteacher.com. Complete the SWOT Analysis lesson from the Lesson Store.
2. Research a small Australian business which has recently won an award (such as the Small Business of the Year). Develop a business plan for the next five years, assuming that the small business wishes to expand into other markets and increase its overall customer base.

Sample business plans related to specific planning goals can be found at the More Business website www.bplans.com/samples/mbus.cfm.

3. Plan and create a website aimed at small business owners in Australia. The site should present the key elements of a good Business Plan, and clearly illustrate at least three alternative Business Plan structures.

CHAPTER 15

Monitoring Operations

'KPIs help organisations achieve organisational goals through the definition and measurement of progress. The key indicators are agreed upon by an organisation and are indicators which can be measured that will reflect success factors.'

– Bruce Clay –

MONITORING BUSINESS OPERATIONS

A business will utilise a range of reports and control mechanisms to monitor business operations, dependent upon the context of the individual business. The owner of the business must decide which goals or objectives are to be measured, and will generally use one or more of the reports or control mechanisms outlined in this chapter.

Financial reports

The main areas of financial record keeping are stability, profitability and liquidity. These each relate in turn to the reporting of financial position, financial performance and cash flow.

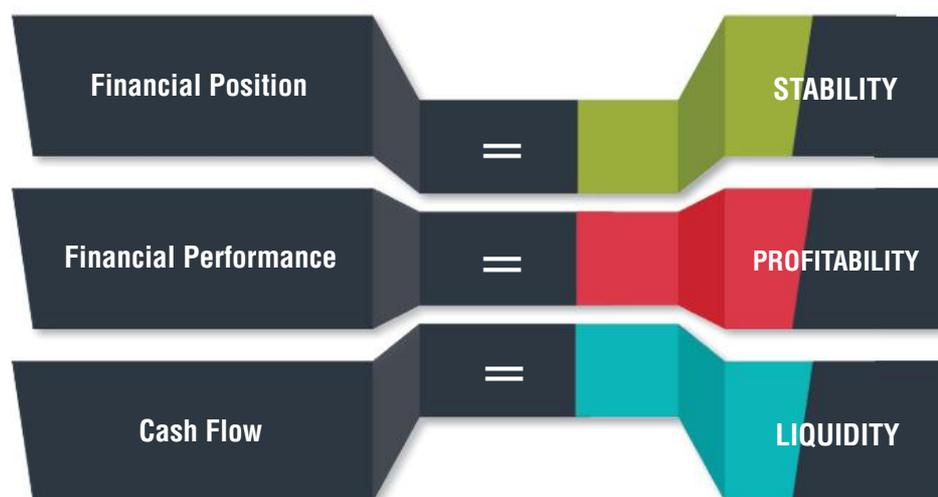
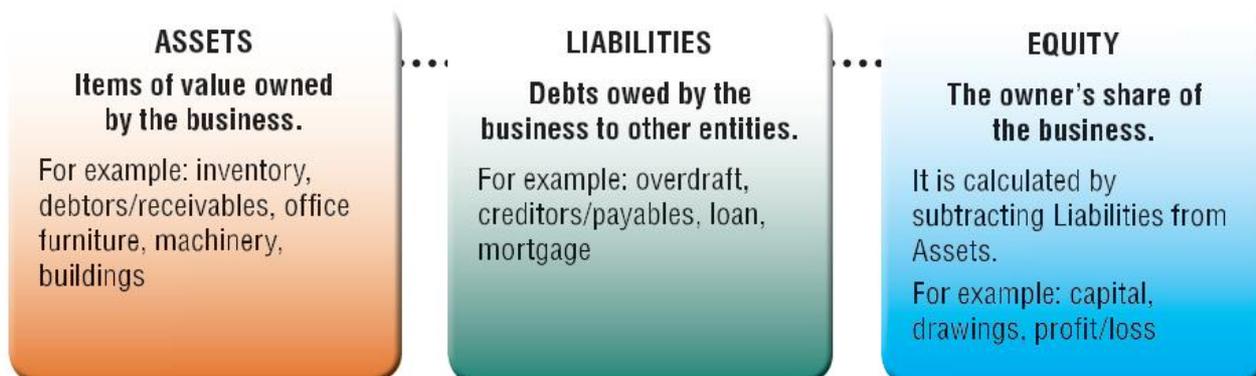


Figure 15.1: Financial reporting overview

1. Financial position of the business

A business organisation will show its total assets and equities in the form of a balance sheet or a statement of financial position. This report gives important information about the **financial stability** of the organisation, and shows the financial position at a point in time.

The Balance Sheet is composed of three important elements: assets, liabilities and equity. A simple definition of each of these is given below.



EXAMPLE 1: BALANCE SHEET

Farmers Ltd Statement of Financial Position/ Balance Sheet As at 30 June 2020	
CURRENT ASSETS	
Cash	\$ 10 000
Accounts receivable	32 000
Inventories	450 000
NON-CURRENT ASSETS	
Investments	300 000
Property, plant and equipment	450 000
Intangible assets	34 500
TOTAL ASSETS	1 276 500
CURRENT LIABILITIES	
Accounts payable	132 000
Provisions	43 000
NON-CURRENT LIABILITIES	
Loans	759 500
TOTAL LIABILITIES	934 500
NET ASSETS	342 000
EQUITY	
Capital	300 000
Retained profit	42 000
TOTAL EQUITY	342 000

In the owner's equity section of the Balance Sheet, **capital** is the owner's investment of funds and other assets and **drawings** is the amount the owner has taken from the business for their personal use. **Profit** is the amount remaining when all the expenses have been subtracted from income for the accounting period. If this is a negative amount it is a **loss**, not a profit, and the figure is negative.

The accounting equation

A Balance Sheet must always balance, and it should always be representative of the accounting equation. The simplified accounting equation can be expressed as the relationship between the total assets and total liabilities and equity of the business at a specific point in time, as follows:

It may be written as: **$A = L + Eq$**

or **$L = A - Eq$**

or **$Eq = A - L$**

$A = L + Eq$

Classification of Balance Sheet elements

A classified Balance Sheet groups assets and liabilities into two types: either current or non-current.

- **Current assets** are resources which the business expects to turn into cash (such as accounts receivable) or consume (such as cash at bank) within a 12 month period, for example cash, accounts receivable/debtors and inventory/stock.
- **Non-current assets** are resources which the business intends to have the use of for a period longer than 12 months to help generate income, for example, investments, property, equipment and land.
- **Current liabilities** are amounts that the business owes other entities, which fall due within a 12 month period, for example overdraft, accounts payable and provisions.
- **Non-current liabilities** are obligations which the business will be committed to for a period longer than 12 months, for example long term loan and mortgage.

2. Financial performance of the business

A business will show income and expenses in the form of an Income Statement, also called a Profit and Loss Statement or a Statement of Financial Performance. This gives important information about the profit or loss that the business has earned, also referred to as the business' **profitability**. The statement shows the financial performance of the business over a period of time.

This Profit and Loss Statement (or Income Statement) is composed of two main elements: income and expenses. A simplified definition of each is given here.

Money received by the business, eg. sales, fees, interest.

INCOME

EXPENSES

Payments or costs incurred by the business, eg. cost of sales, rent, wages, Internet, water

EXAMPLE 2: PROFIT AND LOSS STATEMENT

Farmers Ltd
Statement of Financial Performance/Income Statement/Profit and Loss Statement
For the year ended 30 June 2020

	\$
Sales revenue	400 000
LESS: Cost of Sales	<u>324 000</u>
GROSS PROFIT	76 000
ADD: Other income	
Interest	<u>4 000</u>
	80 000
LESS: Other expenses	
Selling and distribution	9 000
Administrative	32 000
Financial	<u>15 000</u>
PROFIT FROM ORDINARY ACTIVITIES	24 000
LESS: Tax	<u>7 200</u>
PROFIT ATTRIBUTABLE TO COMPANY	16 800

Classification of Profit and Loss Statement elements

This simple Income Statement/Profit and Loss Statement has expenses classified into three groups. An example of the types of expense that fit into each category is:

- **Selling:** petrol, vehicle repairs, advertising, maintenance
- **Administrative:** office, rates, power, phone, internet, rent
- **Financial:** interest, bad debts.

3. Profitability and liquidity of the business

The Balance Sheet and Income Statement provide important information about the financial position and performance of the organisation. They do not, however, indicate whether the business is receiving cash in time to be able to pay out cash. **Profit** is the excess of income over expenditure for a business.

It is calculated in the Income Statement. **Cash flow** is the amount of cash entering and leaving the business. It is shown in the Statement of Cash Flows, and can arise from transactions involving any of the five elements of financial statements: assets, liabilities, equity, income and expense. Examples of cash inflows and outflows were provided in Chapter 14.

The finances of a business generally revolve around either **profitability** or **liquidity**. These two concepts must always be considered when evaluating business results.



A business has good liquidity when it has enough short term assets to be able to pay short term liabilities. This means that if all creditors of the organisation were to demand repayment of their debts, the business should be able to cover these with its cash and other liquid assets. A business is **solvent** if it is able to pay debts without any problem.

Cash flow

A business organisation will show cash inflows and outflows in the form of a Statement of Cash Flows. This financial report gives important information about the **liquidity** of the organisation, and shows the cash coming in and going out of the business over a period of time. An example of this financial statement is given below.

EXAMPLE 3: STATEMENT OF CASH FLOWS	
Farmers Ltd	
Cash Flow Statement	
For the year ended 30 June 2020	
Cash inflows	\$
Receipts from customers	600 000
Proceeds from sale of equipment	50 000
Dividends received	<u>24 000</u>
TOTAL INFLOWS	674 000
Cash outflows	
Payments to suppliers	710 000
Purchase of machinery for cash	5 000
Interest payment	<u>16 000</u>
TOTAL OUTFLOWS	731 000
Cash at beginning of period	<u>100 000</u>
Cash at end of period	43 000

MONITORING SUCCESS

Monitoring or control is one of the important elements of a manager's role in a business. The business will monitor the structures that it has set up in order to determine how the mission statement and goals are being achieved. The main area of a manufacturing business is operations and most elements of control focus on this area of the business. Human resources, finances and marketing are additional subsidiary considerations.

Control mechanisms

Control mechanisms are the policies and procedures in the business that are used to regulate activities. They are important in a business because they allow the business and its managers to check, regulate and record how the business is performing against

required standards. The business needs to undergo regular review, in order to ensure that it is meeting business objectives.

Important areas of the business to control include the product, processes, physical locations, physical resources, human resources and finances.

The manager in charge of the operations of the business can use regular reviews of all areas of the business in order to monitor the progress of the business toward its goals. In a service or retail business, not all of the areas outlined below would require monitoring.

STEPS FOR BUSINESS CONTROL



Figure 15.2: Steps for business control

Techniques for monitoring and control

Control mechanisms such as ratio analysis, budgets, financial statements and key performance indicators can be used to measure and monitor performance. This unit focuses on budgets and key performance indicators (financial and non-financial).

Budgets

A budget is a forecast of the financial position and performance of the business. It can project the capital needs, income, expenses, or cash flows for a period of time into the future. Budgets are used for planning, monitoring and controlling. Planned results are measured against actual results, and corrective action is taken to control any problems which become evident.

A budget variance report compares budget estimates with the actual results, for the particular financial report. **Favourable variances** occur when the actual result is better than the estimated amount; for example, if sales are higher than expected or if expenses are lower than expected. **Unfavourable variances** occur when the actual result is worse than the estimated amount; for example, if cash inflows are lower than predicted or cash outflows are higher than predicted.

All three of the financial statements in this chapter can be used as budgets. A budget is prepared based on current expectations of markets and sales, review of past results and trends, and new trends and potential markets.

If the business needs to plan for future capital requirements, it will complete a Budgeted Balance Sheet.

If the business needs to plan for future income and expenses, it will prepare a Budgeted Income Statement. Budgeting for income and expenses will assist in monitoring the **profitability** and predicted **sales** of the business. It will enable the business to control costs and facilitate **cost reduction** planning.

If the business needs to plan for potential cash flow shortages or cash surpluses it will compile a Budgeted Cash Flow Statement. The budgeted cash flows can be split into monthly instalments, thus allowing the business to plan and monitor cash shortages.

The previous chapter gave three examples of specific budgets that could be produced as part of the Business Plan: the sales forecast, purchases budget, and projected income

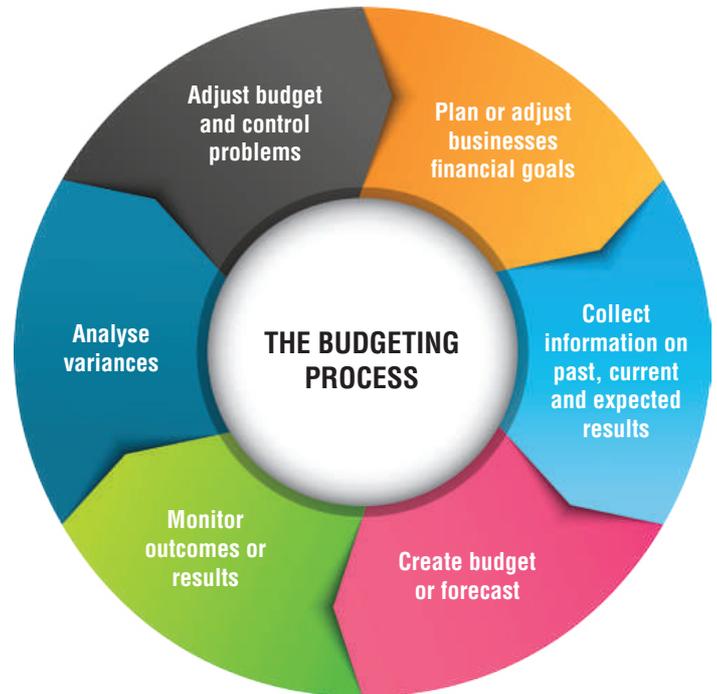


Figure 15.2: The budgeting process

statement. These are three budgets with a specialised purpose. They are predictions based on past results or research estimates, that aim to project the potential results and liquidity concerns of the business.

EXAMPLE 4: BUDGETED CASH FLOW STATEMENT

This is the quarterly budgeted cash flow statement for 'Clara's Cupcakes'. It illustrates that the business will have a cash flow problem in February. This problem continues into March, even though the owner has taken a reduced amount of drawings. The business owner needs to plan ahead for the potential cash shortage.

Clara's Cupcakes Budgeted Cash Flow Statement for the quarter ending 31 March

	Jan	Feb	Mar
	\$	\$	\$
Bank balance at start of month	5 000	3 200	(700)
ADD: RECEIPTS			
Cash sales	7 500	7 600	8 000
LESS: PAYMENTS			
Cash purchases	3 300	3 000	3 000
Running costs	2 000	1 500	1 500
Cash drawings	4 000	4 000	3 000
Bi-monthly loan repayment	-	3 000	-
Bank balance at end of month	3 200	(700)	(200)

Key performance indicators

In the managers' role of monitoring and controlling the business, as they work to achieve business goals, they receive regular feedback on:

- operations quality
- financial results
- customer satisfaction
- human resources.

Goal achievement can be checked through the use of **Key Performance Indicators (KPIs)**. These allow the business to determine the progress it has made toward its goals and to measure success. All business organisations will have different KPIs. A good KPI is directly related to the businesses goals, is measurable and is a valuable indication of business success.

Key performance indicators are quantifiable measures that can be expressed in either **financial or non-financial** terms. The business owner or manager responds to KPIs by using the policies and procedures of the business to work on improving poor indicators. Some of the areas in which KPIs can be set are outlined in the table below.

Table 15.1: KPIs for monitoring and control

	TECHNIQUE	EXPLANATION
Monitor quality of operations (inputs, production process, outputs)	Benchmark comparisons	Comparisons can be made of the operations of the business with: <ul style="list-style-type: none"> • other businesses of the same size • set industry standards • regulations, such as emissions laws
	Quality checks and Quality assurance	Quality Assurance Certification is formal evaluation through an independent audit of the quality management practices of the business. If the ISO9000 series requirements are met a certificate is issued. <ul style="list-style-type: none"> • Certification of suppliers • Testing of inputs • Requirements of processes • Methods of correcting problems • Audit of outputs
	Standards	The business can set goals for achievement of standards in areas such as: <ul style="list-style-type: none"> • sales and purchases • turnover • fixed costs: overheads • pricing structures • processes: safety and reliability
	Inspections	Regular visual checks should be part of the inspection process, carried out by nominated employees and managers: <ul style="list-style-type: none"> • Performance • Safety • Maintenance
Monitor finances (liquidity, profitability, stability)	Ratio analysis	Financial data is converted into ratios so that meaningful comparisons can be made: <ul style="list-style-type: none"> • over time • with other businesses in similar industry
	Budgeting	Estimates are made of the expected income, expenses and cash flows for a specific period of time.
	Profits	<ul style="list-style-type: none"> • Profit margin • Cost reductions: purchasing cost, selling, expenses, administration expenses, financial expenses • Increase in income
	Financial statements	<ul style="list-style-type: none"> • Cash Flow Statement (Liquidity) • Profit and Loss Statement (Profitability) • Balance Sheet (Stability and gearing)

	TECHNIQUE	EXPLANATION
Monitor customer satisfaction	Surveys	A range of survey types are possible, as outlined in the Marketing chapter of this Unit.
	Interviews	Customers can be interviewed formally or informally about their experience.
	Sales	<ul style="list-style-type: none"> • Take up of specials/discounts • Customer attrition • Customer queries • Quantity of sales
	Training	Customer service training in the interactions that occur between employees and customers before, during and after a sale.
Monitor human resources	Turnover and job satisfaction	<ul style="list-style-type: none"> • Exit interviews for staff who leave the business • Staff turnover
	OHS	Staff safety record and accidents.
	Training	Review staff training and development.

BUSINESS CONCEPTS

A computer sales business has a heavy focus on marketing and customer service goals. Their main KPIs are as follows:

- Number of new customers per month
- Customer attrition per quarter
- Percentage use of discount voucher and special member offers
- Segmentation of new members (customers) by demographic profile
- Profitability of each customer segment



ACTIVITIES

Content review

1. What is a financial statement?
2. Contrast the differences between:
 - A. Stability
 - B. Profitability
 - C. Liquidity
3. What is the purpose of a Balance Sheet?
4. Define the three main elements of a Balance Sheet, giving examples.
5. Explain the features of a Balance Sheet.
6. For each of the following, calculate the total owner's equity:
 - A. Assets = \$4 000 000, Liabilities = \$1 300 000
 - B. CA = \$30 000, CL = \$4 000, NCA = \$120 000, NCL = \$111 000
 - C. Assets = \$20 500, Liabilities = \$11 000, Profit = \$500
7. Using the following information, prepare a classified Balance Sheet and classified Income Statement for the business Sammi's Surf Products.

Capital	7 520
Furniture and fittings	6 000
Accumulated depreciation – furniture and fittings	400
Depreciation – furniture and fittings	400
Computer	1 600
Cash at bank	700
Loan	4 680
Loan interest	800
Accounts payable	3 500
Accounts receivable	3 500
Inventory	4 000
Staff wages	3 500
Rent	1 250
Office supplies	2 300
Interest income	1 260
Shop fittings	4 000
GST clearing (Payable)	140
Prepaid expenses	150
Advertising	1 500
Sales	33 000
Cost of sales	20 800

8. Define capital, drawings and equity.
9. Summarise the accounting equation.
10. Compare current assets and non-current assets, using examples.
11. Outline the difference between current liabilities and non-current liabilities, using examples.
12. How does an Income Statement (or Profit and Loss Statement) inform the business owner about the financial performance of the business?
13. Define the two main elements of the Profit and Loss Statement. Use examples to illustrate your response.
14. How is an Income Statement classified?
15. Clarify the difference between profitability and liquidity.
16. Compare the similarities and differences between cash inflows and cash outflows.
17. What is the purpose of a Statement of Cash Flows?
18. For each of the following, calculate the profit or loss.
 - A. Sales = \$45 000, Cost of sales = \$13 000, Rent = \$1 000, Utilities = \$550, Wages = \$3 200
 - B. Gross profit = \$52 000, Selling expenses = \$13 000, Administrative expenses = 20 000, Financial expenses = \$500
 - C. Interest income = \$ 300, Sales = \$78 000, Distribution costs = \$20 500, Office expenses = \$34 000, Cost of sales - \$44 000.
19. What is the missing figure in this list of Balance Sheet information?

Inventory	22 000
Creditors	13 000
Debtors	15 000
Loan	20 000
Profit	5 000
Drawings	?
Capital	10 000
20. What is the purpose of a budget?
21. Summarise the budgeting process.
22. Explain the meaning of a favourable and an unfavourable variance.
23. Summarise the features of a:
 - A. Budgeted Income Statement
 - B. Budgeted Balance Sheet
 - C. Budgeted Cash Flow Statement

24. Explain why it is important for a business to institute control mechanisms. What will occur if these are not in place? Outline FIVE techniques that can be used to monitor operations, finance, customer satisfaction and human resources.
25. Describe the importance and application of KPIs for a range of different business organisations, using examples.
26. What is the function of a key performance indicator in the business?
27. Outline the characteristics of the following financial indicators:
 - A. Profitability
 - B. Cost reduction
 - C. Sales
28. Describe the characteristics of the following non-financial indicators:
 - A. Quality
 - B. Customer satisfaction

Group research

1. Find sample KPIs on the internet. Explain the function of each sample found. Classify each one as financial or non-financial, then as:
 - A. Profitability, cost reduction, sales or other
 - B. Quality, customer satisfaction or other
2. Collect samples of the following financial reports:
 - Budgets
 - Balance Sheets
 - Profit and Loss Statements

In pairs, analyse the statements by listing their similarities and differences. Classify each type of business and outline the common characteristics of financial statements for each type of business.

SECTION F: PEOPLE

CHAPTER 16

Management Styles

‘A true Leader does not point fingers
 A true Leader does not assign blame
 A true Leader does not celebrate the mistakes of others
 A true Leader points you in the right direction
 A true Leader assigns praise however meagre the task
 A true Leader celebrates the accomplishments of the team
 ...a true Leader Leads.’

– Mark W Boyer –

SUCCESSFUL MANAGEMENT

The business owner or CEO needs to be a leader of their business organisation. In this role, they will motivate and inspire their employees to achieve the businesses mission and goals. Management is primarily seen as a more organisational role, involving the coordination of employees and resources. Arguably though, a manager can take on a leadership focus as part of their role. The business owner of a small business definitely has to take on both roles.

This chapter examines the manager’s role in the context of four main areas of focus: planning, coordinating, controlling and leading.



Figure 16.1: Comparison of leadership and management

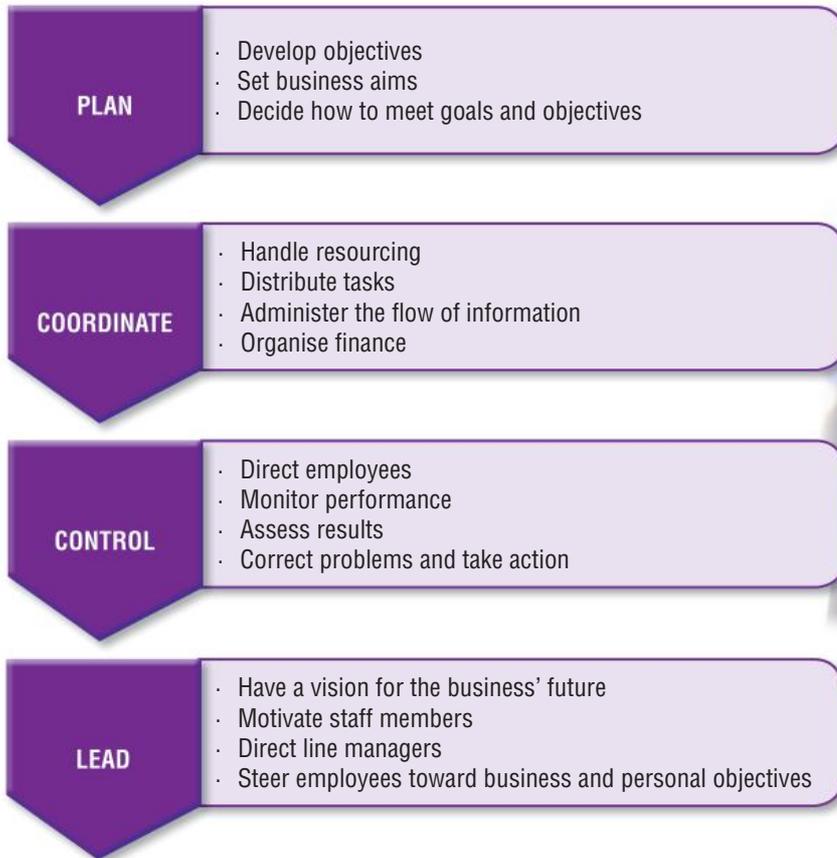


Figure 16.2: The role of a manager

The leadership element of managing a business can be analysed with reference to both leadership styles and leadership traits.

Leadership styles

There are many different leadership styles that can be exhibited by a leader in a business organisation. Most leaders use a variety of methods, depending on the situation and their personal abilities.

A. Transactional

A leader who is mainly a manager would exhibit this leadership style. This is a person who focuses on organisation and performance. The 'bottom line' of business results is most important to them and not other less tangible aspects of resourcing and employee capabilities to do a job.

The chain of command is perceived as being very important and employees are required to report using clearly established procedures and structures. Rewards are always **contingent** on good performance.

This type of leader relies on their reward power and coercive power. **Reward power** comes from the leader's ability to give bonuses or gifts to employees for their work. **Coercive power** is the ability to punish employees or withdraw benefits from them if they do not perform.

INNOVATION AND OPERATIONS

Marty is a transactional leader who rewards employees with recognition and congratulations at staff events when they achieve desired results, and he punishes employees when they do not perform by requiring them to work longer hours for poor business results.

B. Lewin's leadership styles

Kurt Lewin developed the foundation of many approaches to leadership styles¹. He argued that there are three main leadership styles, on a continuum from Autocratic to Democratic to Laissez-faire.

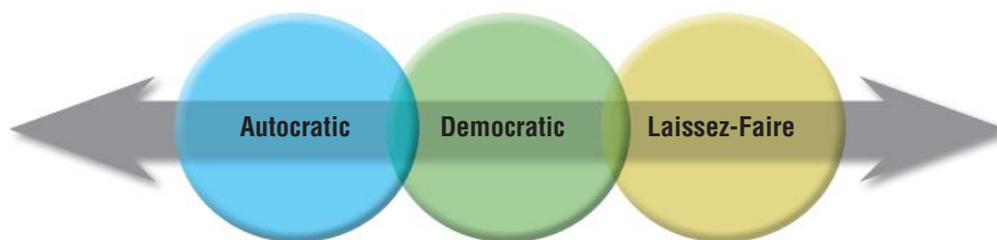


Figure 16.3: Lewin's leadership styles

This perspective views leadership as ranging across a number of styles from the very controlling authoritarian perspective, to a more compromising viewpoint, to a participative democratic style and finally across to the relaxed accommodating style. The two most common styles are the authoritarian and the participative/democratic, with the authoritarian more frequently found in a traditional hierarchical organisation and the participative/democratic more likely to be effective in a flattened and decentralised structure.

1. Authoritarian or autocratic leader

This type of leader likes to make all decisions by themselves, without consulting others in the business. Their aim is to benefit the business, not the employees. They dominate decisions, set all the goals of the business and **communicate 'downwards'** to employees. No feedback occurs back to the leader.

This type of leader believes in direct supervision of employees. They will create a somewhat distant type of professional relationship with other staff. Autocratic leadership has advantages when decisions need to be made quickly and tasks performed in stressful circumstances; for example, doctors in an emergency medical situation or soldiers in a military combat situation.

Frederick Taylor was a proponent of the autocratic leadership style². This leadership theory grew out of the practice of scientific management that developed in the early twentieth century as part of the industrial revolution. It was a result of attempts to improve the production process by training employees to specialise in specific parts

¹ K. Lewin. *A dynamic theory of personality*, 1935.

² F. Taylor. *The principles of scientific management*, 1911.

of the process. Taylor advocated the training of employees to perform a task well, instead of being given personal choice in how to perform tasks. Managers in this system had the role of instructing and directing employees.

2. Compromising leader

This type of leader likes to make their own decisions, however they often try to make decisions that will support employees as much as the business. They communicate with employees by clarifying details and trying to ensure their needs are being met. This leader tries to find the **'middle ground'** in any dispute and some feedback may be given to this type of manager.

3. Democratic or participative leader

This type of leader involves employees in decision making, and aims to benefit both the business and personnel as a result of the decisions that are made. Communication occurs in both directions: from the leader to employees, and back **'upward'** to the leader. They are collaborative and feedback is ongoing and continuous.

Elton Mayo developed the theory of human relations, and was a proponent of the idea that employees have a psychological need to believe that their employer cares about them personally³. He argued that employees should be asked about their feelings about the workplace, that managers should not act like supervisors, and that employees should be consulted about changes in the workplace. Job satisfaction depended on a lot more than pay. Informal relationships between employees and belonging to a work group are very important.

4. Accommodating or laissez-faire

This type of leader avoids making decisions, and leaves this up to other people in the business. There is actually very little communication involved in this leadership style, and employees are left to manage their own goals. This often leads to low levels of feedback.

INNOVATION AND OPERATIONS

Gary is the owner of a restaurant, and whenever there is a spill on the floor, he immediately orders a member of staff to stop doing whatever they are working on to clean up the mess. Gary is using an **AUTOCRATIC** management style.

BUSINESS CONCEPTS

Griselda is planning to change the structure of her consulting business so that staff who interact with customers have more say in management decisions. She believes that this is important to ensure that the business is responsive to customer requests. She has consulted with staff to gain their feedback on the level of input they would like to have. This is a **PARTICIPATIVE** management style.

BUSINESS CONCEPTS

Marisa is perceived as being a 'laid back' leader of her business, in that she does not communicate on a regular basis with employees in her section and she allows them to make all their own decisions daily. She has an **accommodating** leadership style.

³ E. Mayo. *The social problems of an industrial civilization*, 1945.

Table 16.1: Comparison of the autocratic and participative leadership styles.

Element	Autocratic style	Participative style
Control	Top-down	Bottom-up and two-way
Decision making	Centralised	Decentralised
Motivation	Extrinsic, reward power	Intrinsic
Guidance	Coercive	Collaborative

C. Contingency

Contingency leadership involves the leader responding to the situation at hand, and being able to adjust their management style to the type of situation requiring management.

Fred Fielder⁴ postulated that the best leadership style to use is dependent upon three contingencies. These contingencies are factors that are dependent on the workplace:

- 1. Leader’s position power:** this is the level of power that the leader has over employees. It can be strong or weak.
- 2. Leader-employee relations:** this is the amount of trust and confidence that employees have in the leader. It can be poor or good.
- 3. Task structure:** this is the level of clarity about the task that has to be performed by the work group or the employee. It can be highly structured and clear, or be vague with low structure.

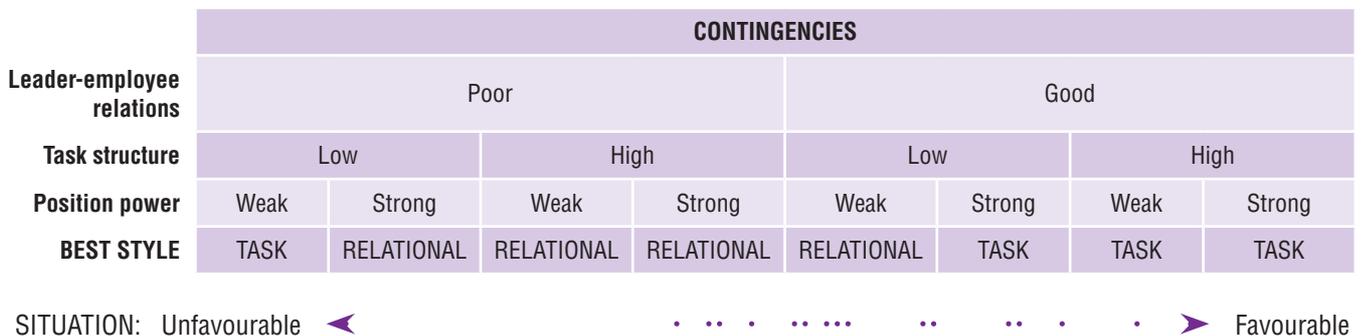


Figure 16.4: Contingency theory

In a very favourable situation, all three contingencies are obvious. This would mean that relationships are good, the task structure is high, and the leader’s position power is strong. These contingencies would result in the leader being able to use a task oriented style.

This model has been criticised for being inflexible and too prescriptive. It is based on an assumption that the leadership style of an individual is fixed, and not open to change.

4 F. Fielder. *A theory of leadership effectiveness*, 1964. In L. Berkowitz (Ed.), *Advances in experimental social psychology*.

It implies that leaders are only good in the situations that suit them best, and that they cannot change their management style.

BUSINESS CONCEPTS

Melinda is a highly task oriented individual. When appointed to a new management position, she used her task oriented style in the initial stages of setting up teams. This did not suit the need of employees to have a more relationship oriented approach because leader-employee relations were poor and while Melinda had high position power, the task structure of forming a new team was low. Consequently, the team formation was ineffective. Contingency theory would claim this problem occurred because Melinda's management style did not suit the situation, and because of this stress she mismanaged the problem.



D. Situational

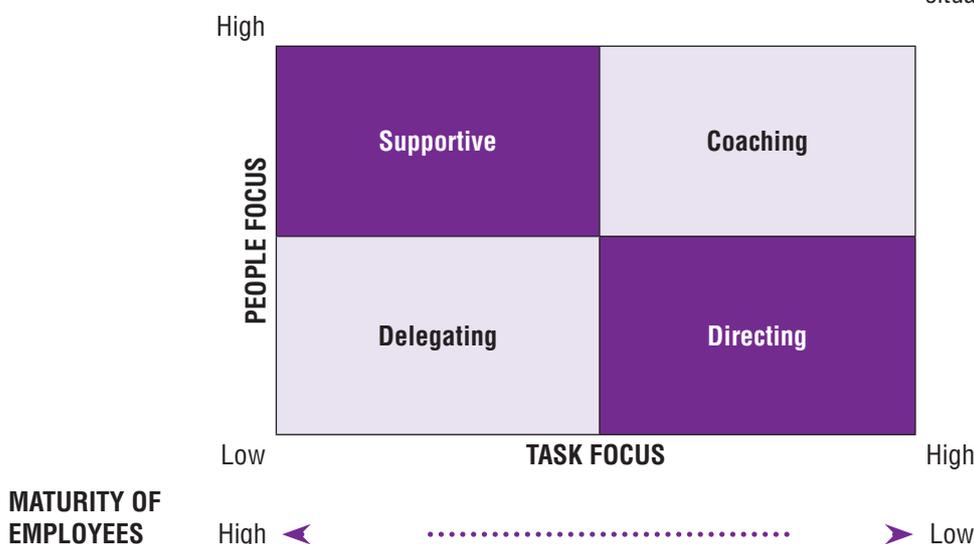
Many people develop a different leadership style for different situations they find themselves in at the workplace. Decisions made by leaders can require consideration of the individual people working with the leader, their skills, the organisation's requirements, how groups work together, and the type of work that the leader needs to have completed. A leader will often vary their leadership style depending on the decision to be made.

The **situational leadership** style, developed by Paul Hersey and Ken Blanchard⁵, brought together two main concepts of leadership. The first is the idea that managers can adapt their leadership style depending on the needs of the individual employee. The second is that the manager can adjust their task behaviour and relationship behaviour as required by the situation.

The Hersey-Blanchard situational leadership model depends on:

1. Leadership style
2. Maturity of the employee or group of employees

Figure 16.5: Hersey-Blanchard situational leadership model



5 P. Hersey & K. Blanchard. *Management of organizational behavior: utilizing human resources*, 1964.

Depending on the situation, the leadership style can be:

- **Delegating** = permits others to make decisions
- **Supporting** = participative and shares
- **Coaching** = explains
- **Directing** = gives instructions and supervises

A leader with **legitimate power** is given that power by employees who believe they have a specific position in the business that requires or entitles them to give others instructions. Employees will follow instructions because they believe the person in that position has the right to give them. A leader with **expert power** has the expertise required for a situation and employees trust their level of knowledge.

BUSINESS CONCEPTS

When a purely economic or financial decision is required Michel is authoritarian, making a decision and moving on quickly to the next problem in her working day. On the other hand, when an ethical dilemma arises involving consideration of complex interpersonal factors, she must be democratic and discuss all sides of the issue with the stakeholders in the decision.

E. Transformational

A **transformational leader** can inspire and motivate others, while ensuring their needs are congruent with the goals of the organisation. They are visionary, stimulate creativity, and often have a charismatic personality. Their role effectiveness relies on the relationship between the leader and other employees of the business.

A leader with **referent power** is charismatic, and employees follow their example because they admire the leader.

A transformative leader allows innovation to occur in business. They develop an entrepreneurial idea and show the way forward to the achievement of that idea, involving employees and inspiring them to own the idea. They are able to lead employees to ownership of the entire entrepreneurial activity.

BUSINESS CONCEPTS

Bobbie is charismatic and open to listening to others, always inspiring them to achieve their best for the business organisation. Employees have respect and admiration for Bobbie's vision and want to work to achieve the goals set for the business, as they feel they are intrinsically achieving their own goals and needs for self-fulfilment. This is a transformational leadership style.

Leadership traits

Good leaders are able to encourage the employees of the business to share their vision and to engage positively in working for a common purpose. A trait is part of a person's personality, and there are many positive, useful traits which leaders in business might have. Some of the possibilities are shown here.

Table 16.2: Leadership traits

TRAIT	DEFINITION
Emotionally mature	Able to deal with emotional highs and lows and stressful work place situations
Enthusiastic	Active and involved in the activities of the business
Future thinker	Able to speak passionately about vision and goals for the business
Honest	Open about errors and supportive when mistakes are made





TRAIT	DEFINITION
Inspirational	Charismatic
Practical	Sensible and realistic about what can be achieved
Responsible risk taker	Able to take business risks that are not reckless or foolish
Resilient	Quick to recover from adverse business results or negative feedback
Self confident	Assured and secure about own abilities
Self-disciplined	Organised
Socially aware	Able to consider the needs of others and be unselfish
Thoughtful	Sympathetic and considerate

A successful leader is someone who seeks out new ideas and information, communicates their vision clearly, motivates employees, earns respect through setting a positive example, and is flexible.

A business can assist employees who hold leadership positions to develop good leadership traits. This would require the provision of appropriate training, a mentoring programme and a range of coaching methods.



ACTIVITIES

Content review

1. Compare and contrast the concepts of 'management' and 'leadership'.
2. Outline the managers role in each of the following areas:
 - A. Planning
 - B. Coordinating
 - C. Controlling
 - D. Leading
3. Define reward power and coercive power.
4. What are the key features of the autocratic management style, according to Taylor?
5. In what situations might a leader use autocratic leadership?
6. Explain the continuum of Lewin's leadership styles, using examples.
7. According to Elton Mayo, what are the key features of the participative management style?
8. In what situations would a manager find the participative leadership style advantageous?
9. Compare and contrast the autocratic and participative leadership styles using these criteria:
 - A. Control
 - B. Decision making
 - C. Motivation
 - D. Guidance
10. How do the following contingencies affect the leadership style of a business owner:
 - A. Position power?
 - B. Employee relations?
 - C. Task structure?
11. Summarise the contingency theory of leadership, using a diagram.
12. What is the effect of leadership style and the maturity of employees in the situational leadership model?
13. Summarise the situational theory of leadership, using a diagram.
14. Describe the transformational leadership style, using examples.
15. What are leadership traits?
16. Select three leadership traits, and outline how these can be beneficial for the manager of a national business.

Group research

1. Complete the quiz 'What's your leadership style?' at:
<http://psychology.about.com/library/quiz/bl-leadershipquiz.htm>
2. Complete a three-minute motivational presentation, to be presented to the board of management of a tinned fruit manufacturing business, on your choice of one of the following topics:
 - A. Beneficial leadership traits
 - B. The best management style for their business
 - C. How to best lead employees

CHAPTER 17

Employee Motivation

**‘The only way to get people to like working hard is to motivate them.
Today, people must understand why they’re working hard.
Every individual in an organization is motivated
by something different.’**

– R Pitino –

MOTIVATION

An employee’s motivation to head to work every day is as individual as each person in an organisation. The business manager will need to understand human resource motivation theories and how to apply these as a vital part of human resource management. Key performance indicators for human resource management can be developed when staff motivations are known.

KPIs

A Key Performance Indicator (KPI) is a measurable objective that the business has decided will indicate if it is on the way to meeting organisational goals.

Sample KPIs to monitor a range of business goals were outlined in an earlier chapter of this Unit. The business owner might also be interested in measuring the health and motivation of employees through human resource management (HRM) indicators. Key performance indicators for HRM will focus on the benefits being attained by employees, and for the achievement of business goals. Examples are shown in Table 17.1.

Table 17.1: KPIs for human resource management

HR function	KPI
Development and training	<ul style="list-style-type: none">• Number of training days per employee• Money spent per employee on training and development
Health and safety	<ul style="list-style-type: none">• Health and safety training days• Sick leave days per employee• Days lost to accident or injury• Number of staff reassigned to other duties



HR function	KPI
Personnel	<ul style="list-style-type: none"> • Number of staff • Ratio of permanent staff to contract staff • Number of staff returning after long service leave
Equal employment opportunity	<ul style="list-style-type: none"> • Number of women returning from maternity leave • Number of minority group members as employees • Percentage of minority group members as part of workforce
Acquisition (Recruitment)	<ul style="list-style-type: none"> • Percentage of selection criteria met • Retention of staff – time period
Maintenance (Performance management)	<ul style="list-style-type: none"> • Percentage of performance appraisal criteria met • Number of employee goals met

Human resource motivation theories

The performance of employees in the workplace is of great importance to the management of the employees who are the human resources of the business. Workplace performance can be strongly linked to the employee's motivation to perform the job, and there are many theories which have been developed to explain motivation. Four of these theories include Maslow's hierarchy of needs, Herzberg's motivation-hygiene theory, the more recently developed Vroom's expectancy theory, and Adams' equity theory.



Figure 17.1: Motivation theories

Maslow's hierarchy of needs

A general theory of human motivation has been developed by Abraham Maslow¹, who stated that humans have an ordered approach to meeting their needs. Each person requires the needs lowest in the hierarchy to be met first, before moving to the next level of need. See Figure 17.2 on the following page.

Human resource management is affected by this theory in that the business owner or manager should take a number of considerations into account when planning for human resources and employee needs.

To meet physiological needs, the business should pay employees appropriately and supply a protective environment or clothing as required. Safety needs are met through the provision of healthy working conditions, insurance plans and stable management.

¹ A. Maslow. *Toward a Psychology of Being* 1968;
A. Maslow. *The Further Reaches of Human Nature*, 1971.

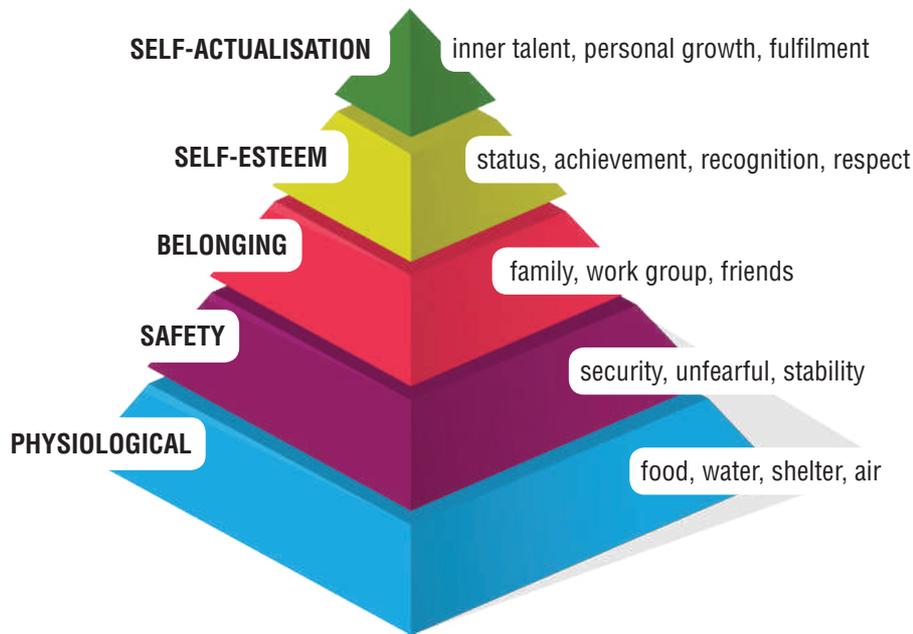


Figure 17.2: Hierarchy of needs

Belonging can potentially be satisfied using employee activities and social functions. Self esteem could be looked after with management praise of good work, recognition of high performing employees, improving the level of responsibility attached to a position or the use of promotions. Self actualisation requires challenging work, the encouragement of creativity and the reward of innovation.

BUSINESS CONCEPTS

A coaching business has ensured that staff feel they belong and form a friendly group of co-workers by providing a comfortable staff room, having after work social activities and remembering important events such as birthdays. This meets the 'belonging' need.



Herzberg's motivation-hygiene theory

Frederick Herzberg² expanded Maslow's theory and defined two different levels of employee needs in the workplace. Positive and negative feelings about the workplace tended to arise from different factors, not from different people responding to the same factors.

Herzberg defined the first set of factors as **hygiene factors** such as security, relationships with other employees, status, pay rate, and physical working conditions. The other set of factors are **motivation factors** and these are the elements of work such as achievement, recognition, challenge, promotion and responsibility.

² F. Herzberg. *The Motivation to Work* 1959; F. Herzberg, *The Managerial Choice*, 1982.

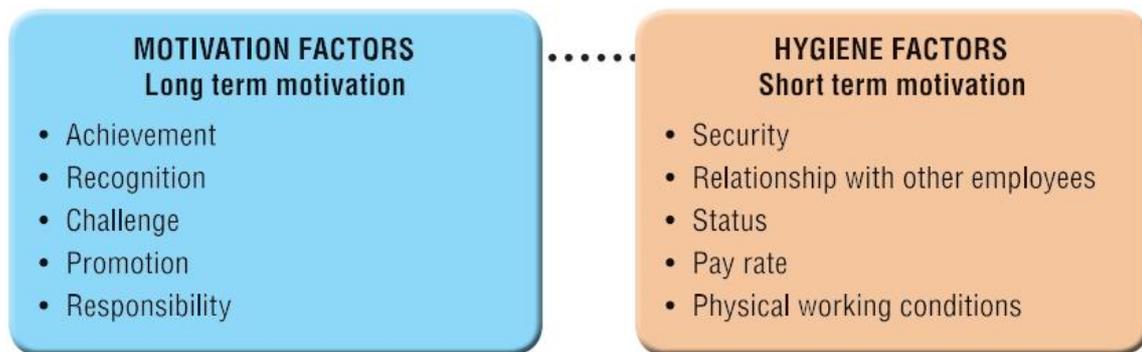


Figure 17.3: Motivation-hygiene theory

Human resource management is affected by this theory in that the business owner or manager should ensure that long term motivators are emphasised in human resource plans.

Vroom's expectancy theory

Victor Vroom³ found that employees will want to maximise their happiness at work and minimise 'pain.' His theory explains how people make decisions regarding various alternatives, and the relationship between people's behaviour at work and their goals.

An employee's performance at work is reflective of personal factors such as personality, skills, knowledge, experience and abilities. Expectancy theory states that employees of an organisation will be motivated given they believe:

- more effort will result in better job performance
- better job performance will lead to organisational rewards and benefits
- these organisational rewards are valued by the employee.

These motivational forces have special terms: **expectancy**, **instrumentality**, and **valence**.

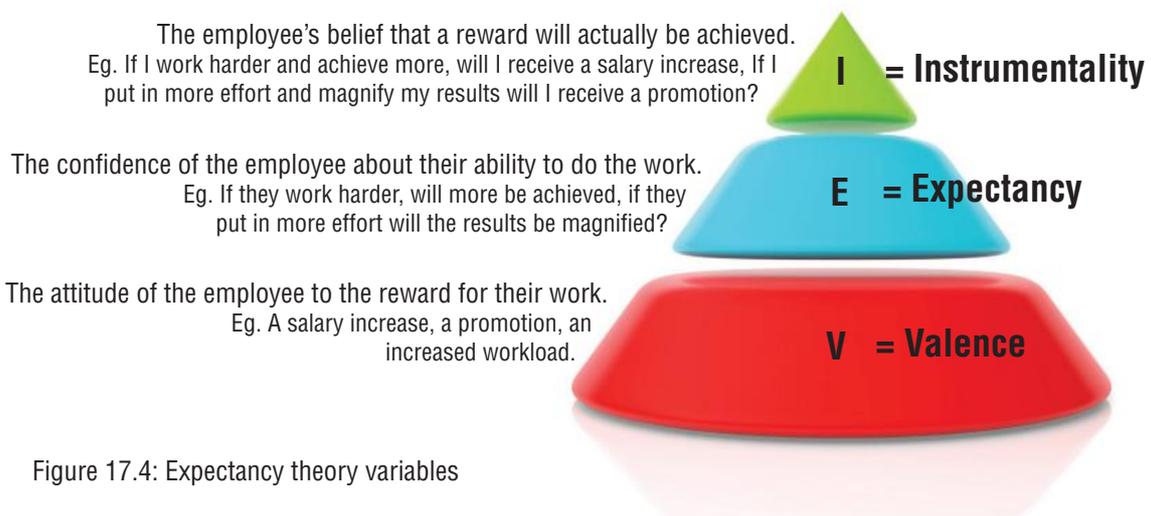


Figure 17.4: Expectancy theory variables

3 V. Vroom. *Work and motivation* 1964;
V. Vroom. *The new leadership: managing participation in organizations*, 1988.

The effect that this theory has on human resource management is that the owner or manager needs to ensure that rewards and incentives are closely linked to the desired performance from employees.

BUSINESS CONCEPTS

Graeme sells seafood in a large local outlet. He does not believe that putting in more effort at work will result in a better sales performance and so he has no motivation. Additionally, his sales commission does not increase as sales get higher and so instrumentality is non-existent for him.

Adam’s equity theory

John Adams⁴ built on Maslow’s and Herzberg’s theories to consider the influence of comparisons with other employee’s situations on the individual employee’s motivation.

An employee will compare their inputs at the workplace with the inputs of their workmates, and expect to achieve similar outcomes. If the outcomes are not as expected, then the employee will be less motivated. The main emphasis of this theory is that a person is motivated by what they perceive is equitable treatment in comparison to others in their workplace.

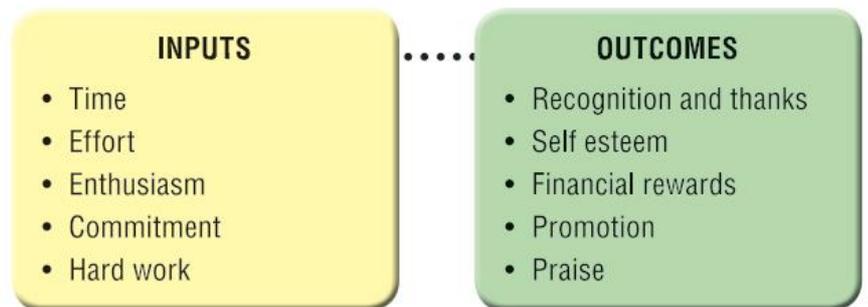


Figure 17.5: Elements of equity theory

Human resource management is affected by this theory in that the business owner or manager should ensure that employee inputs are fairly rewarded by equitable outcomes for all in the workplace. They need to be aware of staff who feel they are not being fairly recognised (in comparison to others).

BUSINESS CONCEPTS

Catherine was recently given a pay rise, as recognition of her efforts in leading the completion of a major project. Her HR manager is puzzled however, because Catherine’s work colleagues now appear to be demotivated, when she would have expected them to all become highly motivated by the reward. What has occurred, is that the work colleagues believe they also put in a similar amount of effort to Catherine and they should have received a similar reward.

Recognition and reward

The employees in a business are usually recognised for the work they perform through the payment received in the form of salary and wages. The payment of financial compensation to employees is generally linked to the performance of an employee in some way, and this can then be reviewed as part of the performance management system. Recognition and reward systems do not have to always be financial however. People can be motivated to achieve the goals of the business through other reward systems.



4 J. Adams. *Inequity in social exchange*, 1965.

Extrinsic rewards include financial benefits, promotions, fringe benefits and other items that are visible to the employee. **Intrinsic rewards** for an employee can be the feeling of being satisfied about a job well done, and the personal enjoyment gained from the workplace.

Recognition and reward systems will be tied to the performance management system in place in the organisation. They must have a number of characteristics in order to be most effective, and there are many possible criteria that can be used to define the requirements – some of these are quite subjective, however, and must be used with caution.

Effective recognition and reward systems are:

- individually tailored to each employee
- able to recognise the different priorities of employees
- responsive to changes in the workplace
- seen to be fair, and available to everyone.

Possible criteria for a recognition and reward system

- ✓ Skills and aptitude
- ✓ Knowledge
- ✓ Performance and results
- ✓ Difficulty of work
- ✓ Effort exerted



Table 17.2: Reward and recognition

TYPE OF REWARD	EXAMPLE
Extrinsic	<ul style="list-style-type: none"> • Cash bonus or sales bonus • Pay increase • Promotion • Share schemes • Insurance or medical benefits • Fringe benefits • Leave provisions • Gifts, eg. watches, pens • Plaques or trophies • Other types of reward
Intrinsic	<ul style="list-style-type: none"> • Sense of achievement • Empowerment to do the job better • Giving ownership or involvement • Saying 'thank you' • Praise for a job well done • Job autonomy • Skill improvement training • Other types of recognition

Employee incentives

Incentive schemes can be financial, providing money as rewards or an employer can use non-financial rewards.

Financial incentives

- **Bonuses:** payments in cash if key performance indicators are achieved. A national bank sets a budget for bonuses and staff are allocated a share from the budget based on their performance. Individual bonuses may undermine team work but this can be addressed by using team based incentives.
- **Pay rise:** businesses may conduct a performance management system where staff can be rewarded with an ongoing pay increase based on their performance. Staff will have performance goals to reach which can include participation in professional development.
- **Share schemes:** employees are given shares in the business as rewards. This scheme can provide long term motivation as employees can only benefit from growth in share price and dividends if business performance improves over time.

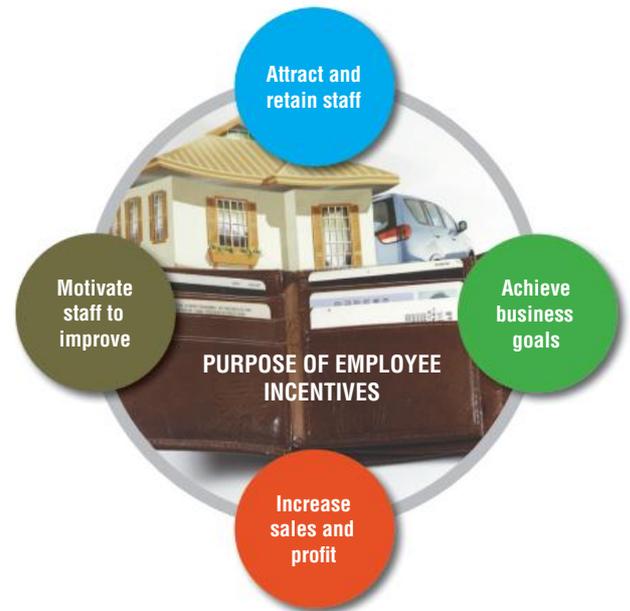


Figure 17.6: Purpose of employee incentives

Non-financial incentives

- **Extra leave:** employees can get time off work or arrange to work from home, based on their exemplary performance. This involves no payments by the business and gives employees something they really value.
- **Skill improvement:** giving employees extra training to support their personal career goals can be a win-win result for the employer.
- **Employee recognition:** publicly acknowledging good performance through awards such as employee of the month, at staff meetings, in newsletters or with annual awards.

INNOVATION AND OPERATIONS

A successful incentive scheme is at Telstra BigPond. Telstra employees working in BigPond call centres and retail suppliers have a points based incentive program. Points are earned for sales. The salesperson enters their sales into the system. Incentives are linked to training and development. The more professional development a staff member does the more points they will receive per sale. The program aims to increase sales and also motivate staff to develop their skills.

A consideration for businesses when using incentives is Fringe Benefits Tax (FBT). If a staff member receives movie tickets, a holiday or gifts as a reward for their performance the business must pay tax on the incentives as if they are payments of wages. When devising an incentive scheme any FBT must be part of the budget.

Incentive programs must be clearly linked to business goals, be well managed with a budget and meaningful for employees. Incentive schemes can be costly and must be managed well to successfully motivate staff.

Penalties

It is debatable whether penalties for poor performance are motivating for employees. While a penalty may provide a temporary increase in employee efforts or compliance with the business's needs, it tends to lead to more stress and lower morale from employees. Employees might become disgruntled and only work as hard as they have to in order to get by each day. Examples of penalties include reducing wages, taking disciplinary action, demoting someone to a lower position, and removing benefits.

The reciprocal relationship between employer and employee

The performance of a staff member in the workplace is directly related to their job satisfaction and the extent to which their expectations are met by work. Employees generally expect that they should be provided with safe working conditions, job security, good pay and fair treatment. Other, higher level, motivations were outlined earlier in this chapter. The employer will usually expect that employees will work to the best of their ability, communicate effectively and complete work as required.

One common expectation from both groups is that communication will be effective and clear. This creates dependence between employers and employees, and a positive relationship can be developed and reciprocated. This will in turn result in better working relationships.

Employee engagement is important to the business. Engagement occurs when an employee is committed to the goals and values of the business organisation, and when this commitment is reflected in their approach to their workplace. An employee who is enthusiastic about their working environment, interacting positively with staff and customers, and who has pride in the product or service being sold, is highly engaged. This results in a more productive, happy workplace.

Diversity management is about the mutual agreement between employer and employee – the employee gets to work from home/has time for religious obligations/has parental leave – in return the employee agrees to meet the same targets as other workers and not to abuse the accommodations the employer makes.



Figure 17.7: Good employer-employee relations



A mutual promise exists between the employer to provide the support and flexibility, and employees to treat each other with respect and acceptance. An employer may provide flexible work arrangements for staff and in return employees will continue to meet deadlines and work to a high standard. The employer will benefit from a harmonious workplace with motivated staff, and employees will benefit from acceptance and a supportive working environment.



ACTIVITIES

Content review

1. Compare and contrast the following motivations for work:
 - Money
 - Promotion
 - Friendship
 - Personal fulfilment

Summarise the main characteristics of four motivation theories in a table.

2. Explain how the needs of an employee should be met using Maslow's hierarchy of needs.
3. Use Herzberg's Motivation-hygiene theory to discuss whether money is a short or a long term motivator for an employee.
4. Why do employees want to maximise their happiness? Outline the main tenants of Vroom's expectancy theory in your answer.
5. How does Adams' equity theory build on other theories of employee motivation?
6. Summarise the main criteria to be considered when developing a recognition and reward system for a business. Using examples from your own part time workplace, describe effective methods of implementing each criteria.
7. Why does performance management require a reciprocal relationship between the employer and employee? Explain, using examples.
8. Summarise the main financial and non-financial incentives for employees.
9. Some of the criteria for recognition and reward systems can be quite subjective. Consider the following criteria and respond to the questions that follow.

• Skills and aptitude	• Difficulty of work
• Knowledge	• Effort exerted
• Performance and results	

 - A. Which of these would be most difficult to measure?
 - B. How would these criteria be used to set up a reward system in a nationally franchised café?

Group research

1. Research Maslow's adapted hierarchy of needs, including cognitive needs, aesthetic needs and transcendence needs from www.businessballs.com/maslow.htm.

APPENDIX A

Examination and Externally Set Tasks

SECTION A: ENVIRONMENTS

Short Answer

Question One

You manage a franchise of a national white goods chain. A customer has returned a microwave oven to your shop that they bought three weeks ago. They say they want a refund because it does not work properly. You respond by saying that you have a sign in your shop stating 'No Refunds'.

- A. On what grounds can a customer ask for a refund?
- B. If it is a minor fault what can you offer the customer?
- C. Discuss whether a 'no refund' policy protects the business.

Question Two

Australian consumer laws protect consumers and prohibit deceptive and misleading conduct. Apply your understanding of misleading advertisements.

- A. Give two examples of misleading conduct.
- B. Write three statements that, if included in an advertisement, would be regarded as puffery.
- C. What action can a customer take if they are a victim of misleading conduct?

Question Three

In WA there was a long debate over changes to trading hours. Community groups have argued that extended hours will affect families; small business groups have argued that it will force them out of business; and large companies want trading hours to be deregulated.

- A. Outline the disadvantages and advantages of extended trading hours.
- B. If you worked in a small business how would it affect you?

Question Four

Max decided to buy an expensive watch that would last him a lifetime. Max found a watch and paid \$1800 for it. The shop offered a one-year warranty for repair or replacement. Max's watch worked perfectly for a year but stopped working just after the warranty period ended. Max took the watch back to the shop but they refused to replace or repair it, saying that it was no longer under warranty.

- A. What can Max do about the watch?
- B. Explain three types of warranties.
- C. What were Max's responsibilities regarding the purchase of the watch?

Question Five

This sign is on display in an electronic goods store in your local area:

**No refunds given on any purchases,
please choose carefully.**

Using examples to illustrate your answer, advise the business owner on the following:

- A. Outline the Australian Consumer Law provisions for businesses in relation to warranties and refunds, including a discussion of the main types of warranties. Your answer should specifically address the content of this sign.
- B. State the main consumer responsibilities of this business in relation to warranties.
- C. Outline three areas of misleading and deceptive conduct that may be a concern to the business.

Extended Answer

Question One

Mel, a gas fitter, has a successful small business providing services to domestic customers. He sees potential in the commercial market but does not have enough capital to purchase additional equipment nor the advertising knowledge to start a promotional campaign to attract customers.

In essay form answer the following questions.

- A. Discuss a sole trader and partnership structure in terms of personal liability for business debts
- B. What are three of the legal requirements for setting up a sole trader?
- C. What two options do partners have for setting partnership rules? Discuss how the options work. Why would partners choose one and not the other?
- D. Explain to Mel the difference between a general partnership and a limited partnership. Discuss which one you would recommend to Mel.

Question Two

An important part of long term business success is having a positive public image. Positive public perception comes from being ethical and socially responsible in the community. There are industry standards, standards set in the workplace and consumer protection laws to regulate how businesses treat customers.

Write a report on ethical practice and its impact on public image.

- A. Discuss two ways a business can build a positive public image.
 - B. Explain two examples of misleading and deceptive conduct prohibited by Australian Consumer Law.
 - C. What steps can a customer take if the product they purchased is faulty?
 - D. How can environmental issues have an impact on the public image of a business?
- Use case studies to illustrate your answer.

SECTION B: MANAGEMENT

Short Answer

Question One

The diagram illustrates the management structure of the finance division in a business. The finance supervisor and accountant each have three people reporting to them.

- A. Identify the type of management structure that is illustrated here, and give three of its main characteristics.
- B. State which are the top, middle and frontline levels of management within this business.
- C. Define and discuss the chain of command and span of control for the finance manager.
- D. Outline how this business could restructure to enable a more decentralised approach.



Question Two

A business is restructuring from a traditional hierarchical structure, to a flatter structure by removing a layer of management. The CEO of the business values innovation for the building of the future of the business and it is planned that a new team structure will enable this to occur.

- A. Outline the effect that the restructure will have on the chain of command and span of control.
- B. Explain two major changes that should result from the new team structure.
- C. What factors will have an impact upon the success of this new structure?
- D. Describe the benefits of enabling delegation in the organisation.

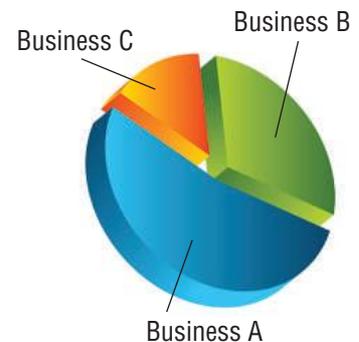
Question Three

A service business needs to consider the extended marketing mix when planning its marketing strategy.

- A. Define the main elements of the marketing mix.
- B. Outline why the people in a business are an important part of customer relationship management.
- C. How can processes be aimed at a specific target market?
- D. Explain the relevance of the physical presence of a business to marketing goals.

Question Four

The diagram illustrates the division of a market where the industry leader, Business A has 50% of the market share, Business B has 35% and Business C has 15%.



Business C wishes to increase its market share.

- A. Using the information in the diagram, define the concepts of the 'potential market' and the 'market share' for Business C.
- B. Define three characteristics of market segmentation.
- C. Outline two sources of primary data that could be utilised by the business to collect marketing data.
- D. Explain a potential marketing strategy that could be used by the business to increase its market share.

Question Five

Profiling is used by business to determine strategic goals.

- A. List and define the main elements of a customer profile.
- B. How is customer profiling used to determine the needs of customers?
- C. Outline five elements that should be included in a competitor profile.
- D. Why is competitor profiling important when a business is planning its marketing strategies?

Extended Answer

Question One

You have been employed as a management consultant for a medium sized, traditionally structured organisation. The business has a hierarchical structure in a geographical chart, with a business owner, seven area managers each with 2-3 people reporting to them in some supervisory capacity, each with 5-10 front line employees.

Offices are located near to each other in the urban area of Perth. Work roles are very rigid and structured with a short span of control for each individual in a management position. The use of information technology has not been integrated across the whole business.

The recruitment process is always undertaken by one area manager who then allocates staff to offices with other area managers organising induction and training locally on an 'ad hoc' basis. The managers tend to make most important decisions.

The business requires major structural change. You are required to write an essay making recommendations in the following areas:

- A. Problems with the current type of organisational structure.
- B. Changed management structures, such as a renewed organisational chart with a flatter structure where outsourcing is a possibility for low priority areas and
- C. A changed work environment including delegation and teams.

Question Two

'What is the most important part of the marketing mix that is essential to ensure a better chance of success in the marketplace? It is ownership of a point of view.'

S. Banjeree

Write a report that addresses the importance of the four main elements of the marketing mix to achieve success for a business in the marketplace. In particular:

- A. Outline how product positioning is used to create a unique impression of a product in the mind of potential consumers.
- B. Compare and contrast the differences between three relevant pricing methods.
- C. Describe how direct distribution might be useful to business.
- D. Explain how a business could use technologies to facilitate its promotional activities. Refer to a case study in your answer.

SECTION C: PEOPLE

Short Answer

Question One

The employment cycle consists of the stages in organising all aspects of employment of staff, from deciding on the staffing needs of the business and recruitment, through to the termination process. The employment cycle involves a number of stages, the completion of which should lead to a happy and productive workplace, with employees who enjoy their work.

- A. What are the four stages of the employment cycle?
- B. Explain what is involved in the second stage.
- C. Discuss the importance of the third stage.

Question Two

Human resource management supports the functioning of a business. It provides information and planning for future success, future workforce needs and how those needs can be met.

- A. Discuss the importance of forecasting staffing needs.
- B. Outline the six stages of job analysis.

Question Three

The people engagement and recruitment process in small business can be difficult. After the task of identifying the needs of your business the next step is to outline job descriptions and target your market accordingly.

- A. What is the purpose of a job description?
- B. What are some of the points a job description should include?
- C. Discuss three elements of a good job description.

Question Four

Social media has significantly altered the recruitment process. Sites such as LinkedIn bring recruiters and candidates together. Recruiters use social media as a tool to determine the suitability of prospective candidates. This screening has been taken further with some employers demanding the applicant's login details during interviews in order to gain full access to their accounts.

- A. Explain two sources a business could use for recruitment.
- B. What are the four stages of recruitment?
- C. Discuss whether social media is a good recruitment source.

Question Five

Every time someone starts a new job they should receive some form of induction. New staff are at greater risk of injuring themselves at work than existing staff. For this reason, a staff training induction program should have high priority.

- A. What is an induction?
- B. Why is it important?
- C. What are some of the topics that would be included in an induction?

Question Six

An Australian bank offered new employees two options for their employment package. A total employment cost (TEC) package which provided employees with one flat payment, which they could then break down into their preferred form of salary, superannuation and benefits or a package based on the relevant Award.

- A. What is an employment package?
- B. What is its role in retaining staff? Should new employees have a choice?
- C. What are three types of employment contracts?

Question Seven

An effective performance management programme considers the recognition and rewards provided to employees. Reward systems must encourage the desired behaviour in employees and ensure that the reward recipient feels that they are a valued member of the business. It seems true that higher pay should produce better results, but evidence indicates that the link between compensation, motivation and performance is more complex. Research suggests that even if people decide how much they should earn, they would probably not enjoy their job more.

- A. What is the difference between extrinsic and intrinsic rewards?
- B. Give two examples of each.
- C. Discuss which form of reward is more motivating.

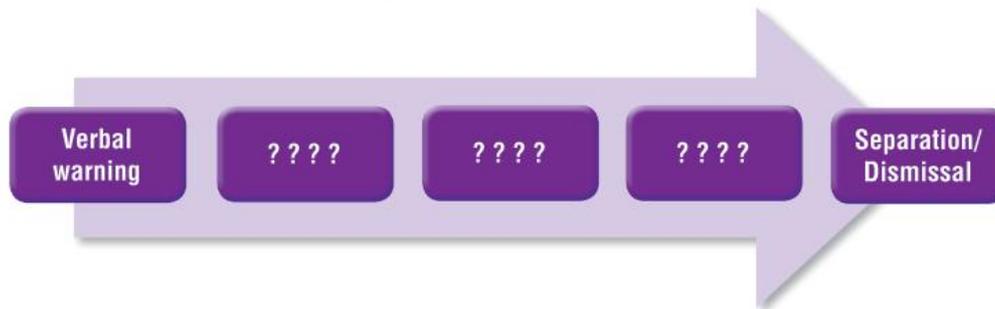
Question Eight

People think that the exit interview is your last chance to let management know that things need to change. Everyone thinks that they are going to be the change catalyst on the way out of the company. You're going to be the hero! The hero that changed the company for every other employee who decided to stay working at their horribly managed business.

- A. Describe two reasons for separation in the employment cycle.
- B. When would an employee be made redundant?
- C. What are the benefits of an exit interview?

Question Nine

Involuntary separation: dismissal procedure



A HR manager has decided that the employment contract of a recently appointed staff member needs to be terminated. The concern is continual poor results from monthly performance reviews.

- A. Explain three other acceptable reasons for termination of employment.
- B. Complete the flow chart above by explaining the three stages in the termination process that are missing. Outline all entitlement and transition issues in your answer.
- C. Give two examples of unlawful termination situations and explain why these are unacceptable.

Extended Answer

Question One

Human resource management involves identifying needs of the business and selecting and developing people to meet those needs. By doing so, a human resource manager assists the business in its day to day operations and to achieve its long term goals of growth and success. In essay form answer the following questions.

- A. Outline the four elements of the employment cycle.
- B. Discuss characteristics of a reward system that a business may use to motivate its employees.
- C. Discuss the importance of induction for new employees in a business.
- D. Describe why training is important for long term success.
- E. Discuss how anti-discrimination laws have an impact on the employment cycle.
- F. Describe how human resource policies can have an impact on the public image of a business.

Refer to a case study in your answer.

Question Two

You are employed as the team manager of a group of 10 people, working in the fitness industry. Your team of sales staff visit gyms and fitness centres to sell and maintain a range of fitness equipment. They are often out of the office for long periods of time, and there have been some difficulties in managing the paperwork associated with this as the business requires an upgrade of its computer system. One of your staff has just resigned from their position, which is quite frustrating for you personally as it is the busiest time of year. You decide as a result of this to only interview two people. At the interview, it is not possible for the interviewee to see around the warehouse facility as this is undergoing renovations and as a result the other members of staff do not meet with the person who is offered the job until their first day. You have some leave owing, and need to take this the day after the new employee commences their work. You decide to do the induction when you return from leave, and ask another employee to complete some basic training with the new person.

Discuss a more effective human resource management process than that outlined above. Include:

- acquisition
- induction and training
- maintenance
- developing innovative teams
- the relationship between employers and employees.

SECTION D: ENVIRONMENTS

Short Answer

Question One

Soft drink and snack food businesses have grown globally and fight each other for market share. The world of healthy inspirations and less unhealthy behavior finally is starting to take a toll on them and their peers who also sell drinks and products that have little nutritional value.

- A. What are some examples of ways governments manage unhealthy products and their impact on consumer health, society and the economy.
- B. Should consumers be protected or is it up to the consumer to decide what they buy?
- C. How are children protected from unhealthy choices?

Question Two

In 1972, the managing director of Kambrook developed the electrical power-board. The product was hugely successful and was the basis for Kambrook's growth to become a major producer of electrical appliances. However, the power-board was not patented and Kambrook ended up sharing the market with many other manufacturers. Kambrook probably lost millions of dollars in royalties alone.

- A. What are the advantages and disadvantages of using a patent to protect an innovation?
- B. What should have Kambrook done to protect their market share?
- C. How can IP protection drive business success?

Question Three

Consumer Confidence in Australia increased to 94.91 in July of 2014 from 93.17 in June of 2014.

Consumer Confidence in Australia averaged 101.87 from 1974 until 2014, reaching an all time high of 127.67 in January of 2005 and a record low of 64.61 in November of 1990.

Consumer Confidence in Australia is reported by the Westpac Banking Corporation, Melbourne Institute.

Refer to the above information when answering the following questions:

- A. Discuss how high unemployment and high interest rates have an impact on spending patterns.
- B. How can low interest rates and low unemployment have an impact on spending?
- C. Why would the Reserve Bank increase interest rates in Australia?

Question Four

Over the last 10 years there has been a move to national health and safety laws. Most states have moved to a national framework while WA and Victoria remain with their state based laws.

- A. What is purpose of the OSH Act 1984?
- B. What are some of the employer and employee responsibilities?
- C. What are the benefits of standard national health and safety laws?

Question Five

The Equal Opportunity Act (1984) makes it unlawful to publish or display an advertisement that shows an intention to discriminate. This includes television, newspaper and radio advertisements, as well as circulars, catalogues and price lists. Online and electronic advertising also are covered.

- A. What is purpose of the EOA Act 1984?
- B. What are some of the employer and employee responsibilities?
- C. What are three aspects that are protected from discrimination?

Extended Answer

Question One

A business has developed a new technology that translates speech into other languages; either spoken English into another language or a spoken language into English. It is in its early stages and the technology is very expensive and is seen as a luxury item.

In an essay response discuss the following:

- A. The ways innovation can contribute to business success
- B. How the intellectual property of the technology can be protected
- C. The meaning of discretionary spending
- D. How each of the following affects spending patterns:
 - i. inflation
 - ii. interest rates
- E. How currency exchange rates affect international sales

Question Two

The market for children's products and food is enormous. Parents on the one hand have a hard time raising children the way they want to, while on the other hand, kids are being increasingly influenced by commercialism that often goes against what parents are trying to do. Advertising and other marketing activities are regulated and subject to industry standards.

Discuss this issue in a report based on the following topics.

- A. Why is it important to regulate advertising to children?
- B. How is advertising to children regulated?
- C. What are some of the practices that breach standards?
- D. Discuss the promotion of unhealthy products such as alcohol, tobacco and junk food.

Question Three

In 2012 there were 26,358 patent applications and 62,633 applications for trade marks. To maintain competitive advantage and achieve business success it is important to prevent other companies from copying products and selling their own version. The intellectual property behind a product can be protected domestically and internationally.

In essay form examine the following questions on intellectual property management.

- A. What is intellectual property (IP)?
- B. What is the purpose of IP laws?
- C. Explain three types of IP protections.
- D. How can IP be used for business growth?
- E. Discuss how IP can be protected internationally.

Refer to a case study in your answer.

SECTION E: MANAGEMENT

Short Answer

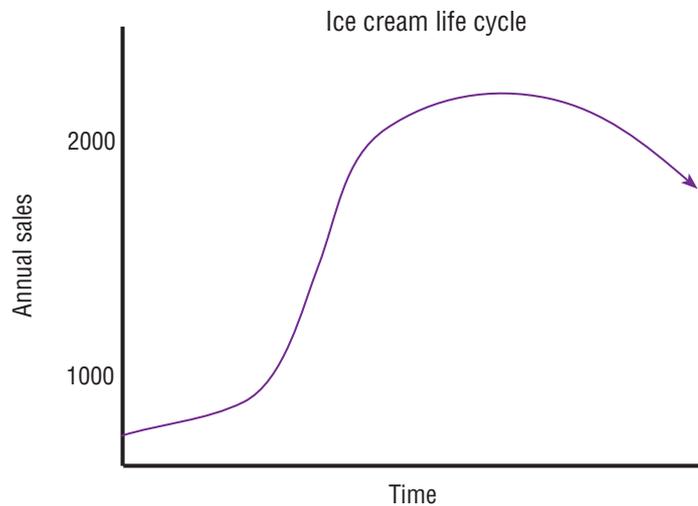
Question One

The following Balance Sheet information has been provided by the business 'Sunscreen and Shade', an outdoor umbrella business, at 30 June 2025.

Current Assets	\$
Inventory	800 000
Cash at Bank	60 000
Non-Current Assets	
Premises	1 034 000
Fittings	54 000
Current Liabilities	
Creditors	60 000
Overdraft	30 000
Non-current Liabilities	
Loan	1 200 000
Equity	
Capital	<u>?</u>

- A. Calculate the missing figure.
- B. Describe the function of each of the following financial statements:
 - i. Profit and Loss Statement
 - ii. Balance Sheet
- C. Explain how this Balance Sheet has been classified, using examples.
- D. What does this Balance Sheet indicate about the stability of this business?
- E. Explain the difference between the Selling, Administrative and Financial classifications in the Profit and Loss Statement.
- F. What does the Profit and Loss Statement indicate about the profitability of a business?

Question Two



An established business has developed a new ice cream and has yet to formulate branding and packaging for the launch of this product to the market.

- A. What is the product life cycle? Use the graph above and this new product to illustrate your answer.
- B. What does the graph indicate about this product?
- C. Use the four main elements of the marketing mix to develop a simple marketing strategy for this product.
- D. Describe the optimal packaging and branding for this ice cream. Your answer must reference the specific stage of the product life cycle.

Question Three

Most businesses exist for the purpose of returning a profit.

- A. Explain the meaning of 'profitability' for a business.
- B. How would a business apply pricing strategies in order to maximise profit?
- C. What is the purpose of preparing a Profit and Loss Report?
- D. Give examples and the main characteristics of two financial KPIs that measure profitability.

Question Four

You are about to launch a new business selling a new method of cloud storage that integrates with other applications and lets users save or retrieve files directly, syncs data instantly, and works between multiple devices. You need to consider your marketing strategy to launch this product.

- A. What are the main features of a marketing strategy?
- B. Define and plot the four main stages of the product life cycle for this business.
- C. Apply the marketing mix to the second stage of the product life cycle.
- D. Outline the usefulness of a budget in the planning for your product.

Extended Answer

Question One

The chain store 'Insanity' sells CDs and DVDs, and has shops located in 20 towns in rural Western Australia. Their range includes music CDs and DVDs, movie DVDs, portable CD players and headphones. The business environment is changing: many of the stores that were in direct competition with Insanity have had to close recently, as consumers are moving toward the easy accessibility of music downloads rather than purchasing entire CDs and DVDs. The managing director is considering a move toward selling downloadable individual songs, which customers can save onto portable devices.

The average cost of a downloadable song to the business is \$1.50 and they plan for a 50% mark-up. (Assume no other variable costs). Each individual store has allocated a percentage of fixed costs or store overheads for the provision of this new initiative, and this is an average of \$500 per week. Projected sales for a store are 800 songs a week.

The managing director would like to develop a Business Plan, including a detailed marketing campaign. The focus is to be the change to include downloadable songs in their business model.

Write a report outlining the following elements of the Business Plan:

- A. The purpose of the vision and mission statements
- B. A profile outlining the business concept.
- C. A SWOT analysis.
- D. Marketing: Target market, and marketing strategy
- E. Finances: Projected profit/loss and break even analysis

Detail any assumptions that you have made.

Question Two

“KPIs are ... a metric that helps you understand how you are doing against your objectives”

A Kaishik

Write an essay outlining the importance and relevance of key performance indicators. In your answer, include:

- A. A definition and examples of KPIs
- B. The function of KPIs
- C. Characteristics of three different type of KPI
- D. A comparison of financial and non-financial KPIs

Refer to a case study in your answer.

SECTION F: PEOPLE

Short Answer

Question One

The manager’s role in a business requires the ability to motivate and innovate in order to ensure success.

- A. Explain the four main roles of a manager, using examples.
- B. Compare the two main leadership styles that a manager could use when wanting to encourage staff innovation.
- C. Outline three important leadership traits and give reasons why each is effective for a manager in a business.
- D. Explain how it is possible for a manager to monitor success.

Question Two

A marketing manager provides leadership to staff and works with teams that may have a range of functions such as sales teams, product development teams and customer service teams. Successful marketing managers use incentives to motivate staff and encourage progress towards marketing goals.

- A. Outline the steps of an appropriate goal setting process.
- B. What are the differences between financial and non-financial incentives? Give examples of each.
- C. Why are individual incentives sometimes counter productive when leading teams?
- D. Explain how you would use financial and non-financial incentives to motivate a team to achieve sales targets.

Question Three

A car manufacturing plant is closing its main factory and moving to slightly smaller premises in a cheaper location.

- A. What effect might this change have on employee motivation and why?
- B. Use one human resource motivation theory to outline three strategies that can be put in place to maintain staff motivation.
- C. What effect might this closure have on the positioning and public image of the business?
- D. Are there any appropriate incentives that can be put in place for employees? Explain your answer.

Question Four

- A. How may the role of a manager and a leader differ?
- B. Describe the qualities of a good leader.
- C. In what situations will a business manager adopt different leadership styles?

Extended Answer

Question One

It can be argued that while employees might be motivated by extrinsic incentives, such as cash bonuses, in the short term this is not the ideal method that should be used to manage staff or market the business to new employees.

- A. Explain the purpose of sales bonuses and shares schemes, using examples.
- B. Outline two alternatives to financial incentives that can be used to market a business to prospective employees.
- C. Discuss a recognised motivational theory and how it provides additional incentives in the workplace.

Question Two

Write an essay which compares and contrasts the low level needs of Maslow's hierarchy of needs with the hygiene needs of Herzberg's motivation-hygiene theory. Refer to case studies where relevant.

Question Three

'All the evidence that we have indicates that it is reasonable to assume in practically every human being ... that there is an active will toward health, an impulse towards growth, or towards actualization.'

A Maslow

Write a report about motivation theories. Include the following:

- A. How an employer might meet the ordered needs contained in Maslow's hierarchy
- B. The two different levels of employee needs identified by Herzberg
- C. How Adams built on Maslow's and Herzberg's theories

